FINANCIAL STATEMENT ANALYSIS 2014–2015

COLLEGIATE DECA

15 — PAGES ALLOWED

2 to 3 PARTICIPANTS

20 — PRESENTATION TIME

OBJECTIVE

The Financial Statement Analysis event involves a team of 2 to 3 participants analyzing financial statements of two (2) companies from the same industry, preparing a written analysis, and then presenting their findings and recommendations. For 2014–2015, participants will analyze financial statements for JetBlue Airways and Southwest Airlines.

This event was created in response to the career opportunities available for college graduates in the accounting and financial services fields. Upon completion of the written prospectus and presentation, participants will be very familiar with the two corporations that were analyzed. This event will help participants develop the ability to understand, analyze, and make decisions based on financial information—these skills are essential to every professional business career. Students will also learn how to work effectively as a team.

ADDITIONAL RESOURCES

In addition to these guidelines, additional information is provided on the Website *(www.deca.org)* including: formulas and guidelines for calculations, information about the two (2) companies being analyzed, any special considerations related to the specific companies or current economic conditions, tips for competing, and ideas for using this event as a classroom project.

DESCRIPTION

In the Financial Statement Analysis event, teams are given the task of reviewing the annual reports of two companies whose primary operations are within the same industry. The teams will be acting as financial consultants.

The team will be analyzing each company's annual report (10-K filing), which serves as a "résumé" of a corporation. Much of the information provided in corporate annual reports and in the 10-K is dictated by Generally Accepted Accounting Principles (GAAP) and by the Securities and Exchange Commission (SEC). Specifically, GAAP requires annual reports to disclose four financial statements: a Balance Sheet, a Statement of Cash Flows, an Income Statement and a Statement of Retained Earnings.

The average person may not even know where to locate a company's financial statements. Even a seasoned business professional may not be able to analyze "raw" financial data and make competent decisions based on that data. This is why even high-level executives rely on specialists in the areas of finance and accounting. Determining the best way to tell a financial story is a critical skill in business.

Therefore, the main responsibility in making this presentation is to draw conclusions from the data that has been gathered, determine the relevant position of each of the corporations in all of the analyses performed, and do so in a way that is understandable to others.

The presentation will be given to a business and/or financial professional (judge) who is NOT a representative of either company being analyzed.

In addition to the presentation, the team must prepare a prospectus of not more than fifteen (15) pages, including title page, that describes the team's analysis and recommendations, and which will be used to direct and reinforce the presentation to the judges(s).

A prospectus is a short description of the analysis and must include the following sections:

1. Executive Summary
2. Horizontal Analysis
3. Vertical Analysis
4. Ratio Analysis
5. Conclusions/Recommendations
6. Public Perception and Recent Results

LEARNING OUTCOMES

In addition to developing and demonstrating specific knowledge through the development and presentation of a financial analysis to business and/or financial professionals (judges), the participants will develop or reinforce the following areas in relation to financial analysis, accounting principles, and the analysis of corporate financial statements:

- Demonstrating knowledge of corporate financial statements
- Interpreting financial statements, organizing thoughts and making recommendations
- Applying Generally Accepted Accounting Principles (GAAP) to corporate finances
- Evaluating the performance of your own corporation, or your competitors
- Examining financial statements to decide whether to extend credit to a particular corporation
- Choosing between alternatives for an organization's investment portfolio
- Analyzing business opportunities from a financial standpoint
- Selecting your personal investments
- Preparing effective written communications
- Organizing and communicating ideas and recommendations effectively
- Accomplishing objectives as a team

For international competition, the content to be evaluated is found in the standard Evaluation Form located in these Guidelines. Preliminary round competition will consist of an evaluation of the prospectus (minus deductions for the Written Entry Checklist) and one presentation for a possible one hundred (100) points. Teams will be ranked by section and a predetermined number of teams will be named finalists. Finalists will again be evaluated based on their prospectus (minus deductions) and presentation to determine final rankings. The following guidelines will be applied to the presentation at the International Career Development Conference.

Read carefully the Guidelines for the Format of the Prospectus, Guidelines for the Presentation, Written Entry Checklist, Written Statement of Assurances and Evaluation Form.

GUIDELINES FOR THE USE OF FINANCIAL INFORMATION

All of the information used to conduct an analysis and develop the presentation for this event is public information available in the corporations' 10-K filing or in their annual report on their Website. However, it is not uncommon for adjustments to be made in a company's annual report after it's initial public filing, resulting in amended reports. Therefore, to ensure that all participants are working with the same financial information, the public financial statements to be used for this event must be those that have been made available in the Competitive Events section of the Website. The Website also includes the Fiscal Year End (FYE) date and 10-K filing date for the statements to be used in the event.

Judge(s) will receive copies of these exact reports, and will be given time to review them prior to student presentations. No additional financial reports will be provided to the judge(s), either by the conference/event managers or by the participants themselves.

Participants may NOT make reference to any additional financial statements, either from the companies themselves or from third-party information providers. Therefore, participants are prohibited from requesting additional information from the companies themselves, or from any third-party provider of information such as a financial consulting company. Failure to follow either the letter or the intent of these restrictions may result in disqualification. Participants may only make use of or reference public information available through financial or general newspapers, Internet resources, journals, etc. This type of information that does not deal directly with financial statements would be used primarily in Sections 1 and 6.

GUIDELINES FOR THE FORMAT OF THE WRITTEN PROSPECTUS

The teams must prepare a written report of their analysis and recommendations. Read carefully and follow instructions for: Title Page, Format for the Prospectus and Evaluation of the Prospectus, Checklist Standards, and Written Entry Checklist. Refer also to the Evaluation Form. Nowhere in the written entry should the judge be able to determine where the team is from (school, state/province, etc.).

TITLE PAGE

The first page of the prospectus in the title page, which lists the following:

- FINANCIAL STATEMENT ANALYSIS
- Name of Your Consulting Firm
- Analysts' (Participants') Names
- Chapter Advisor's Name
- Date

A page number will not appear on the title page; however, the title page does count as one of the maximum fifteen (15) pages allowed. The page following the title page will be numbered "2"—all pages thereafter are to be numbered in sequential order.

The written prospectus will not include copies of the financial statements. These will already be provided to the judges. Participants may, however, bring copies of the financial statements to the presentation for reference.

FORMAT FOR PROSPECTUS AND EVALUATION OF THE PROSPECTUS

The body of the prospectus must consist of the following six (6) sections. Use the prospectus for support and documentation of the presentation. Refer to the Written Entry and Presentation Evaluation Form.

ADDITIONAL RESOURCES/APPENDIX FOR CALCULATIONS

In addition to these guidelines, additional information is provided on Collegiate DECA's Website including: formulas and guidelines for calculations, information about the two (2) companies being analyzed, tips for competing, and ideas for using this event as a classroom project. While the written prospectus only needs to show answers, the calculations used to arrive at the answers must be shown in an appendix. (Details provided on the Website.)

SECTION 1: EXECUTIVE SUMMARY

In this section provide a brief overview of each of the two corporations. Participants are not limited but, at a minimum, should provide the following information for both companies:

- Official name of the corporation
- Location of the corporate headquarters
- The state in which the company is incorporated
- Company Internet address
- Stock symbol of the corporation and the exchange on which it is traded
- Fiscal year-end of the corporation
- Date of the 10-K filing according to the financial statements provided
- The company's independent accountant/auditor
- The primary products(s) and/or services (s) of the corporation

SECTION 2: HORIZONTAL ANALYSIS

Horizontal Analysis is used as a tool to evaluate data and trends over time. Most financial statements will have at least three years of data on their Income Statement and two years worth of data on their Balance Sheet. Horizontal Analysis is used to do intra-company analysis and expresses information as a percentage change.

The calculations used to determine the answers for the horizontal analysis must be included in the appendix.

For EACH of the two corporations complete a horizontal analysis for the last two years in order to determine the trend in the data over time. The analysis must include the following:

- Revenue
- Gross Profit
- Net Income
- Income from Continuing Operations
- Net Cash from Operating Activities
- Assets

Which Company is experiencing the most growth?

Where is the growth coming from?

Graph your results in order to demonstrate the trend.

SECTION 3: VERTICAL ANALYSIS (COMMON-SIZE ANALYSIS)

Vertical/Common-size analysis expresses items in a financial statement as a percentage of a single or base amount. This allows analysis of two or more corporations of varying sizes.

The calculations used to determine the answers for the vertical analysis must be included in the appendix.

I. For an Income Statement, items are usually expressed as a percentage of revenue. Perform vertical analysis in relation to revenue for the following items in the Income Statement for the current year for each of the two corporations.

	Current Year
Revenue	100%
COGS	
Operating Expense	
Interest Expense	
Income Tax Expense	
Net Income	

Based on the analysis, how have each of the companies performed relative to the following:

- Product or Service Cost Control
- Operating Cost Control
- Debt Servicing
- Tax burden
- Profitability

II. For a Balance Sheet, vertical analysis is performed by expressing amounts as a percentage of total assets. These percentages are then compared to percentages calculated for another corporation (inter-company analysis). Perform common-size analysis of the following for each of the two corporations.

	Current Year
Current Assets	
Property, Plant and Equipment	
All Other Assets	
TOTAL ASSETS	100%
Current Liabilities	
Total Liabilities	
Stockholder’s Equity	

Based on this analysis, what conclusions can be drawn about the two companies?

SECTION 4: RATIO ANALYSIS

Compute the ratios for the following categories:

- Liquidity
- Solvency or Financial Strength
- Activity or Efficiency
- Profitability
- Market or Valuation

A description of each category, the exact ratios to be calculated for each category, and the industry averages to be used in your ratio analysis, are available in the competitive events section of the Website (*www.deca.org*).

Teams must calculate the ratio for the most current year. Present, in chart or graph format, each ratio for each of the corporations. For example:

Category: Short-Term Liquidity

Ratio	Company 1	Company 2
Current Ratio	1.1	1.4

The calculations used to determine the answers for the ratio analysis must be included in the appendix.

For each ratio, comment on:

What is the relative position of each of the corporations?

What is being measured?

What does it mean?

At the end of each category/section, comment on:

As a category, what is being measured?

Who are the users of this information?

Which company is in the best overall position?

SECTION 5: CONCLUSIONS/RECOMMENDATIONS

Draw conclusions from the data that was gathered in Sections 2 - 4, and determine the relevant position of each of the corporations in all of the analyses. The conclusions/recommendations must address the following as a comparison between the two companies. The thoughtfulness of the analysis will be the most important factor in the evaluation of this section.

1. What are the overall strengths and weaknesses of each corporation?
2. What recommendation would you make to current and potential private or organizational investors in the two corporations?
3. What recommendation would you make to lenders regarding the credit-worthiness of the corporations?
4. Position, salary and benefits being equal, which company would you prefer to work for?

SECTION 6: PUBLIC PERCEPTION AND RECENT RESULTS

Regardless of the "on paper" financial strength of a company, decisions are often made based on the public perception of a company. A rumor within the financial industry may make it difficult for a company to obtain a loan. Negative publicity may force other companies and private citizens to "stop doing business" with a company. Even a company who performed well, but missed analyst projections, may see a drop in public confidence and a reduction in stock value. Based on current research, answer the following questions:

- What is the general sentiment toward each company?
- How does the financial industry currently perceive each company?

BASED ON THE FINDINGS:

- How has public perception positively or negatively affected the companies?
- What, if anything, has the company done to counter any negative sentiment that may exist?
- How, if at all, has the company capitalized on any positive perceptions that may exist?

Finally, obtain the most recent financial reports filed with the SEC by each of the two companies and evaluate recent performance. Answer the following questions:

- Since the 10-K filing analyzed in Sections 2-4, how have each of the two companies generally performed?
- Were there any noteworthy disclosures in the most recent filings?

BASED ON FINDINGS

- How has each of the companies' stock performed over the last 24 months?
- Would you say the company has positive or negative momentum moving in to the close of its next fiscal year?
- Would you change any of your conclusions or recommendations from the previous section based on current financial information?

Note:

Participants are prohibited from requesting or obtaining additional information from the companies themselves, or from any third-party provider of information such as a financial consulting company, other than what is available to the public (such as the company's public Website). In addition, participants may not conduct or use of any research conducted for the purpose of this project (such as soliciting opinions from others through ANY means). Participants may only make use of or reference public information available through financial or general newspapers, Internet resources, journals, etc. Failure to follow either the letter or the intent of these restrictions may result in disqualification.

CHECKLIST STANDARDS

In addition to the items outlined above, participants must observe the following rules. The purpose of these rules is to make the competition as fair as possible among all participants. Points will be deducted for each violation. Refer to the Written Entry Checklist.

1. Two “official” prospectuses must be submitted. Both of these must be submitted in official Collegiate DECA (or DECA) folios. Folios are available from DECA Images (catalog # FOLIO). No markings, tape or other materials should be attached to the folios.
2. Both prospectuses must be brought to the participant briefing session to be turned in for evaluation according to the Written Entry Checklist. These will be kept by the event director and will be given to the judge(s) prior to the presentation.
   - The participants may retain other copies (or photocopies) for their personal reference during the presentation. These do not have to be in official folios, will not be evaluated, and may not be shown to judges.
3. The prospectus must be limited to fifteen (15) pages, including the title page, which is not numbered. The pages must be numbered in sequence; however, a page number will not appear on the title page. The title page does count as one of the maximum fifteen (15) pages allowed. The page following the title page will be numbered “2”.

   One page will be counted for each 8.5 x 11-inch panel or fraction thereof (foldouts, brochures, etc.). Extra pages added as dividers or additional title pages (even if blank) are included in the maximum fifteen (15) pages.
4. Body copy of the prospectus must be at least double-spaced (not space-and-a-half). Title page, executive summary, bibliographical references, appendix content, footnotes, long quotes, material in tables, figures, exhibits, lists, headings, sample letters, forms, charts, graphs, etc. may be single-spaced. Material may appear on one side of the page only.
5. Entry must be typed/word processed. Handwritten corrections will be penalized. Charts, graphs, exhibits may be handwritten.
6. Colored paper, ink, pictures, etc. are allowed. Divider tabs, page borders, artwork, attachments, foldouts, paste-ups, photographs, etc. may also be used, but are still subject to the number of pages and page size restrictions.
7. Guidelines for the appendix (used to show financial calculations) were followed. The appendix does not count as one of the fifteen (15) pages.

Reminder: The event guidelines, financial statements and additional information provided to participants will also be given to judges to review prior to competition and for reference during the competition process.

GUIDELINES FOR THE PRESENTATION

REFER TO THE WRITTEN ENTRY AND PRESENTATION EVALUATION FORM.

How the information is presented is up to the team within the following guidelines.

1. All material must be prepared by the participants.
2. The participants may bring copies of the prospectus to the presentation for their personal reference. These do not have to be in official folios, will not be evaluated, and may not be shown to judges.
3. Self-contained, state-of-the-art technology (personal or laptop computers/hand/held digital organizers) may be used. However, participants must use battery power even if electrical outlets are available in the room.
4. Visual aids (poster paper, flip charts, etc.) may be used.
5. All materials, equipment, supplies, etc. must be provided by the participants. DECA assumes no responsibility for damage/loss of materials, equipment, supplies, etc.
6. Only materials (includes computer equipment, visual aids, etc.) that can be easily carried to and from the competition areas by the actual participants will be permitted. Only the participants may handle and set up their materials. No outside assistance will be allowed.
7. Materials appropriate to the situation may be handed to or left with the judge. Items of monetary value may be handed to but may not be left with judges. Items such as flyers, brochures, pamphlets and business cards may be handed to or left with the judge. No food or drinks allowed.
8. Participants will have up to twenty (20) minutes to present their proposal and answer questions from the judges.
9. Space provided for this event may be limited to a 6' x 8' pipe-and-drape booth in an arena atmosphere (includes judge's table and chairs).
10. When using a presentation aid, such as a laptop computer, the noise level must be kept at a conversational level that does not interrupt other participants. If this guideline is not followed, the participant will be interrupted and asked to follow the noise policy.
11. Competitors are also responsible for following the information provided in the General Rules and Regulations for competition found on pages 4 and 5.

Failure to follow guidelines may result in disqualification.

PRESENTATION SCHEDULE

Fifteen (15) minutes for judges to review prospectus

Twenty (20) minutes for participant set-up, presentation and questions from the judges

Ten (10) minutes for scoring by the judges

The Financial Statement Analysis event was created by Collegiate DECA in response to the career opportunities available for college graduates in the accounting and financial fields.

A team of 2 to 3 participants with career interests in accounting and finance have analyzed the financial statements of two (2) companies from the same industry. Every team uses the same two companies. Each team is to prepare a written prospectus prior to the conference, then present their findings and analysis to you, as the judge, using both the written prospectus and presentation.

Acting as financial consultants, the team will be analyzing each company's annual report (10-K filing), which serves as a "resume" of a corporation. Much of the information provided in corporate annual reports and in the 10-K is dictated by Generally Accepted Accounting Principles (GAAP) and by the Securities and Exchange Commission (SEC). Specifically, GAAP requires annual reports to disclose four financial statements: a Balance Sheet, a Statement of Cash Flows, an Income Statement and a Statement of Retained Earnings.

Judges are given copies of the identical financial statements used by the students, as well as the answers to the required calculations. As the judge(s), you are NOT acting as representatives of either company being analyzed.

The average person may not even know where to locate a company's financial statements. Even a seasoned business professional may not be able to analyze "raw" financial data and make competent decisions based on that data. This is why even high-level executives rely on specialists in the areas of finance and accounting. Determining the best way to tell the financial story is a critical skill in business. Therefore, each team's main responsibility in making their presentation is to draw conclusions from the data that they have gathered, determine the relevant position of each of the corporations in all of the analyses that they perform, and do so in a way that is understandable to you as the judge(s).

JUDGING THE WRITTEN ENTRY AND PRESENTATION

Please familiarize yourself with all of the guidelines, financial statements and calculations before reading any of the prospectuses and interacting with participants. Penalty points (see Written Entry Checklist) have already been assessed. Your job is to evaluate each team's written prospectus and presentation based on the Written Entry and Presentation Evaluation Form.

1. To ensure fairness, at no time should a participant be asked where he/she is from (school, state, country, etc.).
2. Place the participants' names and identification numbers, using labels if provided, on the bubble score sheet as instructed (if not already done). If a bubble score sheet has not been provided, this information must be placed on the evaluation form for this event.
3. Participants will be scheduled for presentations at forty-five (45) minute intervals. Before each team enters the judging room/area, you will have fifteen (15) minutes to review their prospectus.
4. The participants will begin by setting up visuals, equipment, supplies, etc.
5. Participants will have up to twenty (20) minutes to set up in the presentation room/area, make their presentation and answer questions from the judges. Remember, you are not acting as representatives of either company being analyzed. You may refer to the team's prospectus or to your notes during the interaction with the participants.
6. You may ask questions of the participants to determine their ability to think spontaneously. To insure fairness, you must ask all participants the same standard questions (one from each Section would be appropriate). After asking the standard questions, you may ask other questions for clarification specific to the current team.
7. Following the team's interaction with you, please thank the participants for their presentation but give no indication of their performance/score.
8. During the last ten (10) minutes, after the participants are excused from the judging area, you may score the participant(s). Refer to the Evaluation Criteria section for guidelines. On the bubble sheet provided, please bubble in the appropriate score and write the score on the corresponding line to verify accuracy. Please make sure not to exceed the maximum score possible for each item.

Please make sure to score all categories, add them for the total score, and then initial the total score. The maximum score for the evaluation is one hundred (100) points.

NOTE: If a bubble score sheet is not provided, indicate your scores on the Financial Statement Analysis Evaluation Form.

The Evaluation Form follows the outline shown in the section titled Format for Prospectus and Evaluation of the Prospectus, and the section titled Guidelines for the Presentation, which explain in greater detail what should be discussed in each section. As you read the prospectus and listen to the presentation, ask yourself, "How well does this team know their material and understand the analysis and use of financial statements? Did the participants communicate clearly?"

PRESENTATION SCHEDULE | IN FORTY-FIVE (45) MINUTE INTERVALS

Fifteen (15) minutes for judges to review prospectus

Twenty (20) minutes for participant set-up, presentation and questions from the judges

Ten (10) minutes for scoring by the judges

FINANCIAL STATEMENT ANALYSIS
EVALUATION CRITERIA

2014
2015

EVALUATION CRITERIA

A score under the heading Exceeds Expectations in any category means that, in your opinion, the information is presented in an effective, creative way; in effect, nothing more could be expected of the participants.

A score under the heading Meets Expectations in any category means that, in your opinion, the information is presented well. There may be a few minor problems or omissions, but they are not significant. Presentations/ Recommendations which earn this level in every category would probably receive strong consideration for adoption.

A score under the heading Below Expectations or Little/No Demonstration in any category means that some major flaw has been noted which damages the effectiveness of the presentation. This may be a major omission, a serious misstatement or any other major flaw.

JUDGING SUMMARY

Maximum score is 100 points. A score of 70 or better would earn the participants a Certificate of Excellence.

We hope you are impressed by the quality of work of these students with a career interest in the fields of accounting and finance. If you have any suggestions for improving this event, please mention them to your event manager.

WE THANK YOU FOR YOUR HELP.

FINANCIAL STATEMENT ANALYSIS
WRITTEN ENTRY CHECKLIST

2014 2015

Participant's Name: ______________________

I.D. Number: ______________________

Participant's Name: ______________________

I.D. Number: ______________________

Participant's Name: ______________________

I.D. Number: ______________________

Please refer to Guidelines for the Format of the Prospectus for a more detailed explanation of these items.

	CHECKED	PENALTY POINTS ASSESSED	PAGE NO/ NOTE
1. The Written Statement of Assurances must be signed and submitted with the entry.	______	15	______
2. Entries submitted in an official Collegiate DECA (or DECA) written event folio. Two copies submitted.	______	5	______
3. Title page information has been provided as requested.	______	5	______
4. Limited to the number of pages specified in the guidelines. One page will be counted for each 8.5 x 11 inch panel or fraction thereof (foldouts, brochures, etc.).	______	5 Per Page	______
5. All pages are numbered in sequence (except for the title page, which is not numbered).	______	5	______
6. Major content must be at least double-spaced (not space-and-a-half). Title page, executive summary, bibliographical references, appendix content, footnotes, long quotes, material in tables, figures, exhibits, lists, headings, sample letters, forms, charts, graphs, etc. may be single-spaced	______	5	______
7. Entry must be typed/word processed. Handwritten corrections will be penalized. Charts, graphs, exhibits may be handwritten.	______	5	______
8. The body of the written entry follows the sequence outlined in the guidelines. Additional subsections are permitted.	______	5	______
9. Appendix has been included to show calculations	______	5	______

Total Penalty Point Assessed: ________

A check indicates that the item has been examined.

A circled number indicates that an infraction has been noted.

A page number indicates the location of the infraction.

FINANCIAL STATEMENT ANALYSIS
WRITTEN STATEMENT OF ASSURANCES

2014
2015

Research and report writing are important elements of modern business activities. Great care must be taken to assure that the highest ethical standards are maintained by those engaging in research and report writing. To reinforce the importance of these standards, all written entries in Collegiate DECA's Competitive Events Program must submit this statement as part of the entry. The statement must be signed by all members of the competitive team, where applicable, and should be placed at the front of the written entry binder that is submitted for penalty points.

I understand the following requirements as set forth by DECA Inc. for all Competitive Event entries containing a written component. These requirements are additional to any general competitive event rules and regulations published by DECA Inc. By signing this statement, I certify that all are true and accurate as they relate to this entry.

1. The contents of this entry are the results of the work of the team members listed below.
2. No part of this entry has been previously entered in international competition.
3. This entry has not been submitted this year for international competition in any other Collegiate DECA competitive event, nor by any other participant/team in this event.
4. Credit for all secondary research has been given to the original author and is stated as such in the written project.
5. All activities or original research procedures described in this entry are accurate depictions of the efforts of the team members listed below.
6. I understand that Collegiate DECA has the right to publish this entry. Should Collegiate DECA elect to publish this entry, I will receive an honorarium from Collegiate DECA. Individuals/Teams with extenuating circumstances may appeal the right to publish the entry to the executive committee of the board of directors prior to submission of the project for competition.
7. I understand that the ideas and information presented in the written project and judge interaction will become public information. Therefore, DECA Inc., its staff, volunteers and organizational partners cannot reasonably be expected to ensure the security of my/our ideas and information.

This statement of assurances must be signed by all members of the team and submitted with the entry during the Financial Statement Analysis event briefing, or entry will be given 15 penalty points.

Name of Chapter	Chapter Advisor	Chapter Advisor Email
Participant's Name	Participant's Name	Participant's Name
Participant's Signature	Participant's Signature	Participant's Signature

Hole punch and place in front of the written entry. Do not count as a page.

FINANCIAL STATEMENT ANALYSIS
EVALUATION FORM

2014
2015

Participant's Name: ______________________
I.D. Number: ______________________________

Participant's Name: ______________________
I.D. Number: ______________________________

Participant's Name: ______________________
I.D. Number: ______________________________

	LITTLE/NO DEMONSTRATION	BELOW EXPECTATIONS	MEETS EXPECTATIONS	EXCEEDS EXPECTATIONS	JUDGED POINTS
SECTION 1 - EXECUTIVE SUMMARY					
1. Introduction of companies	0	1-2	3-4	5	______
SECTION 2 - HORIZONTAL ANALYSIS					
2. Consider: accuracy of financial computations, thoroughness of report, knowledge of material, quality of analysis, and ability to answer questions	0-1-2-3-4	5-6-7-8	9-10-11-12	13-14-15	______
SECTION 3 - VERTICAL ANALYSIS					
3. Consider: accuracy of financial computations, thoroughness of report, knowledge of material, quality of analysis, and ability to answer questions	0-1-2-3-4	5-6-7-8	9-10-11-12	13-14-15	______
SECTION 4 - RATIO ANALYSIS					
4. Consider: accuracy of financial computations, thoroughness of report, knowledge of material, quality of analysis, and ability to answer questions	0-1-2-3-4	5-6-7-8	9-10-11-12	13-14-15	______
SECTION 5 - CONCLUSIONS/RECOMMENDATIONS					
5. Consider: quality of conclusions and recommendations; ability to answer questions	0-1-2-3-4	5-6-7-8	9-10-11-12	13-14-15	______
SECTION 6 - PUBLIC PERCEPTION AND RECENT RESULTS					
6. Consider: thoroughness of report, quality of analysis,and ability to answer questions	0-1-2	3-4-5	6-7-8	9-10	______
WRITTEN PROSPECTUS EVALUATION					
7. Overall Impression of Written Prospectus	0	1-2	3-4	5	______
PRESENTATION EVALUATION					
8. Professionalism	0	1-2	3-4	5	______
9. Quality of Presentation Materials	0	1-2	3-4	5	______
10. Demonstration of Teamwork	0	1-2	3-4	5	______
11. Overall performance: Appropriate appearance, poise, confidence, presentation technique, etc.	0	1-2	3-4	5	______

Total Judged Points (100 maximum): ________

JUDGE SECTION: A B C D E F G H I J (circle one)

TIE BREAKER
For tie-breaking purposes, the following evaluation form ranking process will be used. Begin with item #5. The team with the highest score for #5 wins the tie-break. If this does not break the tie, continue the process for the remaining evaluation items in the following order: 2, 3, 4, 6, 1, 11, 7, 10, 8, 9.

Additional Information for Financial Calculations

Southwest Airlines Co. and JetBlue Airways Corporation

The following information has been provided to aid in the calculations for the Financial Statement Analysis event, based on the guidelines that will be used for the 2014 – 2015 school year.

GENERAL FINANCIAL COMMENTS

1. All financial statement items should be presented as shown on the Companies' financial statements (e.g., both companies present their numbers in millions and use whole numbers). Students should use this same format for all calculations.
2. All ratios and percentages should be rounded to <u>two</u> decimal points.

Horizontal Analysis

1. The following six items should be compared in the year-over-year analysis:
    a. Revenues
    b. Operating Income
    c. Net Income
    d. Net Cash from Operating Activities
    e. Net Cash from Investing Activities
    f. Total Assets

Vertical Analysis

1. The vertical analysis of the Income Statement should include, as a percentage of total revenues:
    a. Salaries, wages, and benefits
    b. Total operating expenses
    c. Interest expense (do not include capitalized interest)
    d. Income tax expense
    e. Net income
2. In the vertical analysis of the Balance Sheet, when asked to identify "All Other Assets", it is asking for all assets not identified as either Current Assets or Plant Assets (i.e., land, building and equipment). While the statements typically have a line item for Other Assets, there may be additional assets listed that are not part of current or plant assets.

Ratio Analysis

1. Instead of Inventory Turnover in the Efficiency Ratio Section, compute Fixed Asset Turnover
2. Instead of Gross Margin in the Profitability Ratio Section, compute Operating Margin
3. For the P/E ratio, students should use the Basic EPS provided on the companies' Statement of Operations and the historical <u>adjusted</u> close for the stock on the Balance Sheet date.

LIQUIDITY RATIOS

Liquidity Ratios measure the corporation's ability to generate short-term funds to meet obligations and cash needs through the management of current assets and liabilities.

ACTIVITY OR EFFICIENCY RATIOS

Efficiency ratios indicate how well assets are utilized by the organization. Efficiency in using assets minimizes the need for investment by lenders or owners. These ratios measure how well assets or capital are being utilized through the sale of inventory, and collection of receivables.

SOLVENCY OR FINANCIAL STRENGTH RATIOS

Financial strength is an indicator of business risk. When business conditions turn bad, financially stronger companies have more staying power. They are less likely to face insolvency and are less likely to make drastic cutbacks that would restrain their ability to grow once better times resume. These ratios often indicate the corporation's ability to survive over a long period of time.

PROFITABILITY RATIOS

Profitability ratios measure the operating success of an enterprise. The first two ratios tell you how much of each Revenue dollar is left over, after subtracting costs, as profit to the company. The remaining ratios are widely regarded as the ultimate measure of corporate performance.

MARKET OR VALUATION RATIOS

Market ratios help the investor decide whether a stock is inexpensive or costly, more risky or less risky, in comparison to other investment opportunities. In addition, the Payout Ratio allows the investor to evaluate the income-related opportunities of investing in a particular security.

LIQUIDITY RATIOS

Current Ratio:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Quick Ratio:

$$\frac{\text{Cash + Cash Equivalents (short-term investments)}}{\text{Current Liabilities}}$$

Current Cash/Debt Coverage:

$$\frac{\text{Net Cash from Operating Activities}}{\text{Average Current Liabilities}}$$

ACTIVITY OR EFFICIENCY RATIOS

Receivable Turnover:

$$\frac{\text{Total Operating Revenue}}{\text{Average Accounts Receivable}}$$

Asset Turnover:

$$\frac{\text{Total Operating Revenue}}{\text{Average Total Assets}}$$

Fixed Asset Turnover:

$$\frac{\text{Total Operating Revenue}}{\text{Average Net Fixed Assets}}$$

SOLVENCY OR FINANCIAL STRENGTH RATIOS

Debt/Total Equity:

$$\frac{\text{Total Debt (Short Term + Long Term + Capitalized Leases)}}{\text{Total Equity}}$$

Times Interest Earned: $\dfrac{\text{Operating Income}}{\text{Interest Expense}}$

Cash/Debt Coverage: $\dfrac{\text{Net Cash from Operating Activities}}{\text{Total Liabilities}}$

PROFITABILITY RATIOS

Operating Margin: $\dfrac{\text{Operating Income}}{\text{Total Operating Revenue}}$

Profit Margin: $\dfrac{\text{Net Income}}{\text{Total Operating Revenue}}$

Return on Assets: $\dfrac{\text{Net Income}}{\text{Average Total Assets}}$

Return on Equity: $\dfrac{\text{Net Income}}{\text{Average Stockholders' Equity}}$

MARKET OR VALUATION RATIOS

P/E: $\dfrac{\text{Adjusted Close Stock Price (on the Balance Sheet date)}}{\text{EPS}}$

Payout Ratio: $\dfrac{\text{Cash Dividends}}{\text{Net Income}}$

2013 ANNUAL REPORT

jetBlue

jetBlue

Dear Fellow Shareholders:

2013 was a record-breaking year for JetBlue as we delivered strong financial results. Specifically, we:

✓ Carried over 30 million customers and generated record revenues of over $5 billion

✓ Grew net income by 31% year over year to an annual record of $168 million, our fifth consecutive year of profitability

✓ Generated over $120 million of positive free cash flow

These strong results were reflected in our stock price, which increased nearly 50% during 2013, outpacing the S&P 500.

Our Mission and Strategy

JetBlue began serving customers over 14 years ago with a mission of "bringing humanity back to air travel." We remain committed to this mission, which has evolved to "inspire humanity." We seek to be innovative and nimble, adapting our products and services to meet our customers' ever changing needs – which we believe we can serve better than our competitors.

There are two well-established business models in the airline industry: low cost carriers who target price-sensitive travelers and network carriers with global networks. JetBlue's core customer base is comprised of leisure and business customers who have been underserved by these airlines. Underserved customers include those travelers who are no longer willing to be 'nickel and dimed' by the ultra-low cost carriers and business travelers making several trips a year who aren't rewarded for their loyalty on network carriers.

By maintaining an unwavering focus on underserved customers – an expanding demographic by virtue of industry consolidation – we believe we've extended our position as the carrier of choice for these targeted customers in the markets we serve. We believe this approach drives customer loyalty and ultimately shareholder returns.

Our Values and Culture

Our ability to succeed is based on the commitment of our 15,000 Crewmembers to deliver outstanding customer service while staying true to our key values: safety, caring, integrity, passion and fun.

Our Crewmembers are highly engaged. In 2013, we were recognized for service excellence by J.D. Power for the ninth year in a row. To be one of only a few companies (and the only airline) recognized for nine consecutive years validates our Crewmembers' commitment to customer service and reflects the strength of our unique culture.

JetBlue Crewmembers are making a difference in our communities as well. To that end, JetBlue Crewmembers contributed nearly 70,000 volunteer hours in 2013 for local charities in the communities we serve. Our support of causes that are important to our communities has helped create a loyal customer base aligned with our values.

Differentiated Product

We attract customers and drive loyalty with a superior, differentiated product and service – the "JetBlue Experience." We believe we offer customers the best main cabin experience in the markets we serve, including free inflight entertainment, the most legroom in coach of any U.S. airline (based on average fleet-wide seat pitch), unlimited free snacks and great customer service. In addition, we offer reasonably priced product upgrades, such as expedited security, which enhance this core experience, while generating high-margin ancillary revenue.

Excellent customer service is what our customers want and expect from us. Over the past year, we've invested in what matters to our customers as we further differentiate our product in ways that resonate with our core customer.

An example is our Mint product offering which we previewed in 2013. Aircraft equipped with Mint will offer 16 seats with a fully lie-flat bed, an upgraded live television system with 100 channels of DirecTV, complimentary food and beverage service and amenity kits. We believe Mint will offer the best transcontinental premium product in the two most lucrative markets in the United States: New York (JFK) to Los Angeles and New York (JFK) to San Francisco. We plan to begin Mint service in June 2014.

Fly-Fi™ – JetBlue's Ka-band satellite connectivity solution – is another example of how we have evolved the JetBlue Experience to meet ever-changing customer demands. Fly-Fi™ for the first time brings travelers real broadband internet in the sky and the same at-home internet speeds to which they are accustomed, a significant leap ahead of connectivity offerings available on other U.S. airlines today. We expect installations to be complete on our Airbus fleet in 2014 and we plan to begin installations on our EMBRAER 190 aircraft thereafter.

In 2013, we also continued to enhance TrueBlue, our customer loyalty program. Now, TrueBlue points never expire, and through Family Pooling, families and small groups can now earn and share TrueBlue points free of charge.

High-Value Geography

While JetBlue's network represents just five percent of the U.S. domestic market, "we fly where the people are." We compete in highly populated areas in some of the most lucrative travel markets in the country, including New York, Boston and Florida.

We continue to perform very well in our New York hometown. We recently celebrated the fifth anniversary of our award-winning Terminal 5 at JFK Airport. Construction of T5i, our international expansion at JFK Airport, is on track and scheduled to open in the fourth quarter of this year.

In Boston, we continue to successfully execute our strategy to attract both business and leisure customers by adding routes and frequencies and improving our product offering. At year end, our domestic operations accounted for more than 25% of all domestic flights in Boston's Logan Airport.

Looking ahead, we see tremendous opportunity for profitable growth at Fort Lauderdale – Hollywood International Airport. We believe the demographics of South Florida together with relatively low airport costs give Fort Lauderdale-Hollywood attractive growth potential, particularly to points south throughout the Caribbean and Latin America. The significant capital investments being made by the Broward County Aviation Department to modernize and expand the airport's capacity will facilitate our growth plans.

We are also very excited about our acquisition of 12 slot pairs to expand service at Ronald Reagan Washington National Airport (DCA) – an airport we have worked tirelessly to gain access to for more than a decade. Reagan National is a high-fare market with a demographic very well suited to our business model. We plan to operate up to 30 roundtrips per day at Reagan National by year end.

Our airline partnerships continued to generate high-margin passenger revenue and expand the scope of our network through which we now offer customers access to 900 destinations worldwide. In 2013, our airline partnership portfolio expanded by 9 to a total of 31 partners. As the largest domestic carrier in Boston and at New York's JFK Airport (the largest U.S. international gateway), we believe we are well-positioned to offer significant value to our current and potential airline partners.

Competitive Costs

Maintaining a relative cost advantage to our network carrier competitors is critical to our ability to offer an industry-leading product and a reasonable fare.

Fuel, of course, remains our largest cost, comprising 38% of total operating expenses in 2013. Today, we have one of the youngest, most fuel-efficient fleets among U.S. airlines. Focus on efficient operating procedures, such as single-engine taxi, along with investments in our fleet and infrastructure will enable us to continue improving fuel efficiency and to keep costs low.

In 2013, we announced significant changes to our fleet plan which we believe will significantly change our cost dynamic over the long run. As part of this effort, we deferred 24 EMBRAER 190 aircraft, converted 18 A320 delivery positions to A321s and ordered 15 additional A321ceo aircraft and 20 additional A321neo aircraft. In addition to significant fuel savings, we believe these actions will enable JetBlue to better match capacity with demand throughout our network.

Investing in our Future

We remain committed to prudent capital deployment and continued to strengthen our balance sheet in 2013. Total debt declined even as we grew our fleet and network. We also increased our total available lines of credit to $550 million. We believe deploying available cash to pay down debt and purchase aircraft enhances the balance sheet and improves returns for our shareholders.

Maintaining a strong balance sheet also gives us the flexibility to invest in the business. We plan to continue to focus our investments on those areas of the business which align closely with our customer needs and with the greatest opportunities to drive profitable growth.

A Look Ahead

The airline industry is more competitive than ever. The global marketplace is in a state of constant change and the needs of our customers continue to evolve. We believe our strong brand and differentiated product will help us continue to successfully compete in this dynamic environment.

Our long-term financial goals are to improve our return on invested capital (ROIC) by one percentage point per year on average by expanding margins and further strengthening the balance sheet. We believe these goals are attainable.

The key drivers of 2014 margin and ROIC expansion will be:

- Cost Control: Our strong culture, point to point network and highly-engaged workforce allow us to achieve industry-leading productivity metrics, an important driver of maintaining competitive costs. Over the long term, we expect significant operating and cost efficiencies from our new A321 aircraft and the sharklet retrofit of our A320 fleet beginning in 2015 will help us significantly reshape our cost dynamic and improve margin performance.
- Revenue: We believe a maturing network, new product offerings such as Mint and Fly-Fi, along with ancillary revenue initiatives will further improve our revenue performance.
- Balance sheet: Since 2008, we have reduced total debt by approximately $600 million, resulting in lower interest expense and decreasing financial risk within our business.

In furtherance of these goals, our former Chief Commercial Officer, Robin Hayes, was promoted to President effective January 1, 2014. We believe better alignment between our commercial and operational teams will improve results.

I am often asked what JetBlue might look like years from today. JetBlue is a company that was built on innovation. It defines and differentiates us. We believe our mission to "inspire humanity" will continue to help shape our strategies and serve our stakeholders well. We will continue to invest in innovation and work with our customers to understand their changing needs. Evolving as our customers evolve is vital to our long-term success.

On behalf of our 15,000 dedicated Crewmembers, thank you for your continued support.

Most Sincerely,

Dave Barger
Chief Executive Officer

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from ____________ to ____________

Commission file number. 000-49728

JETBLUE AIRWAYS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**87-0617894**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
27-01 Queens Plaza North, Long Island City, New York	**11101**
(Address, including zip code, of registrant's principal executive offices)	*(Zip Code)*

(718) 286-7900

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:	
Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	**The NASDAQ Global Select Market**
Participating Preferred Stock Purchase Rights	

Indicate by check mark	YES	NO
• if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	☑	☐
• if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.	☐	☑
• 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.	☑	☐
• 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	☑	☐
• if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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.	☐	☑
• 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 ☐		
• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).	☐	☑

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 28, 2013 was approximately $1.5 billion (based on the last reported sale price on the NASDAQ Global Select Market on that date). The number of shares outstanding of the registrant's common stock as of January 31, 2014 was 295,632,350 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its 2014 Annual Meeting of Stockholders, which is to be filed subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K.

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Forward-Looking Information

Statements in this Form 10-K (or otherwise made by JetBlue or on JetBlue's behalf) contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which represent our management's beliefs and assumptions concerning future events. When used in this document and in documents incorporated herein by reference, the words "expects," "plans," "anticipates," "indicates," "believes," "forecast," "guidance," "outlook," "may," "will," "should," "seeks," "targets" and similar expressions are intended to identify forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions, and are based on information currently available to us. Actual results may differ materially from those expressed in the forward-looking statements due to many factors, including, without limitation, our extremely competitive industry; volatility in financial and credit markets which could affect our ability to obtain debt and/or lease financing or to raise funds through debt or equity issuances; increases and volatility in fuel prices, maintenance costs and interest rates; our ability to implement our growth strategy; our significant fixed obligations and substantial indebtedness; our ability to attract and retain qualified personnel and maintain our culture as we grow; our reliance on high daily aircraft utilization; our dependence on the New York metropolitan market and the effect of increased congestion in this market; our reliance on automated systems and technology; our being subject to potential unionization, work stoppages, slowdowns or increased labor costs; our reliance on a limited number of suppliers; our presence in some international emerging markets that may experience political or economic instability or may subject us to legal risk; reputational and business risk from information security breaches; changes in or additional government regulation; changes in our industry due to other airlines' financial condition; a continuance of the economic recessionary conditions in the U.S. or a further economic downturn leading to a continuing or accelerated decrease in demand for domestic and business air travel; and external geopolitical events and conditions. It is routine for our internal projections and expectations to change as the year or each quarter in the year progresses, and therefore it should be clearly understood that the internal projections, beliefs and assumptions upon which we base our expectations may change prior to the end of each quarter or year. Although these expectations may change, we may not inform you if they do.

You should understand that many important factors, in addition to those discussed or incorporated by reference in this report, could cause our results to differ materially from those expressed in the forward-looking statements. Potential factors that could affect our results include, in addition to others not described in this report, those described in Item 1A of this report under "Risks Related to JetBlue" and "Risks Associated with the Airline Industry." In light of these risks and uncertainties, the forward-looking events discussed in this report might not occur.

PART I

ITEM 1. Business

Overview

General

JetBlue Airways Corporation, or JetBlue, is New York's Hometown Airline™. In 2013 JetBlue carried over 30 million passengers with an average of 800 daily flights and served 82 destinations in the United States, the Caribbean and Latin America.

JetBlue was incorporated in Delaware in August 1998, commenced service on February 11, 2000 and by the end of 2013 had grown to become the 5th largest passenger carrier in the U.S. based on revenue passenger miles as reported by these passenger airlines. We believe our differentiated product and service offering combined with our competitive cost advantage enables us to compete fiercely in the high-value geography we serve. Looking to the future we plan to continue to grow in our high-value geography, invest in industry-leading products and provide award winning service by our 15,000 dedicated employees, whom we refer to as Crewmembers. We believe in the future we will continue to differentiate ourselves from the other airlines, enable us to continue to attract a higher mix of business travelers and allocate further profitable growth to the Caribbean and Latin America. We are focused on driving to deliver solid results for our shareholders, our Crewmembers and our customers.

As used in this Form 10-K, the terms "JetBlue", "we", "us", "our" and similar terms refer to JetBlue Airways Corporation and its subsidiaries, unless the context indicates otherwise. Our principal executive offices are located at 27-01 Queens Plaza North, Long Island City, New York 11101 and our telephone number is (718) 286-7900.

Our Industry and Competition

The U.S. airline industry is extremely competitive, challenging and often volatile. It is uniquely susceptible to external factors such as domestic and international economic downturns, inclement weather, natural disasters and acts of terrorism. We operate in a capital and energy intensive industry which has high fixed costs as well as heavy taxation and fees. Airline returns are sensitive to slight changes in fuel prices, average fare levels and passenger demand. The principal competitive factors in the airline industry include fares, brand and customer service, route networks, flight schedules, aircraft types, safety records, code-sharing and interline relationships, in-flight entertainment and connectivity systems and frequent flyer programs.

Price competition is strong in our industry and occurs through price discounting, fare matching, targeted sale promotions, ancillary fee additions and frequent flyer travel initiatives. All of these measures are usually matched by other airlines in order to maintain their competitive position. Our ability to meet this price competition depends on, among other things, our ability to operate at costs equal to or lower than our competitors.

Since 2001, the majority of traditional network airlines have undergone significant financial restructuring including bankruptcies, mergers and consolidations. These processes typically result in a lower cost structure through reduction of labor costs, restructuring of commitments (including debt terms, leases and fleet), modification or termination of pension plans, increased workforce flexibility and innovative offerings. These actions also have provided significant opportunities for realignment of route networks, alliances and frequent flyer programs. These factors have had a significant influence on the industry's improved profitability.

2013 Operational Highlights

We believe our differentiated product, high-value geography and competitive cost advantage relative to the other airlines have contributed to our continued success in 2013. Our 2013 operational highlights include:

- ***Fleet*** - We restructured our long-term order book so as to better match our capacity with network demand at a lower unit cost in the future. Specifically, we deferred 24 EMBRAER 190 aircraft from 2014-2018 to 2020-2022, converted 18 Airbus A320 positions to larger A321s and added an incremental order for 35 A321 aircraft. All Airbus aircraft delivered going forward are to be equipped with Sharklets® which are expected to reduce fuel consumption. Most of the aircraft currently in our fleet are expected to be retrofitted with Sharklets® starting in 2015. Finally, we took delivery of the Airbus A321, a variant of the A320. With up to 190 seats we expect it will help us better serve our high-value geography more effectively.
- ***Product enhancements*** - Throughout 2013 we continued to invest in industry-leading products which we believe will continue to differentiate our product offering from the other airlines. We launched Fly-Fi™ in-flight internet service with connectivity speed significantly faster

than those offered by other U.S. airlines. We expect to complete the retrofit of our Airbus fleet with Fly-Fi™ by the end of 2014 and anticipate retrofitting the Embraer fleet shortly thereafter. We announced our premium transcontinental service, Mint™, which is scheduled to commence June 2014. Mint™ is designed to include 16 fully lie-flat beds, four of which will be in suites with privacy door a first in the U.S. domestic market.

- ***Network*** - We continued to expand and grow in our high-value geography. Specifically, we grew our Boston network with nearly 80,000 flights in 2013. We are now the largest carrier in Boston and account for more than 30% of all flights by U.S. carriers from this airport. We expanded operations in San Juan, Puerto Rico and built relationships with smaller airlines throughout the Caribbean to help feed these operations. We are working with the local authorities of Broward County, Florida, who have committed to runway and terminal expansion plans at Fort Lauderdale-Hollywood Airport. These plans align with our future plans at Fort Lauderdale-Hollywood of growing to 100 flights per day.
- ***TrueBlue and partnerships*** - In June we announced members of our TrueBlue frequent flyer program could earn and keep points without expiration. In October we became the first U.S. airline to offer family pooling where families and small groups can now elect to earn and share TrueBlue points, free of charge. Our customers determine their own "family". Additionally, we expanded our portfolio of commercial airline partnerships throughout the year and began codeshare agreements with current partners Emirates in October and South African Airways in December.
- ***Customer Service*** - We were recognized by J.D. Power and Associates for the ninth consecutive year as the "Highest in Airline Customer Satisfaction among Low-Cost Carriers." We were additionally recognized by Airline Ratings as the "Best Low Cost Airline – The Americas" receiving 7/7 stars for safety, and 5/5 stars for our product offering.

The JetBlue Experience and Strategy

We offer our customers a distinctive flying experience which we refer to as the "JetBlue Experience". We believe we deliver award winning service which focuses on the customer experience from booking their itinerary to arrival at their final destination. Typically our customers are neither the high-traffic business travelers nor the ultra-price sensitive travelers. Rather, we believe we are the carrier of choice for delivering a differentiated product, brand and award winning customer service to the majority of travelers who have been underserved by the other airlines.

Differentiated Product and Service

Delivering the JetBlue Experience to our customers through our differentiated product and service is core to our mission to inspire humanity. We look to attract new customers to our brand and provide current customers reasons to come back to us. A key element of our success is the belief that competitive fares and quality air travel need not be mutually exclusive.

Our award winning service begins from the moment our customers purchase a ticket across a variety of our distribution channels such as *www.jetblue.com*, our mobile applications or our reservations centers. Upon arrival at the airport they are welcomed by our dedicated Crewmembers and can experience a variety of products including having their first checked bag for free. They can also purchase one of our ancillary options, such as Even More™ Speed, which allows them to enjoy an expedited security experience in most domestic JetBlue locations.

Once onboard, customers enjoy leather seats in a comfortable single class layout and the most legroom in the main cabin of all U.S. airlines (based on average fleet-wide seat pitch). Customers who have purchased our Even More™ Space seats enjoy additional legroom; these seats are available on all of our aircraft. Our in-flight entertainment system include 36 channels of free DIRECTV®, 100 channels of free SiriusXM® satellite radio and premium movie channel offerings from JetBlue Features®, our source of first run films. All customers can enjoy an assortment of free and unlimited brand name snacks and beverages as well as having the option to purchase premium beverages and food selections. They also have the option to purchase specially-tailored products such as our "blanket & pillow" set. In December 2013 we began to retrofit our fleet with Fly-Fi™. This connectivity is significantly faster than the in-flight connections offered by other U.S. airlines and allows for high-quality video streaming for all customers onboard. We expect installations to be completed on our Airbus fleet in 2014, after which we plan to begin installations on our EMBRAER 190 fleet.

Our Airbus A320 aircraft have 150 seats and a wider cabin than both the Boeing 737 and 757 aircraft operated by many of our competitors on their domestic routes. Our EMBRAER 190 aircraft have 100 seats arranged in a two-by-two seating configuration. In October 2013 we received delivery of the first Airbus A321 aircraft in our fleet, which was placed into service in December 2013 with 190 seats. Beginning in June 2014 we plan to introduce a number of Airbus A321 aircraft which include our premium transcontinental service, Mint™. We anticipate this service will include 16 fully lie-flat beds, four of which will be in suites with privacy doors, a first in the U.S. domestic market. We intend that Mint™ customers will have access to a 15-inch flat screen with up to 100 channels of DIRECTV®, 100+ channels of SiriusXM® radio and access to an assortment of complimentary food and beverages.

In addition to our core products we also sell vacation packages through JetBlue Getaways™, a one-stop, value-priced vacation service for self-directed packaged travel planning. These packages offer competitive fares for air travel on JetBlue, along with a selection of JetBlue-recommended hotels and resorts, car rentals and attractions.

We work to provide a superior air travel experience, including communicating openly and honestly with customers about delays and service disruptions. We are the only U.S. major airline to have a Customer Bill of Rights, a program introduced in 2007 to provide for compensation to customers who experience avoidable inconveniences as well as some unavoidable circumstances. It also commits us to high service standards and holds us accountable if we do not. In 2013, we completed 99.2% of our scheduled flights. Unlike most other airlines, we have a policy of not overbooking flights.

Our customers have repeatedly indicated the distinctive JetBlue Experience is an important reason why they choose to fly us over other carriers. We measure and monitor our customer feedback regularly which helps us to continuously improve customer satisfaction. One way we do so is by measuring our net promoter score, or NPS. This metric is used by companies in many industries to measure and monitor customer experience. Many of the leading consumer brands that are recognized for great customer service receive high NPS scores. We believe a higher NPS score has positive effects on customer loyalty and leads to increased revenue.

Network/ High-Value Geography

We are predominately a point-to-point system carrier, with the majority of our routes touching at least one of our six focus cities. During 2013 approximately 90% of our customers flew on non-stop itineraries.

Airlines with a strong leisure traveler focus are often faced with high seasonality. As a result we are continually working to manage our mix of customers to include business travelers as well as travelers visiting friends and relatives (VFR). VFR travelers tend to be slightly less seasonal and less susceptible to economic downturns than traditional leisure destination travelers. Understanding the purpose of our customers' travel helps us optimize destinations, strengthen our network and increase unit revenues.

As of December 31, 2013, our network served 82 BlueCities in 25 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, and 15 countries in the Caribbean and Latin America. In 2013, we commenced service to seven new BlueCities including Lima, Peru, our southernmost BlueCity. We also made tactical changes across our network by announcing new routes between existing BlueCities. We group our capacity distribution based upon geographical regions rather than a mileage or length of haul. The historic distribution for the past three years of available seat miles, or capacity, by region is:

	Year Ended December 31,		
Capacity Distribution	**2013**	**2012**	**2011**
Florida	30.9%	31.1%	32.7%
Latin, including Puerto Rico[(1)]	28.1	27.2	24.7
Transcontinental	27.9	28.6	29.1
Central	5.2	5.0	5.0
East	5.0	4.9	5.1
West	2.9	3.2	3.4
TOTAL	**100.0%**	**100.0%**	**100.0%**

(1) Domestic operations as defined by the DOT include Puerto Rico and the U.S. Virgin Islands but for the purposes of the capacity distribution table above we have included these locations in the Latin region.

Our network growth over the past few years has been focused on the business traveler in Boston as well as travelers to the Caribbean and Latin America. Looking to the future we expect to focus on increasing our presence in Fort Lauderdale-Hollywood which is a destination we currently serve primarily from the Northeast. We believe there is an opportunity at Fort Lauderdale-Hollywood to increase our presence to destinations throughout the Caribbean and Latin America. In 2014 we anticipate further expanding our network and have announced the following new destinations:

Destination	Service Scheduled to Commence
Savannah, Georgia (SAV)	February 13, 2014
Port of Spain, Trinidad and Tobago (POS)*	February 24, 2014
Detroit, Michigan (DTW)	March 10, 2014

* subject to receipt of government operating authority

Airline Commercial Partnerships

Airlines frequently participate in commercial partnerships with other carriers in order to provide inter-connectivity, code-sharing, coordinated flight schedules, frequent flyer program reciprocity and other joint marketing activities. At December 31, 2013 we had 31 airline commercial partnerships. Our commercial partnerships typically begin as an interline agreement allowing a customer to book one itinerary with tickets on multiple airlines. We have strengthened the relationship with two of our existing partners in 2013 to include code-sharing, a practice in which one airline places its name and flight number on flights operated by another airline. In 2014, we will continue to seek additional strategic opportunities through new commercial partners as well as assess ways to deepen select current airline partnerships. We will do this by expanding one-way code share to, two-way code-share relationships and other areas of cooperation such as frequent flyer programs. We believe these commercial partnerships allow us to leverage our strong network and drive incremental traffic and revenue while improving off-peak travel.

Marketing

JetBlue is a widely recognized and respected global brand. This brand has evolved into an important and valuable asset which identifies us as a safe, reliable, high value airline. Similarly, we believe customer awareness of our brand has contributed to the success of our marketing efforts. It enables us to promote ourselves as a preferred marketing partner with companies across many different industries.

We market our services through advertising and promotions in various media forms including popular social media outlets. We engage in large multi-market programs, local events and sponsorships as well as mobile marketing programs. Our targeted public and community relations efforts reflect our commitment to the communities we serve, as well as promoting brand awareness and complementing our strong reputation.

Distribution

Our primary and preferred distribution channel to customers is through our website, *www.jetblue.com*, our lowest cost channel. We additionally have mobile applications for both Apple and Android devices which have robust features including real-time flight information updates and mobile check-in for certain routes. Both of these channels are designed to enhance our customers' travel experience and are in keeping with the JetBlue Experience. Our participation in global distribution systems (GDSs) supports our profitable growth, particularly in the business market. We find business customers are more likely to book through a travel agency or a booking product which rely on a GDS platform. Although the cost of sales through this channel is higher than through our website, the average fare purchased through the GDSs is generally higher and often covers the increased distribution costs. We currently participate in several major GDSs and online travel agents (OTAs). Because the majority of our customers book travel on our website, we maintain relatively low distribution costs despite our increased participation in GDS and OTA in recent years.

Customer Loyalty Program

TrueBlue is our customer loyalty program designed to reward and recognize loyal customers. Members earn points based upon the amount paid for JetBlue flights and services from certain commercial partners. Our points do not expire and for as little as 5,000 points and related taxes/fees can be redeemed for a one-way flight. The program has no black-out dates or seat restrictions and any JetBlue destination can be booked if the member has enough points to exchange for the value of an open seat. In addition to points, members can earn badges and rewards for JetBlue-related activities like flying, interacting with partners and social media use. Since 2012 we have had an additional level for our most loyal customers called Mosaic. In order to qualify for Mosaic status, TrueBlue members must either (1) fly a minimum of 30 times with JetBlue and acquire at least 12,000 base flight points within a calendar year, or (2) accumulate 15,000 base flight points within a calendar year. Mosaic customers enjoy benefits including free Even More™ Speed expedited security, no change/cancel fees, early boarding, access to a dedicated Customer service line available 24 hours a day/7days a week, a free second checked bag and the exclusive ability to use TrueBlue points for Even More™ Space seat upgrades. There were over 931,000 TrueBlue award miles travel segments flown during 2013, representing approximately 3% of our total revenue passenger miles.

We have an agreement with American Express under which they issue JetBlue co-branded American Express credit cards to U.S. residents that allow cardmembers to earn TrueBlue points. We have a separate agreement with American Express allowing any American Express cardholder to convert Membership Rewards points into TrueBlue points. We also have a co-branded loyalty credit card jointly with Banco Santander Puerto Rico and Mastercard which allows customers in Puerto Rico to take full advantage of our TrueBlue loyalty program.

We have separate agreements with other loyalty partners, including hotels and car rental companies, allowing their customers to earn TrueBlue points through participation in the partners' programs. We intend to develop the footprint of our co-branded credit cards and pursue other loyalty partnerships in the future.

Operations and Cost Structure

Historically, our cost structure has allowed us to profitably price fares lower than many competitors and is a principle reason for our success. Our current cost advantage relative to some of our competitors is due to high aircraft utilization, new and efficient aircraft, relatively low distribution costs, and a productive workforce among other factors. Because our network initiatives and growth plans necessitate a low cost platform, we are continually focused on our cost advantage and maintaining it. In making investments, we believe not just in the ones that contribute and enhance the JetBlue Experience, but also ones that drive efficiencies and contribute to the preservation of our long-term cost advantage.

Route Structure

Our point-to-point system is the foundation of our operational structure. This structure allows us to optimize costs as well as accommodate customers' preference for non-stop itineraries. Further, a vast majority of our operations are centered in and around the heavily populated northeast corridor of the U.S., which includes the New York and Boston metropolitan areas. This airspace is some of the world's most congested and drives certain operational constraints.

- ***New York metropolitan area.*** We are New York's Hometown Airline™. The majority of our flights originate in the New York metropolitan area, the nation's largest travel market. New York's John F. Kennedy International Airport, (JFK) is New York's largest airport. We are the largest airline at JFK as measured by domestic capacity and by the end of 2013 our domestic operations accounted for nearly 31% of all domestic passengers at JFK. We operate predominately out of Terminal 5, or T5, and in 2014 we expect to complete the construction of T5i, an international arrivals facility that will expand our current T5 footprint. We believe T5i will enable us to increase operational efficiencies, provide savings and streamline our operations as well as improve the overall travel experience for our customers arriving from international destinations. We also serve New Jersey's Newark Liberty International Airport, New York's LaGuardia Airport, Newburgh, NY's Stewart International Airport and White Plains, NY's Westchester County Airport. We are the leading carrier in number of flights flown per day between the New York metropolitan area and Florida.
- ***Boston.*** We are the largest carrier in terms of flights and seats offered at Boston's Logan International Airport, or Boston. By the end of 2013 we flew to 49 destinations from Boston and served twice as many non-stop destinations than any other airline. Our operations accounted for more than 30% of all Boston passengers. We continue to capitalize on opportunities in the changing competitive landscape by adding routes, frequencies and increasing our relevance to local travelers, including business travelers. Our plan is to grow Boston towards a target of 150 flights per day.
- ***Caribbean and Latin America.*** Since 2008 we have added 20 BlueCities in this region. We expect this number to continue to grow in the future. Our only focus city outside of the Continental U.S. is San Juan, Puerto Rico. We are now the largest airline in Puerto Rico in terms of capacity with approximately 36% of all passengers in 2013 from our three BlueCities. We are also the largest airline in terms of capacity serving the Dominican Republic with six BlueCities and approximately 13% of all passengers in 2013. We continue to invest in our Caribbean operations including intra-Caribbean services out of Puerto Rico. While the Caribbean and Latin American region is a growing part of our network, operating in these developing countries can present operational challenges, including working with less developed airport infrastructure, political instability and vulnerability to corruption.
- ***Fort Lauderdale-Hollywood.*** We are the largest carrier in terms of capacity at Fort Lauderdale-Hollywood International Airport, with approximately 20% of all passengers in 2013 served by JetBlue. Flying out of Fort Lauderdale-Hollywood instead of nearby Miami International Airport helps preserve our competitive cost advantage through lower cost per enplanement. Broward County authorities have commenced a multi-year, $2.3 billion, refurbishment effort at the airport and surrounding facilities including the construction of a new airfield. We operate out of Terminal 3 which is scheduled to be refurbished and connected to the upgraded and expanded international terminal by 2018. We expect the connection of these terminals will streamline operations for both Crewmembers and customers. Due to these factors, its ideal location between the U.S. and Latin America, and South Florida's high-value geography, Fort Lauderdale-Hollywood is expected to be one of our key areas of focused growth going forward.
- ***Orlando.*** We are the second largest carrier in Orlando International Airport, or Orlando, with more than 15% of all flights in 2013 being operated by JetBlue. Our centralized training center, known as JetBlue University, is based in Orlando and in 2013 we broke ground on the construction of a facility at the airport, adjacent to our training center, for lodging our Crewmembers when they attend training at JetBlue University.
- ***Los Angeles area.*** We are the seventh largest carrier in the Los Angeles area, operating from Long Beach Airport, Los Angeles International Airport and Burbank's Bob Hope Airport. We are the largest carrier in Long Beach, with almost 68% of all flights in 2013 being operated by JetBlue. In mid-2014 we are scheduled to start operating our premium transcontinental service, Mint™, from Los Angeles.

Our peak levels of traffic over the course of the year depend upon the route, with the East Coast to Florida/Caribbean peak from October through April and the East Coast to West Coast peak in the summer months. Many of our areas of operations in the Northeast experience poor winter weather conditions, resulting in increased costs associated with de-icing aircraft, canceled flights and accommodating displaced customers. Many of our Florida and Caribbean routes experience bad weather conditions in the summer and fall due to thunderstorms and hurricanes. As we enter new markets we could be subject to additional seasonal variations along with competitive responses by other airlines.

Fleet Structure

We currently operate the Airbus A321, the Airbus A320 and the EMBRAER 190 aircraft types. In 2013 our fleet had an average age of 7.1 years and operated an average of 11.9 hours per day. By operating a younger fleet as well as scheduling and operating our aircraft more efficiently we are able to spread related fixed costs over a greater number of available seat miles.

The reliability of our fleet is essential to our operations running smoothly. We are continually working with our aircraft and engine manufacturers to enhance our efficiency performance. In 2015 we expect to start retrofitting our Airbus aircraft with Sharklets®, a blended wingtip devices designed to improve the aircraft's aerodynamics, which we anticipate will result in improved range and flight performance in addition to fuel savings. We are working with the FAA in efforts towards implementing the Next Generation Air Transportation System, or NextGen by 2020. In 2012 we equipped 35 of our Airbus A320 aircraft to test ADS-B Out, a satellite based technology aimed to facilitate the communication between pilots and air traffic controllers. Even though it is still in the testing phase we have already seen benefits from the ADS-B Out equipment. This includes being able to reroute flights over the Gulf of Mexico to avoid bad weather, an area where the current FAA radar coverage is not complete. This NextGen technology is expected to improve operational efficiency in the congested airspaces in which we operate. In 2012 we also became the first FAA certified Airbus A320 carrier in the U.S. to use satellite-based Special Required Navigation Performance Authorization Required, or RNP AR, approaches at two of JFK's prime and most used runways, 13L and 13R.

Fleet Maintenance

Consistent with our core value of safety, our FAA-approved maintenance program is administered by our technical operations department. We use qualified maintenance personnel and ensure they have comprehensive training. We maintain our aircraft and associated maintenance records in accordance with, if not exceeding, FAA regulations. Fleet maintenance work is divided into three categories: line maintenance, heavy maintenance and component maintenance.

The bulk of our line maintenance is handled by JetBlue technicians and inspectors. It consists of daily checks, overnight and weekly checks, "A" checks, diagnostics and routine repairs. Heavy maintenance checks consist of a series of more complex tasks taking from one to four weeks to accomplish; these items are typically performed once every 15 months. All of our aircraft heavy maintenance work is performed by FAA-approved facilities such as Embraer, Pemco and Timco, subject to direct oversight by JetBlue personnel. We outsource heavy maintenance as the costs are lower than if we performed the tasks internally (including inventory related costs). Component maintenance on equipment such as engines, auxiliary power units, landing gears, pumps and avionic computers are all performed by a number of different FAA-approved repair stations. We have maintenance agreements with MTU Maintenance Hannover GmbH, MTU, for the engines that power our Airbus fleet and with GE (OEM) for our EMBRAER 190 aircraft engines. We also have an agreement with Lufthansa Technik AG for the repair, overhaul, modification and logistics of certain Airbus components. Many of our maintenance service agreements are based on a fixed cost per flying hour; these vary based upon the age of the aircraft and other operating factors impacting the related component. Required maintenance not otherwise covered by these agreements is performed on a time and materials basis. All other maintenance activities are sub-contracted to qualified maintenance, repair and overhaul organizations.

Aircraft Fuel

Aircraft fuel is our largest expense; its price and availability has been extremely volatile in the past due to global economic and geopolitical factors which we can neither control nor accurately predict. We use a third party fuel management service to procure most of our fuel. Our historical fuel consumption and costs for the years ended December 31 were:

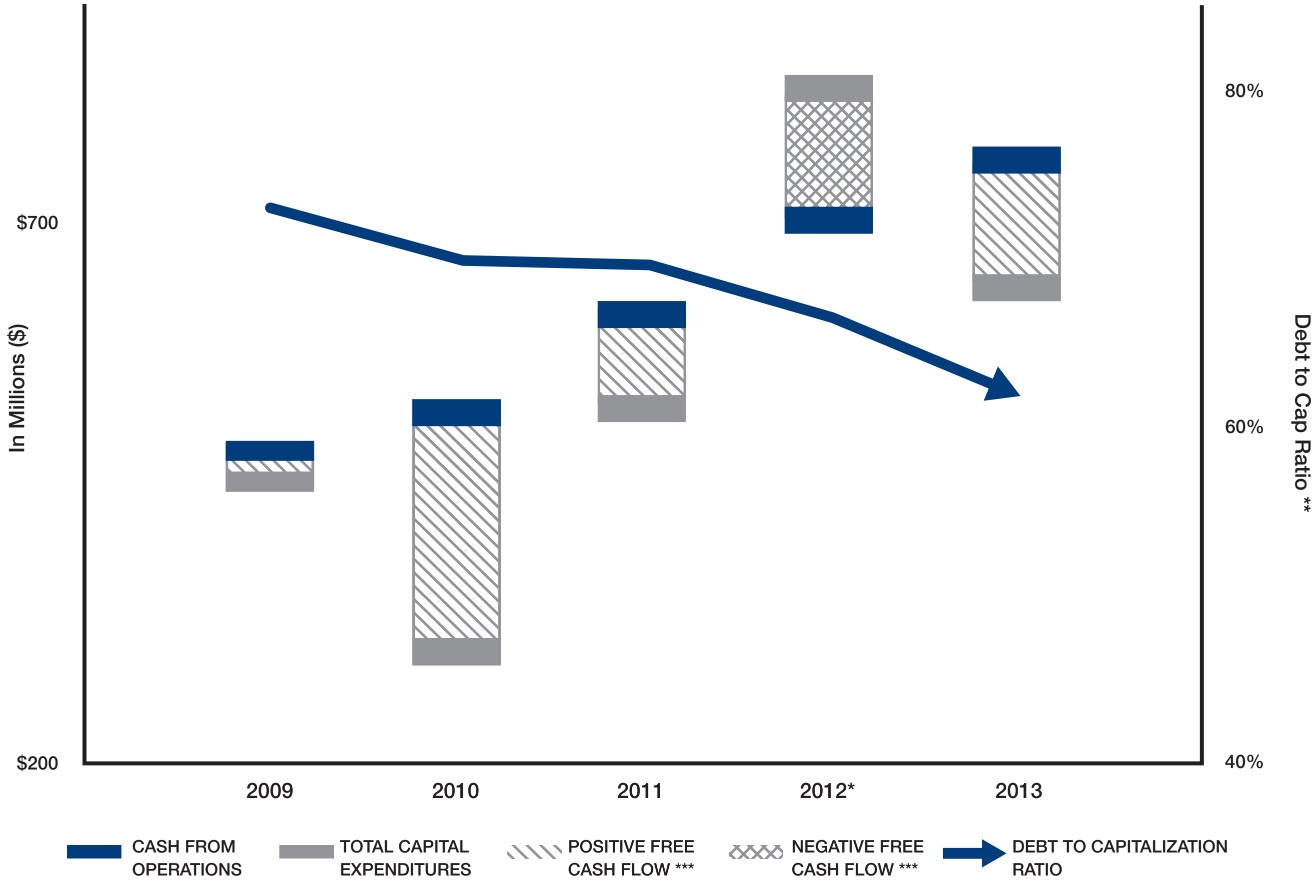
	2013	2012	2011
Gallons consumed *(millions)*	604	563	525
Total cost *(millions)*[(a)]	1,899	1,806	1,664
Average price per gallon[(a)]	$ 3.14	$ 3.21	$ 3.17
Percent of operating expenses	37.9%	39.2%	39.8%

(a) Total cost and average price per gallon each include related fuel taxes as well as effective fuel hedging gains and losses.

We attempt to protect ourselves against the volatility of fuel prices by entering into a variety of hedging instruments. These include swaps and options with underlyings of jet fuel, crude and heating oil. We also use fixed forward price agreements, or FFPs, which allow us to lock in the price of fuel for specified quantities and at specified locations in future periods.

Financial Health

We strive to maintain financial strength and a cost structure that enables us to grow profitably and sustainably. In the first years of our history, we relied upon financing activities to fund much of our growth. Starting in 2007, as our airline matured, growth has largely been funded through internally generated cash from operations. Since 2009, while we have invested over $2.7 billion in capital assets, we have also generated nearly $3.1 billion in cash from operations resulting in over $300 million in free cash flow. Our improving financial results have resulted in better credit ratings, which have in-turn resulted in more attractive financing terms when we do not purchase assets for cash. Since 2009, we have also reduced our total debt balance by $570 million.



** 2012 includes $200M unscheduled aircraft pre-delivery deposits, in exchange for favorable pricing terms.*

*** We have adjusted debt and capitalization for the significant financing obligations of our aircraft operating leases, which aren't reflected on our balance sheets. In making these adjustments, we used a multiple of 7 times the applicable annual aircraft rent expenses as this is the multiple which is routinely used within the airline community to represent the financing component of aircraft operating lease obligations.*

**** See non-GAAP reconciliation of Free Cash Flow in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources.*

LiveTV

LiveTV, LLC is a wholly-owned subsidiary of JetBlue, provides in-flight entertainment, voice communication and data connectivity services and solutions for commercial and general aviation aircraft. LiveTV's largest customer for its core products and services is JetBlue with a further six agreements with other domestic and international commercial airlines. It also has general aviation customers to which it supplies voice and data communication services. LiveTV continues to pursue additional customers and related product enhancements. JetBlue, ViaSat Inc. and LiveTV have worked together to develop and support in-flight broadband connectivity for JetBlue which is being marketed as Fly-Fi™. LiveTV is also working with ViaSat Inc. to support in-flight connectivity for other airlines in the near future.

LiveTV's major competitors in the in-flight entertainment systems market include Rockwell Collins, Thales Avionics and Panasonic Avionics; however, only Panasonic is currently providing in-seat live television. In the voice and data communication services market, LiveTV's primary competitors are GoGo, Row 44 and Panasonic.

Culture

Our People

Our success depends on our Crewmembers delivering the best customer service experience in the sky and on the ground. One of our competitive strengths is a service-orientated culture grounded in five key values of safety, caring, integrity, fun and passion. We believe a highly productive, engaged workforce enhances customer satisfaction and loyalty. Our goal is to hire, train and retain a diverse workforce of caring, passionate, fun and friendly people who share our mission to inspire humanity.

Our culture is first introduced to new Crewmembers during the screening process and then at an extensive new hire orientation program. The orientation focuses on the JetBlue strategy and emphasizes the importance of customer service, productivity and cost control. We provide continuous training for our Crewmembers including technical training; a specialized captain leadership training program unique in the industry; a leadership program for current company managers; an emerging managers program; regular training focused on the safety value and front line training for our customer service teams. Our growth plans necessitate and facilitate opportunities for talent development.

We believe a direct relationship between Crewmembers and our leadership is in the best interest of our Crewmembers, customers and shareholders. Currently, none of our Crewmembers have third-party representation, we have individual employment agreements with each of our FAA licensed Crewmembers which consist of pilots, dispatchers, technicians, inspectors and air traffic controllers. Each employment agreement is for a term of five years and renews for an additional five-year term unless the Crewmember is terminated for cause or the Crewmember elects not to renew. Pursuant to these agreements, Crewmembers can only be terminated for cause. In the event of a downturn in our business, resulting in a reduction of flying and related work hours, we are obligated to pay these Crewmembers a guaranteed level of income and to continue their benefits. In addition, through these agreements we provide what we believe to be industry-leading job protection language. We believe these agreements provide the Company and Crewmembers flexibility and allow us to react to Crewmember needs more efficiently than collective bargaining agreements.

Another aspect of the direct relationship are our Values Committees which are made up of peer-elected frontline Crewmembers from each of our major work groups. These Values Committees represent the interest of our workgroups and help us run our business in a productive and efficient way. We believe this direct relationship drives higher levels of engagement and alignment with the Company's strategy, culture and overall goals.

We believe the efficiency and engagement of our Crewmembers is a result of our flexible and productive work rules. We are cognizant of the competition for productive labor in key industry positions and new government rules requiring higher qualifications and more restricted hours that may result in potential labor shortages in the upcoming years.

Our leadership team communicates on a regular basis with all Crewmembers in order to maintain this direct relationship with our people and to keep them informed about news, strategy updates and challenges affecting the airline. Effective and frequent communication throughout the organization is fostered through various means including email messages from our CEO and other senior leaders at least weekly, weekday news updates to all Crewmembers, employee engagement surveys, a quarterly Crewmember magazine and active leadership participation in new hire orientations. Leadership is also heavily involved in periodic open forum meetings across our network, called "pocket sessions" which are often videotaped and posted on our intranet. By soliciting feedback for ways to improve our service, teamwork and work environment, our leadership team works to keep Crewmembers engaged and make our business decisions transparent. Additionally we believe cost and revenue improvements are best recognized by Crewmembers on the job.

Our full-time equivalent employees at December 31, 2013 consisted of 2,407 pilots, 2,598 flight attendants, 3,586 airport operations personnel, 581 technicians (whom other airlines may refer to as mechanics), 1,025 reservation agents, and 2,833 management and other personnel. At December 31, 2013, we employed 11,021 full-time and 3,862 part-time employees.

Crewmember Programs

We are committed to supporting our Crewmembers through a number of programs including:

- ***Crewmember Resource Groups (CRGs).*** These are groups of Crewmembers formed to act as a resource for both the group members as well as JetBlue. These groups serve as an avenue to embrace and encourage different perspectives, thoughts and ideas. At the end of 2013 we had three CRGs in place: JetPride, Women in Flight, and Vets in Blue.
- ***JetBlue Crewmember Crisis Fund (JCCF).*** Formed in 2002 as a nonprofit corporation and recognized by the IRS as of that date as a tax-exempt entity described in Section 501(c)(3) of the Internal Revenue Code, JCCF was created to assist JetBlue Crewmembers and their immediate family members (IRS Dependents) in times of crisis. Funds for JCCF grants come directly from Crewmembers via a tax-deductible payroll deduction. The assistance process is confidential with only the fund administrator and coordinator knowing the identity of the Crewmembers in need.
- ***Lift Recognition Program.*** Formed in 2012, this Crewmember recognition program encourages Crewmembers to celebrate their peers for living the values by sending e-thanks through an on-line platform. In 2013, we saw over 47,000 Lift nominations.

Community Programs

JetBlue is strongly committed to supporting the communities and BlueCities we serve through a variety of community programs including:

- ***Corporate Social Responsibility (CSR).*** The CSR team was established to support not-for-profit organizations focusing on youth and education, environment, and community in the cities we serve. They organize and support community service projects, charitable giving and non-profit partnerships such as KaBOOM! and Soar with Reading.
- ***JetBlue Foundation.*** Incorporated in 2013 as a nonprofit corporation, this foundation is a JetBlue-sponsored organization to advance aviation-related education and to continue our efforts to put aviation on the map as a top career choice for students. We intend to do this by igniting interest in science, technology, engineering and mathematics. The foundation is legally independent from JetBlue and has a Board of Directors as well as an Advisory Committee, both of which are made up of Crewmembers. The foundation has applied to the IRS for recognition as a tax-exempt entity described in Section 501(c)(3) of the Internal Revenue Code.

Regulation

Airlines are heavily regulated, with rules and regulations set by various federal, state and local agencies. We also operate under specific regulations due to our operations within the high density airspace of the northeast U.S. Most of our airline operations are regulated by U.S. governmental agencies including;

DOT: The DOT primarily regulates economic issues affecting air service including but not limited to certification and fitness, insurance, consumer protection and competitive practices. They set the requirement that carriers do not permit domestic flights to remain on the tarmac for more than three hours. They also require that the advertised price for an airfare or a tour package including airfare (e.g., a hotel/air vacation package) has to be the total price to be paid by the customer, including all government taxes and fees. It has the authority to investigate and institute proceedings to enforce its economic regulations and may assess civil penalties, revoke operating authority and seek criminal sanctions.

FAA: The FAA primarily regulates flight operations, in particular, matters affecting air safety. This includes but is not limited to airworthiness requirements for aircraft, the licensing of pilots, mechanics and dispatchers, and the certification of flight attendants. It requires each airline to obtain an operating certificate authorizing the airline to operate at specific airports using specified equipment. Like all U.S. certified carriers, we cannot fly to new destinations without the prior authorization of the FAA. After providing notice and a hearing it has the authority to modify, suspend temporarily or revoke permanently our authority to provide air transportation or that of our licensed personnel for failure to comply with FAA regulations. It can additionally assess civil penalties for such failures as well as institute proceedings for the imposition and collection of monetary fines for the violation of certain FAA regulations. When significant safety issues are involved, it can revoke our authority to provide air transportation on an emergency basis, without providing notice and a hearing. It monitors our compliance with maintenance as well as flight operations and safety regulations. It maintains on-site representatives and performs frequent spot inspections of our aircraft, employees and records. It also has the authority to issue airworthiness directives and other mandatory orders. This includes the inspection of aircraft and engines, fire retardant and smoke detection devices, collision and windshear avoidance systems, noise abatement and the mandatory removal and replacement of aircraft parts that have failed or may fail in the future. We have and maintain FAA certificates of airworthiness for all of our aircraft and have the necessary FAA authority to fly to all of the destinations we currently serve.

TSA: The TSA operates under the Department of Homeland Security and is responsible for all civil aviation security. This includes passenger and baggage screening, cargo security measures, airport security, assessment and distribution of intelligence, and security research and development. It also has law enforcement powers and the authority to issue regulations, including in cases of national emergency, without a notice or comment period.

Taxes & Fees: The airline industry is one of the most heavily taxed in the U.S., with taxes and fees accounting for approximately 16% of the total fare charged to a customer. Airlines are obligated to fund all of these taxes and fees regardless of their ability to pass these charges on to the customer. The TSA sets the September 11, or 9/11, Security Fee as well as the Aviation Security Infrastructure Fee, or ASIF. The 9/11 Security Fee is passed to the customer while the ASIF directly impacts our costs. The federal budget expected to be ratified in 2014 has removed the ASIF fee but has increased the 9/11 Security Fee from $2.50 per enplanement, with a maximum of $5 per one-way trip, to $5.60 per one-way trip regardless of connecting flights. This higher tax will be effective from July 1, 2014.

State and Local: We are subject to state and local laws and regulations in a number of states in which we operate and the regulations of various local authorities operating the airports we serve.

Airport Access: JFK, LaGuardia, Newark and Ronald Reagan Washington National Airport in Washington D.C., or Reagan National, are slot-controlled airports subject to the “High Density Rule” and successor rules issued by the FAA. These rules were implemented due to the high volume of traffic at these popular airports located in the northeast corridor airpsace. The rules limit the air traffic in and out of these airports during specific times; however even with the rules in place, delays remain among the highest in the nation due to continuing airspace congestion. We additionally have slots at other slot-controlled airports governed by unique local ordinances not subject to the High Density Rule, Westchester County Airport in White Plains, NY and Long Beach (California) Municipal Airport. In January 2014, we were notified of our successful bid to acquire a certain number of takeoff and landing slots at Reagan National. The acquisition of these slots is subject to final approval by the Department of Justice and customary written agreements.

Airport Infrastructure: The northeast corridor of the U.S. is some of the most congested airspaces in the world. The airports in this region are some of the busiest in the country, the majority of which are more than 60 years old. Due to high usage and aging infrastructure, issues arise at these airports that are not necessarily seen in other parts of the country. Starting in 2015, a heavily utilized runway at JFK is scheduled to be refurbished and the Central Terminal at LaGuardia is scheduled to be refurbished in phases over the next six years.

Foreign Operations: International air transportation is subject to extensive government regulation. The availability of international routes to U.S. airlines is regulated by treaties and related agreements between the U.S. and foreign governments. We currently operate international service to Aruba, the Bahamas, Barbados, Bermuda, the Cayman Islands, Colombia, Costa Rica, the Dominican Republic, Haiti, Jamaica, Mexico, Peru, Saint Lucia, St. Maarten and the Turks and Caicos Islands. To the extent we seek to provide air transportation to additional international markets in the future, we would be required to obtain necessary authority from the DOT and the applicable foreign government.

We believe we are operating in material compliance with DOT, FAA, TSA and applicable international regulations as well as hold all necessary operating and airworthiness authorizations and certificates. Should any of these authorizations or certificates be modified, suspended or revoked, our business could be materially adversely affected.

Other

Environmental: We are subject to various federal, state and local laws relating to the protection of the environment. This includes the discharge or disposal of materials and chemicals as well as the regulation of aircraft noise administered by numerous state and federal agencies.

The Airport Noise and Capacity Act of 1990 recognizes the right of airport operators with special noise problems to implement local noise abatement procedures as long as those procedures do not interfere unreasonably with the interstate and foreign commerce of the national air transportation system. Certain airports, including those in San Diego and Long Beach, California, have established restrictions to limit noise which can include limits on the number of hourly or daily operations and the time of such operations. These limitations are intended to protect the local noise-sensitive communities surrounding the airport. Our scheduled flights at Long Beach and San Diego are in compliance with the noise curfew limits but on occasion when we experience irregular operations we may violate these curfews. We have agreed to a payment structure with the Long Beach City Prosecutor for any violations which we pay quarterly to the Long Beach Public Library Foundation. The payment is based on the number of infractions in the preceding quarter. This local ordinance has not had, and we believe it will not have, a negative effect on our operations.

We use our “Jetting to Green” program on *www.jetblue.com* to educate our customers and Crewmembers about environmental issues and to inform the public about our environmental protection initiatives. Our most recent corporate sustainability report for 2012 is available on our website and addresses our environmental programs, including those aimed at curbing greenhouse emissions, our conservation efforts and our social responsibility efforts.

Foreign Ownership: Under federal law and the DOT regulations, we must be controlled by U.S. citizens. In this regard, our president and at least two-thirds of our board of directors must be U.S. citizens. Further, no more than 24.99% of our outstanding common stock may be voted by non-U.S. citizens. We believe we are currently in compliance with these ownership provisions.

Other Regulations: All airlines are subject to certain provisions of the Communications Act of 1934 due of their extensive use of radio and other communication facilities. They are also required to obtain an aeronautical radio license from the FCC. To the extent we are subject to FCC requirements, we will take all necessary steps to comply with those requirements. Our labor relations are covered under Title II of the Railway Labor Act of 1926 and are subject to the jurisdiction of the National Mediation Board. In addition, during periods of fuel scarcity, access to aircraft fuel may be subject to federal allocation regulations.

Civil Reserve Air Fleet: We are a participant in the Civil Reserve Air Fleet Program, which permits the U.S. Department of Defense to utilize our aircraft during national emergencies when the need for military airlift exceeds the capability of military aircraft. By participating in this program, we are eligible to bid on and be awarded peacetime airlift contracts with the military.

Insurance

We carry insurance of types customary in the airline industry and at amounts deemed adequate to protect us and our property as well as comply with both federal regulations and certain credit and lease agreements. As a result of the terrorist attacks of September 11, 2001, aviation insurers significantly reduced the amount of insurance coverage available to commercial airlines for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war risk coverage). At the same time, these insurers significantly increased the premiums for aviation insurance in general. The U.S. government has agreed to provide commercial war-risk insurance for U.S. based airlines, currently through September 30, 2014, covering losses to employees, passengers, third parties and aircraft. We currently have such coverage in addition to our overall hull and liability insurance coverage. If the U.S. government were to cease providing such insurance in whole or in part, it is likely we would be able to obtain comparable coverage in the commercial market, the premiums will likely be lower but with some more restrictive terms.

Iran Sanctions Disclosure

Pursuant to Section 13(r) of the Securities Exchange Act of 1934, or the Exchange Act, if during 2013, JetBlue or any of its affiliates have engaged in certain transactions with Iran or with persons or entities designated under certain executive orders, JetBlue would be required to disclose information regarding such transactions in our Annual Report as required under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA. During 2013, JetBlue did not engage in any reportable transactions with Iran or with persons or entities related to Iran.

Deutsche Lufthansa AG, or Lufthansa, is a stockholder of approximately 16% of JetBlue's outstanding shares of common stock and has two representatives on our Board of Directors. Accordingly, it may be deemed an "affiliate" of JetBlue, as the term is defined in Exchange Act Rule 12b-2. In response to our inquiries, Lufthansa informed us it does not engage in transactions that would be disclosable under ITRA Section 219. However, Lufthansa informed us it does provide air transportation services from Frankfurt, Germany to Tehran, Iran pursuant to Air Transport Agreements between the respective governments. Accordingly, Lufthansa may have agreements in place to support such air transportation services with the appropriate agencies or entities, such as landing or overflight fees, handling fees or technical/refueling fees. In addition, there may be additional civil aviation related dealings with Iran Air as part of typical airline to airline interactions. In response to our inquiry, Lufthansa did not specify the total revenue it receives in connection with the foregoing transactions, but confirmed the transactions are not prohibited under any applicable laws.

Where You Can Find Other Information

Our website is *www.jetblue.com*. Information contained on our website is not part of this report. Information we furnish or file with the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to or exhibits included in these reports are available for download, free of charge, on our website soon after such reports are filed with or furnished to the SEC. Our SEC filings, including exhibits filed therewith, are also available at the SEC's website at *www.sec.gov.* You may obtain and copy any document we furnish or file with the SEC at the SEC's public reference room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC's public reference facilities by calling the SEC at 1-800-SEC-0330. You may request copies of these documents, upon payment of a duplicating fee, by writing to the SEC at its principal office at 100 F Street, NE, Room 1580, Washington, D.C. 20549.

ITEM 1A. Risk Factors

Risks Related to JetBlue

We operate in an extremely competitive industry.

The domestic airline industry is characterized by low profit margins, high fixed costs and significant price competition in an increasingly concentrated competitive field. We currently compete with other airlines on all of our routes. Most of our competitors are larger and have greater financial resources and name recognition than we do. Following our entry into new markets or expansion of existing markets, some of our competitors have chosen to add service or engage in extensive price competition. Unanticipated shortfalls in expected revenues as a result of price competition or in the number of passengers carried would negatively impact our financial results and harm our business. The extremely competitive nature of the airline industry could prevent us from attaining the level of passenger traffic or maintaining the level of fares required to maintain profitable operations in new and existing markets and could impede our profitable growth strategy, which would harm our business. Furthermore, there have been numerous mergers and acquisitions within the airline industry including, for example, the recent combinations of Delta Air Lines and Northwest Airlines, United Airlines and Continental Airlines, and Southwest Airlines and AirTran Airways. In the future, there may be additional mergers and acquisitions in our industry. Any business combination could significantly alter industry conditions and competition within the airline industry and could cause fares of our competitors to be reduced. Additionally, if a traditional network airline were to fully develop a low cost structure, or if we were to experience increased competition from low cost carriers, our business could be materially adversely affected.

Our business is highly dependent on the availability of fuel and fuel is subject to price volatility.

Our results of operations are heavily impacted by the price and availability of fuel. Fuel costs comprise a substantial portion of our total operating expenses and are our single largest operating expense. Historically, fuel costs have been subject to wide price fluctuations based on geopolitical factors as well as supply and demand. The availability of fuel is not only dependent on crude oil but also on refining capacity. When even a small amount of the domestic or global oil refining capacity becomes unavailable, supply shortages can result for extended periods of time. The availability of fuel is also affected by demand for home heating oil, gasoline and other petroleum products, as well as crude oil reserves, dependence on foreign imports of crude oil and potential hostilities in oil producing areas of the world. Because of the effects of these factors on the price and availability of fuel, the cost and future availability of fuel cannot be predicted with any degree of certainty.

Our aircraft fuel purchase agreements do not protect us against price increases or guarantee the availability of fuel. Additionally, some of our competitors may have more leverage than we do in obtaining fuel. We have and may continue to enter into a variety of option contracts and swap agreements for crude oil, heating oil, and jet fuel to partially protect against significant increases in fuel prices; however, such contracts and agreements do not completely protect us against price volatility, are limited in volume and duration, and can be less effective during volatile market conditions and may carry counterparty risk. Under the fuel hedge contracts we may enter from time to time, counterparties to those contracts may require us to fund the margin associated with any loss position on the contracts if the price of crude oils falls below specified benchmarks. Meeting our obligations to fund these margin calls could adversely affect our liquidity.

Due to the competitive nature of the domestic airline industry, at times we have not been able to adequately increase our fares to offset the increases in fuel prices nor may we be able to do so in the future. Future fuel price increases, continued high fuel price volatility or fuel supply shortages may result in a curtailment of scheduled services and could have a material adverse effect on our financial condition and results of operations.

We have a significant amount of fixed obligations and we will incur significantly more fixed obligations, which could harm our ability to service our current or satisfy future fixed obligations.

As of December 31, 2013, our debt of $2.59 billion accounted for 55% of our total capitalization. In addition to long-term debt, we have a significant amount of other fixed obligations under operating leases related to our aircraft, airport terminal space, other airport facilities and office space. As of December 31, 2013, future minimum payments under noncancelable leases and other financing obligations were approximately $2.11 billion for 2014 through 2018 and an aggregate of $1.62 billion for the years thereafter. Terminal 5 at JFK is under a 30-year lease with the Port Authority of New York and New Jersey, or PANYNJ. The minimum payments under this lease are being accounted for as a financing obligation and have been included in the future minimum payment totals above.

As of December 31, 2013, we had commitments of approximately $6.87 billion to purchase 146 additional aircraft and other flight equipment through 2022, including estimated amounts for contractual price escalations. We may incur additional debt and other fixed obligations as we take delivery of new aircraft and other equipment and continue to expand into new markets. In an effort to limit the incurrence of significant additional debt, we may seek to defer some of our scheduled deliveries, sell or lease aircraft to others, or pay cash for new aircraft, to the extent necessary or possible. The amount of our existing debt, and other fixed obligations, and potential increases in the amount of our debt and other fixed obligations could have important consequences to investors and could require a substantial portion of cash flows from operations for debt service payments, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes.

Our high level of debt and other fixed obligations could:

- impact our ability to obtain additional financing to support capital expansion plans and for working capital and other purposes on acceptable terms or at all;
- divert substantial cash flow from our operations and expansion plans in order to service our fixed obligations;
- require us to incur significantly more interest expense than we currently do if rates were to increase, since approximately 43% of our debt has floating interest rates; and
- place us at a possible competitive disadvantage compared to less leveraged competitors and competitors with better access to capital resources or more favorable terms.

Our ability to make scheduled payments on our debt and other fixed obligations will depend on our future operating performance and cash flows, which in turn will depend on prevailing economic and political conditions and financial, competitive, regulatory, business and other factors, many of which are beyond our control. We are principally dependent upon our operating cash flows and access to the capital markets to fund our operations and to make scheduled payments on debt and other fixed obligations. We cannot assure you we will be able to generate sufficient cash flows from our operations or from capital market activities to pay our debt and other fixed obligations as they become due; if we fail to do so our business could be harmed. If we are unable to make payments on our debt and other fixed obligations, we could be forced to renegotiate those obligations or seek to obtain additional equity or other forms of additional financing.

Our substantial indebtedness may limit our ability to incur additional debt to obtain future financing needs.

We typically finance our aircraft through either secured debt or lease financing. The impact on financial institutions from the continuing economic malaise may adversely affect the availability and cost of credit to JetBlue as well as to prospective purchasers of our aircraft we undertake to sell in the future, including financing commitments we have already obtained for purchases of new aircraft. To the extent we finance our activities with additional debt, we may become subject to financial and other covenants that may restrict our ability to pursue our strategy or otherwise constrain our operations.

Our maintenance costs will increase as our fleet ages.

Our maintenance costs will increase as our fleet ages. In the past, we have incurred lower maintenance expenses because most of the parts on our aircraft were under multi-year warranties; many of these warranties have expired. If any maintenance provider with whom we have a flight hours agreement fails to perform or honor such agreements, we will incur higher interim maintenance costs until we negotiate new agreements.

Furthermore, as our fleet ages, we expect to implement various fleet modifications over the next several years to ensure our aircrafts' continued efficiency, modernization, brand consistency and safety. Our plans to equip our Airbus A320 aircraft with Sharklets®, for example, may require significant modification time. These fleet modifications may require significant investment over several years, including taking aircraft out of service for several weeks at a time.

Our salaries, wages and benefits costs will increase as our workforce ages.

As our employees' tenure with JetBlue matures, our salaries, wages and benefits costs increase. Our pilot pay structure, for example, is based on an industry derived average and to the extent our competitors continue consolidating and/or begin raising their pilot salaries in the face of a possible pilot shortage, or if overall pilot wages increase across the industry due to regulatory changes, we may have to address increased salary cost pressure to retain our pilots in an environment where our capacity is also forecast to continue to grow. As our work force ages, we expect our medical and related benefits to increase as well, despite an increased corporate focus on Crewmember wellness.

There are risks associated with our presence in some of our international emerging markets, including political or economic instability and failure to adequately comply with existing legal requirements.

Expansion to new international emerging markets may have risks due to factors specific to those markets. Emerging markets are countries which have less developed economies and are vulnerable to economic and political problems, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets, trafficking and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by us and the resulting instability may adversely affect our business.

We have expanded and expect to continue to expand our service to countries in the Caribbean and Latin America, some of which have less developed legal systems, financial markets, and business and political environments than the United States, and therefore present greater political, legal, economic and operational risks. We emphasize legal compliance and have implemented and continue to implement and refresh policies, procedures and certain ongoing training of employees with regard to business ethics, anti-corruption policies and many key legal requirements; however, there can be no assurance our employees will adhere to our code of business ethics, anti-corruption policies, other Company policies, or other legal requirements. If we fail to enforce our policies and procedures properly or maintain adequate record-keeping and internal accounting practices to accurately record our transactions, we may be subject to sanctions. In the event we believe or have reason to believe our employees have or may have violated applicable laws or regulations, we may be subject to investigation costs, potential penalties and other related costs which in turn could negatively affect our reputation, and our results of operations and cash flow.

In addition, to the extent we continue to grow our business, opening new markets requires us to commit a substantial amount of resources even before the new services commence. Expansion is also dependent upon our ability to maintain a safe and secure operation and requires additional personnel, equipment and facilities.

We may be subject to risks through the commitments and business of LiveTV, our wholly-owned subsidiary.

LiveTV has agreements to provide in-flight entertainment products and services with JetBlue and six other airlines. At December 31, 2013, LiveTV services were available on 461 aircraft under these agreements, with firm commitments for 196 additional aircraft through 2015 and with options for 9 additional installations through 2016. Performance under these agreements requires LiveTV to hire, train and retain qualified employees, obtain component parts unique to its systems and services from their suppliers and secure facilities necessary to perform installations and maintenance on those systems. Should LiveTV be unable to satisfy its commitments under these third party contracts, our business could be harmed.

We may be subject to unionization, work stoppages, slowdowns or increased labor costs; recent changes to the labor laws may make unionization easier to achieve.

Our business is labor intensive and, unlike most other airlines, we have a non-union workforce. The unionization of any of our employees could result in demands that may increase our operating expenses and adversely affect our financial condition and results of operations. Any of the different crafts or classes of our employees could unionize at any time, which would require us to negotiate in good faith with the employee group's certified representative concerning a collective bargaining agreement. In February 2014, the Airline Pilots Association filed a petition with the National Mediation Board, or NMB, seeking to become the collective bargaining representative of our pilots. The NMB will hold an election from March through April, 2014. In 2010, the NMB changed its election procedures to permit a majority of those voting to elect to unionize (from a majority of those in the craft or class). These rule changes fundamentally alter the manner in which labor groups have been able to organize in our industry since the inception of the Railway Labor Act. Ultimately, if we and a newly elected representative were unable to reach agreement on the terms of a collective bargaining agreement and all of the dispute resolution processes of the Railway Labor Act were exhausted, we could be subject to work stoppages. In addition, we may be subject to other disruptions by organized labor groups protesting our non-union status. Any of these events would be disruptive to our operations and could harm our business.

Our high aircraft utilization rate helps us keep our costs low, but also makes us vulnerable to delays and cancellations in our operating regions; such delays and cancellations could reduce our profitability.

We maintain a high daily aircraft utilization rate (the amount of time our aircraft spend in the air carrying passengers). High daily aircraft utilization allows us to generate more revenue from our aircraft and is achieved in part by reducing turnaround times at airports so we can fly more hours on average in a day. Aircraft utilization is reduced by delays and cancellations from various factors, many of which are beyond our control, including adverse weather conditions, security requirements, air traffic congestion and unscheduled maintenance. The majority of our operations are concentrated in the Northeast and Florida, which are particularly vulnerable to weather and congestion delays. Reduced aircraft utilization may limit our ability to achieve and maintain profitability as well as lead to customer dissatisfaction.

Our business is highly dependent on the New York metropolitan market and increases in competition or congestion or a reduction in demand for air travel in this market, or governmental reduction of our operating capacity at JFK, would harm our business.

We are highly dependent on the New York metropolitan market where we maintain a large presence with approximately one-half of our daily flights having JFK, LaGuardia, Newark, Westchester County Airport or Newburgh's Stewart International Airport as either their origin or destination. We have experienced an increase in flight delays and cancellations at these airports due to airport congestion which has adversely affected our operating performance and results of operations. Our business could be further harmed by an increase in the amount of direct competition we face in the New York metropolitan market or by continued or increased congestion, delays or cancellations. Our business would also be harmed by any circumstances causing a reduction in demand for air transportation in the New York metropolitan area, such as adverse changes in local economic conditions, negative public perception of New York City, terrorist attacks or significant price or tax increases linked to increases in airport access costs and fees imposed on passengers.

We rely heavily on automated systems to operate our business; any failure of these systems could harm our business.

We are dependent on automated systems and technology to operate our business, enhance customer service and achieve low operating costs. The performance and reliability of our automated systems and data center is critical to our ability to operate our business and compete effectively. These systems include our computerized airline reservation system, flight operations system, telecommunications systems, website, maintenance systems, check-in kiosks, in-flight entertainment systems and our primary and redundant data centers. Our website and reservation system must be able to accommodate a high volume of traffic and deliver important flight information. These systems require upgrades or replacement periodically, which involve implementation and other operational risks. Our business may be harmed if we fail to operate, replace or upgrade our systems or data center infrastructure successfully.

We rely on the third party providers of our current automated systems and data center infrastructure for technical support. If the current provider were to fail to adequately provide technical support for any one of our key existing systems or if new or updated components were not integrated smoothly, we could experience service disruptions, which, if they were to occur, could result in the loss of important data, increase our expenses, decrease our revenues and generally harm our business and reputation. Furthermore, our automated systems cannot be completely protected against events beyond our control, including natural disasters, computer viruses, other security breaches, or telecommunications failures. Substantial or sustained system failures could impact customer service and result in our customers purchasing tickets from other airlines. We have implemented security measures and change control procedures and have disaster recovery plans as well as requiring our third party providers to have disaster recovery plans; however, we cannot assure you these measures are adequate to prevent disruptions, which, if they were to occur, could result in the loss of important data, increase our expenses, decrease our revenues and generally harm our business and reputation.

We may be impacted by increases in airport expenses relating to infrastructure and facilities.

In order to operate within our current markets as well as continue to grow in new markets, we must be able to obtain adequate infrastructure and facilities within the relevant airports. This includes gates, check-in facilities, operations facilities and landing slots (where applicable). The costs associated to these airports are often negotiated on a short-term basis with the relevant airport authority and we could be subject to increases in costs on a regular basis with or without our approval.

In addition, our operations concentrated in older airports may be harmed if the infrastructure at those airports fail to operate as expected due to age, overuse or significant unexpected weather events.

Our reputation and business may be harmed and we may be subject to legal claims if there is loss, unlawful disclosure or misappropriation of, or unsanctioned access to, our customers', employees', business partners' or our own information or other breaches of our information security.

We make extensive use of online services and centralized data processing, including through third party service providers. The secure maintenance and transmission of customer and employee information is a critical element of our operations. Our information technology and other systems maintain and transmit customer information, or those of service providers or business partners, may be compromised by a malicious third party penetration of our network security, or of a third party service provider or business partner, or impacted by deliberate or inadvertent actions or inactions by our employees, or those of a third party service provider or business partner. As a result, personal information may be lost, disclosed, accessed or taken without consent.

We transmit confidential credit card information by way of secure private retail networks and rely on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure transmission and storage of confidential information, such as customer credit card information. The Company has made significant efforts to secure its computer network. If any compromise of our security or computer network were to occur, it could have a material adverse effect on the reputation, business, operating results and financial condition of the Company, and could result in a loss of customers. Additionally, any material failure by the Company to achieve or maintain compliance with the Payment Card Industry, or PCI, security requirements or rectify a security issue may result in fines and the imposition of restrictions on the Company's ability to accept credit cards as a form of payment.

Any such loss, disclosure or misappropriation of, or access to, customers', employees' or business partners' information or other breach of our information security can result in legal claims or legal proceedings, including regulatory investigations and actions, may have a negative impact on our reputation and may materially adversely affect our business, operating results and financial condition. Furthermore, the loss, disclosure or misappropriation of our business information may materially adversely affect our business, operating results and financial condition.

Our liquidity could be adversely impacted in the event one or more of our credit card processors were to impose material reserve requirements for payments due to us from credit card transactions.

We currently have agreements with organizations that process credit card transactions arising from purchases of air travel tickets by our customers. Credit card processors have financial risk associated with tickets purchased for travel which can occur several weeks after the purchase. Our credit card processing agreements provide for reserves to be deposited with the processor in certain circumstances. We do not currently have reserves posted for our credit card processors. If circumstances were to occur requiring us to deposit reserves, the negative impact on our liquidity could be significant which could materially adversely affect our business.

If we are unable to attract and retain qualified personnel or fail to maintain our company culture, our business could be harmed.

We compete against the other major U.S. airlines for pilots, mechanics and other skilled labor; some of them offer wage and benefit packages exceeding ours. As more pilots in the industry approach mandatory retirement age, the U.S. airline industry may be affected by a pilot shortage, to some extent. We may be required to increase wages and/or benefits in order to attract and retain qualified personnel or risk considerable employee turnover. If we are unable to hire, train and retain qualified employees, our business could be harmed and we may be unable to implement our growth plans.

In addition, as we hire more people and grow, we believe it may be increasingly challenging to continue to hire people who will maintain our company culture. One of our competitive strengths is our service-oriented company culture which emphasizes friendly, helpful, team-oriented and customer-focused employees. Our company culture is important to providing high quality customer service and having a productive workforce in order to help keep our costs low. As we continue to grow, we may be unable to identify, hire or retain enough people who meet the above criteria, including those in management or other key positions. Our company culture could otherwise be adversely affected by our growing operations and geographic diversity. If we fail to maintain the strength of our company culture, our competitive ability and our business may be harmed.

Our results of operations fluctuate due to seasonality and other factors.

We expect our quarterly operating results to fluctuate due to seasonality including high vacation and leisure demand occurring on the Florida routes between October and April and on our western routes during the summer. Actions of our competitors may also contribute to fluctuations in our results. We are more susceptible to adverse weather conditions, including snow storms and hurricanes, as a result of our operations being concentrated on the East Coast, than some of our competitors. As we enter new markets we could be subject to additional seasonal variations along with any competitive responses to our entry by other airlines. Price changes in aircraft fuel as well as the timing and amount of maintenance and advertising expenditures also impact our operations. As a result of these factors, quarter-to-quarter comparisons of our operating results may not be a good indicator of our future performance. In addition, it is possible in any future period our operating results could be below the expectations of investors and any published reports or analyses regarding JetBlue. In such an event, the price of our common stock could decline, perhaps substantially.

We are subject to the risks of having a limited number of suppliers for our aircraft, engines and a key component of our in-flight entertainment system.

Our current dependence on three types of aircraft and engines for all of our flights makes us vulnerable to significant problems associated with the International Aero Engines, or IAE V2533-A5 engine on our Airbus A321 fleet, the International Aero Engines, or IAE V2527-A5 engine on our Airbus A320 fleet and the General Electric Engines CF-34-10 engine on our EMBRAER 190 fleet. This could include design defects, mechanical problems, contractual performance by the manufacturers, or adverse perception by the public which would result in customer avoidance or in actions by the FAA resulting in an inability to operate our aircraft. Carriers operating a more diversified fleet are better positioned than we are to manage such events.

One of the unique features of our fleet is every seat in each of our aircraft is equipped with free in-flight entertainment including DIRECTV®. An integral component of the system is the antenna, which is supplied to us by KVH Industries Inc, or KVH. If KVH were to stop supplying us with its antennas for any reason, we would have to incur significant costs to procure an alternate supplier.

In addition, our Fly-Fi service uses technology and satellite access through our partnership with ViaSat, Inc. Similarly an integral component of the Fly-Fi system is the antenna, which is supplied to us by ViaSat. If ViaSat were to stop supplying us with its antennas for any reason, we would have to incur significant costs to procure an alternate supplier. Additionally, if the satellites Fly-Fi uses were to become inoperable for any reason, we would have to incur significant costs to replace the service.

Our reputation and financial results could be harmed in the event of an accident or incident involving our aircraft.

An accident or incident involving one of our aircraft, or an aircraft containing LiveTV equipment, could involve significant potential claims of injured passengers or others in addition to repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service. We are required by the DOT to carry liability insurance. Although we believe we currently maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate and we may be forced to bear substantial losses from an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident, even if fully insured, could cause a public perception we are less safe or reliable than other airlines which would harm our business.

An ownership change could limit our ability to use our net operating loss carryforwards for U.S. income tax purposes.

As of December 31, 2013, we had approximately $456 million of federal net operating loss carryforwards for U.S. income tax purposes that begin to expire in 2025. Section 382 of the Internal Revenue Code imposes limitation on a corporation's ability to use its net operating loss carryforwards if it experiences an "ownership change". Similar rules and limitations may apply for state income tax purposes. In the event an "ownership change" were to occur in the future, our ability to utilize our net operating losses could be limited.

Our business depends on our strong reputation and the value of the JetBlue brand.

The JetBlue brand name symbolizes high-quality friendly customer service, innovation, fun, and a pleasant travel experience. JetBlue is a widely recognized and respected global brand; the JetBlue brand is one of our most important and valuable assets. The JetBlue brand name and our corporate reputation are powerful sales and marketing tools and we devote significant resources to promoting and protecting them. Adverse publicity (whether or not justified) relating to activities by our employees, contractors or agents could tarnish our reputation and reduce the value of our brand. Damage to our reputation and loss of brand equity could reduce demand for our services and thus have an adverse effect on our financial condition, liquidity and results of operations, as well as require additional resources to rebuild our reputation and restore the value of our brand.

We may be subject to competitive risks due to the long term nature of our fleet order book.

At present, we have existing aircraft commitments through 2022. As technological evolution occurs in our industry, through the use of composites and other innovations, we may be competitively disadvantaged because we have existing extensive fleet commitments that would prohibit us from adopting new technologies on an expedited basis.

Risks Associated with the Airline Industry

The airline industry is particularly sensitive to changes in economic condition.

Fundamental and permanent changes in the domestic airline industry have been ongoing over the past several years as a result of several years of repeated losses, among other reasons. These losses resulted in airlines renegotiating or attempting to renegotiate labor contracts, reconfiguring flight schedules, furloughing or terminating employees, as well as considering other efficiency and cost-cutting measures. Despite these actions, several airlines have reorganized under Chapter 11 of the U.S. Bankruptcy Code to permit them to reduce labor rates, restructure debt, terminate pension plans and generally reduce their cost structure. Since 2005, the U.S. airline industry has experienced significant consolidation and liquidations. The global economic recession and related unfavorable general economic conditions, such as higher unemployment rates, a constrained credit market, housing-related pressures, and increased business operating costs can reduce spending for both leisure and business travel. Unfavorable economic conditions could also impact an airline's ability to raise fares to counteract increased fuel, labor, and other costs. It is foreseeable further airline reorganizations, consolidation, bankruptcies or liquidations may occur in the current global recessionary environment, the effects of which we are unable to predict. We cannot assure you the occurrence of these events, or potential changes resulting from these events, will not harm our business or the industry.

A future act of terrorism, the threat of such acts or escalation of U.S. military involvement overseas could adversely affect our industry.

Acts of terrorism, the threat of such acts or escalation of U.S. military involvement overseas could have an adverse effect on the airline industry. In the event of a terrorist attack, whether or not successful, the industry would likely experience increased security requirements and significantly reduced demand. We cannot assure you these actions, or consequences resulting from these actions, will not harm our business or the industry.

Changes in government regulations imposing additional requirements and restrictions on our operations or the U.S. Government ceasing to provide adequate war risk insurance could increase our operating costs and result in service delays and disruptions.

Airlines are subject to extensive regulatory and legal requirements, both domestically and internationally, involving significant compliance costs. In the last several years, Congress has passed laws, and the agencies of the federal government, including, but not limited to, the DOT, FAA, CBP and the TSA have issued regulations relating to the operation of airlines that have required significant expenditures. We expect to continue to incur expenses in connection with complying with government regulations. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. If adopted or materially amended, these measures could have the effect of raising ticket prices, reducing air travel demand and/or revenue and increasing costs. We cannot assure you these and other laws or regulations enacted in the future will not harm our business.

The U.S. Government currently provides insurance coverage for certain claims resulting from acts of terrorism, war or similar events. Should this coverage no longer be offered, the coverage that would be available to us through commercial aviation insurers may have substantially less desirable terms, result in higher costs and not be adequate to protect our risk, any of which could harm our business. In addition, the U.S. Environmental Protection Agency ("EPA") has proposed changes to underground storage tank regulations that could affect certain airport fuel hydrant systems. In addition to the proposed EPA and state regulations, several U.S. airport authorities are actively engaged in efforts to limit discharges of de-icing fluid to local groundwater, often by requiring airlines to participate in the building or reconfiguring of airport de-icing facilities.

Amended FAA regulations relating to flight, duty and rest regulations and the additional operational requirements will impact our business

In January 2014, the FAA's rule amending the FAA's flight, duty, and rest regulations became effective. Among other things, the new rule requires a ten hour minimum rest period prior to a pilot's flight duty period; mandates a pilot must have an opportunity for eight hours of uninterrupted sleep within the rest period; and imposes new pilot "flight time" and "duty time" limitations based upon report times, the number of scheduled flight segments, and other operational factors. We have hired additional pilots to address the requirements of the new rule. The new rule may reduce our staffing flexibility, which could impact our operational performance, costs, and delivery of the JetBlue Experience, any of which could harm our business.

The impact of federal sequester budget cuts mandated by the Budget Control Act of 2011 or other federal budgetary constraints may adversely affect our industry, business, results of operations and financial position.

On April 16, 2013, the FAA imposed furloughs mandated by the Budget Control Act of 2011, which included reduced staffing of air traffic controllers. This action resulted in increased delays, reduced arrival rates and flight cancellations across the airline industry and impacting the flying public for approximately one week until Congress passed legislation allowing the FAA to redirect other funds to cover staffing for air traffic controllers. On October 1, 2013, after Congress failed to pass a 2014 budget, portions of the federal government deemed nonessential were shut down. After extending the federal debt ceiling limit, the partial government shutdown ended on October 17, 2013, but not before delaying the delivery of two aircraft from their manufacturers. Much of our airline operations are regulated by governmental agencies, including the FAA, the DOT, CBP, The TSA and others. Should mandatory furloughs and/or other budget constraints continue or resume for an extended period of time, our operations and results of operations could be materially negatively impacted. The travel behaviors of the flying public could also be affected, which may materially adversely impact our industry and our business.

Compliance with future environmental regulations may harm our business.

Many aspects of airlines' operations are subject to increasingly stringent environmental regulations, and growing concerns about climate change may result in the imposition of additional regulation. Since the domestic airline industry is increasingly price sensitive, we may not be able to recover the cost of compliance with new or more stringent environmental laws and regulations from our passengers, which could adversely affect our business. Although it is not expected the costs of complying with current environmental regulations will have a material adverse effect on our financial position, results of operations or cash flows, no assurance can be made the costs of complying with environmental regulations in the future will not have such an effect.

We could be adversely affected by an outbreak of a disease or an environmental disaster that significantly affects travel behavior.

Any outbreak of a disease affecting travel behavior could have a material adverse impact on us. In addition, outbreaks of disease could result in quarantines of our personnel or an inability to access facilities or our aircraft, which could adversely affect our operations. Similarly, if an environmental disaster were to occur and adversely impact any of our destination cities, travel behavior could be affected and in turn, could materially adversely impact our business.

The unknown impact from the Dodd-Frank Act as well as the rules to be promulgated under it could require the implementation of additional policies and require us to incur administrative compliance costs.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, contains a variety of provisions designed to regulate financial markets. Many aspects of the Dodd-Frank Act remain subject to rulemaking that will take effect over several years, thus making it difficult to assess its impact on us at this time. We expect to successfully implement any new applicable legislative and regulatory requirements and may incur additional costs associated with our compliance with the new regulations and anticipated additional reporting and disclosure obligations; however, at this time we do not expect such costs to be material to us.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

Aircraft

As of December 31, 2013, we operated a fleet consisting of four Airbus A321 aircraft, 130 Airbus A320 aircraft and 60 EMBRAER 190 aircraft as summarized in the table below:

Aircraft	Seating Capacity	Owned	Capital Leased	Operating Leased	Total	Average Age in Years
Airbus A320	150	96	4	30	130	8.3
Airbus A321	190	4	—	—	4	0.1
EMBRAER 190	100	30	—	30	60	5.2
		130	**4**	**60**	**194**	**7.1**

As of December 31, 2013 our aircraft leases have an average remaining term of approximately 9.2 years, with expiration dates between 2016 and 2026. We have the option to extend most of these leases for additional periods or to purchase the aircraft at the end of the related lease term. All but 23 of our 134 owned aircraft and all but 30 of our 35 owned spare engines are subject to secured debt financing.

In October 2013, we amended our purchase agreement with Embraer by deferring previously scheduled deliveries of 24 EMBRAER 190 aircraft from 2014-2018 to 2020-2022. We converted eight existing A320 orders to A321 orders and 10 A320 new engine option (A320neo) orders to A321 new engine option (A321neo) orders. We ordered an additional 15 A321 aircraft for delivery between 2015 and 2017 and 20 A321neo for delivery between 2018 and 2020.

As of December 31, 2013, we had on order 136 aircraft, which are scheduled for delivery through 2022. Our future aircraft delivery schedule is as follows:

Year	Airbus A320	Airbus A320neo	Airbus A321	Airbus A321neo	EMBRAER 190	Total
2014	—	—	9	—	—	9
2015	—	—	12	—	—	12
2016	3	—	12	—	—	15
2017	—	—	15	—	—	15
2018	—	5	1	9	—	15
2019	—	—	—	15	—	15
2020	—	9	—	6	10	25
2021	—	16	—	—	7	23
2022	—	—	—	—	7	7
	3	**30**	**49**	**30**	**24**	**136**

Ground Facilities

Airports

All of our facilities at the airports we serve are under leases or other occupancy agreements. This space is leased directly from the local airport authority on varying terms dependent on prevailing practice at each airport. It is customary in the airline industry to have agreements that automatically renew. Our terminal passenger service facilities of ticket counters, gate space, operations support area and baggage service offices generally have agreement terms ranging from less than one year to five years. They can contain provisions for periodic adjustments of rental rates, landing fees and other charges applicable under the type of lease. Under these agreements we are responsible for the maintenance, insurance, utilities and certain other facility-related expenses and services.

Our most significant lease agreements relate to our airport facilities at JFK, followed by our agreement at Boston:

- ***JFK.*** We have a lease agreement with the Port Authority of New York and New Jersey, or PANYNJ, for T5 which ends on October 22, 2038. We have the option to terminate the agreement five years prior to the end of the scheduled lease term. In December 2010 we executed a supplement to this lease agreement for the T6 property, our original base of operations at JFK, for a term of five years. In 2012, we commenced construction on T5i, an expansion to T5 that we intend to use as an international arrival facility. An amendment of the original T5 lease was executed in 2013 which incorporates approximately 19 acres of the former T6 property and space for the T5i facilities. We expect T5i will be open to customers in late 2014.
- ***Boston.*** We have a lease agreement with Massport for 17 gates and 42 ticket counter positions in Terminal C. This lease started on May 1, 2005, with an initial term of five years. An extension clause came into effective on May 1, 2010 whereby the lease has 20 successive one-year automatic renewals, each from May 1 through to April 30.

We have entered into use arrangements at each of the airports we serve providing for the non-exclusive use of runways, taxiways and other airport facilities. Landing fees under these agreements are typically based on the number of aircraft landings and the weight of the aircraft.

Other

We lease the following hangars and airport support facilities at our focus cities:

- ***New York.*** At JFK we have a ground lease agreement which expires in 2030 relating to a 70,000 square foot aircraft maintenance hangar and an adjacent 32,000 square foot office and warehouse facility. These facilities accommodate our technical support operations and passenger provisioning personnel. We also occupy a building where we store aircraft spare parts and perform ground equipment maintenance.
- ***Boston.*** We have a ground lease agreement which expires in 2017 relating to an 80,000 square feet building which includes an aircraft maintenance hangar and office space. We also have a lease for a facility to accommodate our ground support equipment maintenance.
- ***Orlando.*** We have a ground lease agreement which expires in 2035 relating to a 70,000 square foot hangar. This hangar is used both by Live TV for the installation and maintenance of in-flight satellite television systems as well as JetBlue for aircraft maintenance. We also occupy a training center with a lease agreement that expires in 2035 which we use for the initial and recurrent training of our pilots and in-flight crew, as well as support training for our technical operations and airport crew. This facility is equipped with seven full flight simulators, three cabin trainers, a training pool, classrooms and support areas. In 2013 we began construction on a temporary lodging facility adjacent to our training center. We anticipate that our Crewmembers will utilize this lodging facility when attending training at the training center. It is expected that the facility will be opened in 2015, with the lease agreement expiring in 2035.

Our primary corporate offices are located in Long Island City, New York, with our lease expiring in 2023. Our offices in Salt Lake City, Utah contains a core team of employees who are responsible for group sales, customer service, at-home reservation agent supervision, disbursements and certain other finance functions. The lease for Salt Lake City expires in 2022. We also maintain other facilities that are necessary to support our operations in the cities we serve.

ITEM 3. Legal Proceedings

In the ordinary course of our business, we are party to various legal proceedings and claims which we believe are incidental to the operation of our business. Other than as described under Note 12-Contingencies to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, we believe the ultimate outcome of these proceedings to which we are currently a party will not have a material adverse effect on our business, financial position, results of operations or cash flows.

ITEM 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Certain information concerning JetBlue's executive officers as of the date of this report follows. There are no family relationships between any of our executive officers.

David Barger, age 56, is our Chief Executive Officer. He has served in this capacity since May 2007 and was our President from August 1998 to September 2007 and June 2009 until December 2013. He is also a member of our Board of Directors. He previously served as our Chief Operating Officer from August 1998 to March 2007. From 1992 to 1998, Mr. Barger served in various management positions with Continental Airlines, including Vice President, Newark hub. He held various director level positions at Continental Airlines from 1988 to 1995. From 1982 to 1988, Mr. Barger served in various positions with New York Air, including Director of Stations.

Robin Hayes, age 46, is our President. He was promoted to this role on January 1, 2014, having previously served as our Executive Vice President and Chief Commercial Officer since he joined us in August 2008. He joined JetBlue after nineteen years at British Airways. In his last role at British Airways, Mr. Hayes served as Executive Vice President for The Americas and before that he served in a number of operational and commercial positions in the UK and Germany.

Mark D. Powers, age 60, is our Chief Financial Officer, a position he has held since April 2012. Mr. Powers joined us in July 2006 as Treasurer and Vice President, Corporate Finance. He was promoted to Senior Vice President, Treasurer in 2007. Prior to joining JetBlue, Mr. Powers was an independent advisor to several aviation-related companies and has held a number of positions in both the finance and legal departments of Continental Airlines, Northwest Airlines and General Electric's jet engine unit.

Rob Maruster, age 42, is our Executive Vice President and Chief Operating Officer, having served in this capacity since June 2009. Mr. Maruster joined JetBlue in 2005 as Vice President, Operations Planning and in 2006 he was promoted to Senior Vice President, Airports and Operational Planning. In 2008, Mr. Maruster's responsibilities were expanded to include the Customer Services group which included Airports, Inflight Services, Reservations, and System Operations. Mr Maruster joined JetBlue after a 12-year career with Delta Air Lines in a variety of leadership positions with increasing responsibilities in the carrier's Marketing and Customer Service departments. This culminated in him being responsible for all operations at Delta's largest hub as Vice President, Airport Customer Service at Hartsfield-Jackson Atlanta International Airport.

James Hnat, age 43, is our Executive Vice President Corporate Affairs, General Counsel and Secretary and has served in this capacity since April 2007. He served as our Senior Vice President, General Counsel and Assistant Secretary since March 2006 and as our General Counsel and Assistant Secretary from February 2003 to March 2006. Mr. Hnat is a member of the bar of New York and Massachusetts.

Don Daniels, age 46, is our Vice President and Chief Accounting Officer, a position he has held since May 2009. He served as our Vice President and Corporate Controller since October 2007. He previously served as our Assistant Controller since July 2006 and Director of Financial Reporting since October 2002.

PART II

ITEM 5. Market for Registrant's Common Equity; Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Select Market under the symbol JBLU. The table below shows the high and low sales prices for our common stock.

	High	Low
2013 Quarter Ended		
March 31	$ 7.01	$ 5.70
June 30	7.28	5.95
September 30	6.93	6.04
December 31	9.20	6.57
2012 Quarter Ended		
March 31	$ 6.32	$ 4.73
June 30	5.44	4.06
September 30	5.94	4.76
December 31	5.99	4.77

As of January 31, 2014, there were approximately 754 holders of record of our common stock.

We have not paid cash dividends on our common stock and have no current intention of doing so. Any future determination to pay cash dividends will be at the discretion of our Board of Directors, subject to applicable limitations under Delaware law. This decision will be dependent upon our results of operations, financial condition and other factors deemed relevant by our Board of Directors.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

In September 2012, the Board authorized a five year share repurchase program of up to 25 million shares. As of December 31, 2013, 20.4 million shares remain available for repurchase under the program. During 2013 the following shares were repurchased under the program:

Period	Total Number of Shares Purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Maximum number of shares that may yet to be purchased under the program
January 2013	257,725	$ 5.90	257,725	
February 2013	261,200	$ 5.89	261,200	
June 2013	11,000	$ 6.00	11,000	
TOTAL	**529,925**	**$ 5.90**	**529,925**	**20,392,430**

The program may be commenced or suspended from time to time without prior notice. Shares repurchased under our share repurchase program are purchased in open market transactions and are held as treasury stock.

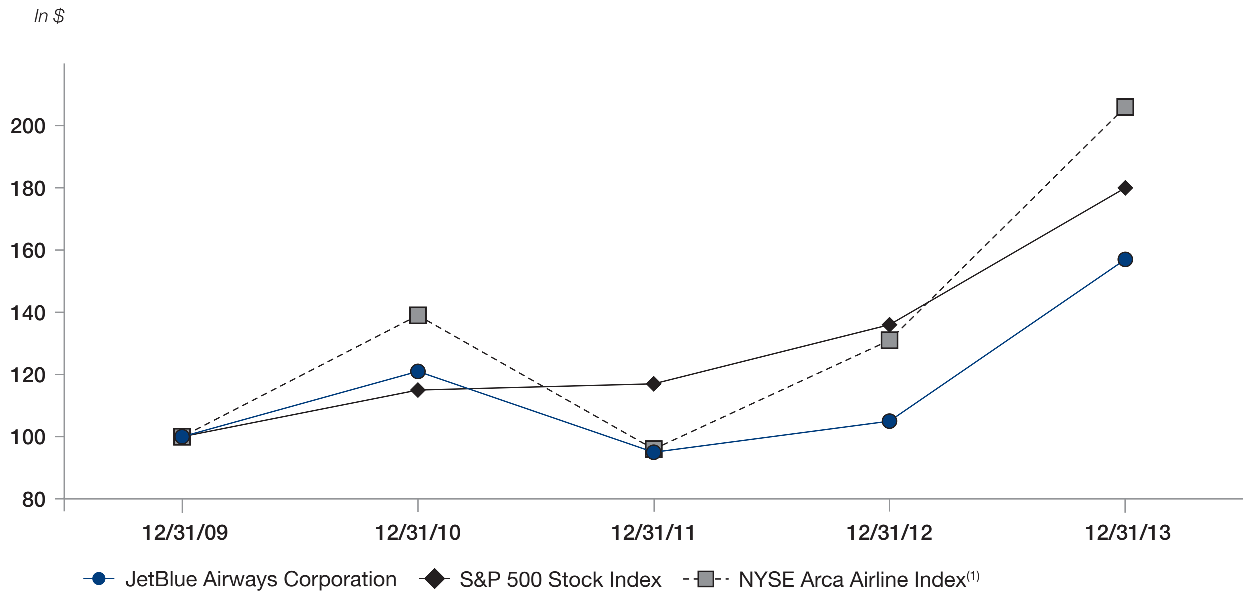
Convertible Debt Redemption

In October 2013 we notified the holders of our 5.5% Convertible Debentures due 2038 (Series A) that we planned to redeem their holding on December 3, 2013. These holders could elect to convert their holding into shares of our common stock up until the business day prior to the redemption date at a rate of 220.6288 shares per $1,000 debenture. All holders converted the debt into shares of our common stock before December 3, 2013 for a total of approximately 12.2 million shares.

Stock Performance Graph

This performance graph shall not be deemed "filed" with the SEC or subject to Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act of 1933, as amended.

The following line graph compares the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor's 500 Stock Index and the NYSE Arca Airline Index from December 31, 2009 to December 31, 2013. The comparison assumes the investment of $100 in our common stock and in each of the foregoing indices and reinvestment of all dividends. The stock performance shown represents historical performance and is not representative of future stock performance.



	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
JetBlue Airways Corporation	$ 100	$ 121	$ 95	$ 105	$ 157
S&P 500 Stock Index	100	115	117	136	180
NYSE Arca Airline Index[1]	100	139	96	131	206

(1) As of December 31, 2013, the NYSE Arca Airline Index consisted of Air Canada, Alaska Air Group Inc., Allegiant Travel Company, American Airlines Group, Inc., Delta Air Lines, Inc., JetBlue Airways Corporation, Southwest Airlines Company, Republic Airways Holding, Inc., Transat A.T. Inc. (Cl B), United Continental Holdings Inc. and WestJet Airlines Ltd.

ITEM 6. Selected Financial Data

The following financial information for the five years ended December 31, 2013 has been derived from our consolidated financial statements. This information should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this report.

	Year Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Statements of Operations Data:					
Operating revenues	$ 5,441	$ 4,982	$ 4,504	$ 3,779	$ 3,292
Operating expenses:					
Aircraft fuel and related taxes	1,899	1,806	1,664	1,115	945
Salaries, wages and benefits(1)	1,135	1,044	947	891	776
Landing fees and other rents	305	277	245	228	213
Depreciation and amortization	290	258	233	220	228
Aircraft rent	128	130	135	126	126
Sales and marketing	223	204	199	179	151
Maintenance materials and repairs	432	338	227	172	149
Other operating expenses(2)	601	549	532	515	419
Total operating expenses	5,013	4,606	4,182	3,446	3,007
Operating income	428	376	322	333	285
Other income (expense)(3)	(149)	(167)	(177)	(172)	(181)
Income before income taxes	279	209	145	161	104
Income tax expense	111	81	59	64	43
NET INCOME	**$ 168**	**$ 128**	**$ 86**	**$ 97**	**$ 61**
Earnings per common share:					
Basic	$ 0.59	$ 0.45	$ 0.31	$ 0.36	$ 0.24
Diluted	$ 0.52	$ 0.40	$ 0.28	$ 0.31	$ 0.21
Other Financial Data:					
Operating margin	7.9%	7.5%	7.1%	8.8%	8.6%
Pre-tax margin	5.1%	4.2%	3.2%	4.3%	3.2%
Ratio of earnings to fixed charges	2.05x	1.75x	1.52x	1.59x	1.33x
Net cash provided by operating activities	$ 758	$ 698	$ 614	$ 523	$ 486
Net cash used in investing activities	(476)	(867)	(502)	(696)	(457)
Net cash provided by (used in) financing activities	(239)	(322)	96	(258)	306

(1) In 2010 we incurred approximately $9 million in one-time implementation expenses related to our new customer service system.

(2) In 2013, we had a gain of $7 million on the sale of the Airfone business by LiveTV and sold three spare engines resulting in gains of approximately $2 million. In 2012 we sold six spare engines and two aircraft resulting in gains of approximately $10 million and LiveTV terminated a customer contract resulting in a gain of approximately $8 million. In 2010 we recorded an impairment loss of $6 million related to the spectrum license held by our LiveTV subsidiary. In 2010 we also incurred approximately $13 million in one-time implementation expenses related to our new customer service system. In 2009 we sold two aircraft which resulted in gains of approximately $1 million.

(3) We recorded $3 million, $1 million and $6 million in losses on the early extinguishment of debt in 2013, 2012 and 2011 respectively.

(in millions)	2013	2012	2011	2010	2009
	As of December 31,				
Balance Sheet Data:					
Cash and cash equivalents	$ 225	$ 182	$ 673	$ 465	$ 896
Investment securities	516	685	591	628	246
Total assets	7,350	7,070	7,071	6,593	6,549
Total debt	2,585	2,851	3,136	3,033	3,304
Common stockholders' equity	2,134	1,888	1,757	1,654	1,546

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Operating Statistics (unaudited):					
Revenue passengers *(thousands)*	30,463	28,956	26,370	24,254	22,450
Revenue passenger miles *(millions)*	35,836	33,563	30,698	28,279	25,955
Available seat miles (ASMs) *(millions)*	42,824	40,075	37,232	34,744	32,558
Load factor	83.7%	83.8%	82.4%	81.4%	79.7%
Aircraft utilization *(hours per day)*	11.9	11.8	11.7	11.6	11.5
Average fare	$ 163.19	$ 157.11	$ 154.74	$ 140.69	$ 130.67
Yield per passenger mile *(cents)*	13.87	13.55	13.29	12.07	11.30
Passenger revenue per ASM *(cents)*	11.61	11.35	10.96	9.82	9.01
Operating revenue per ASM *(cents)*	12.71	12.43	12.10	10.88	10.11
Operating expense per ASM *(cents)*	11.71	11.49	11.23	9.92	9.24
Operating expense per ASM, excluding fuel *(cents)*	7.28	6.99	6.76	6.71	6.33
Operating expense per ASM, excluding fuel and profit sharing *(cents)*	7.25	6.98	6.76	6.71	6.33
Airline operating expense per ASM *(cents)*(4)	11.56	11.34	11.06	9.71	8.99
Departures	282,133	264,600	243,446	225,501	215,526
Average stage length *(miles)*	1,090	1,085	1,091	1,100	1,076
Average number of operating aircraft during period	185.2	173.9	164.9	153.5	148.0
Average fuel cost per gallon, including fuel taxes	$ 3.14	$ 3.21	$ 3.17	$ 2.29	$ 2.08
Fuel gallons consumed *(millions)*	604	563	525	486	455
Full-time equivalent employees at period end(4)	12,647	12,070	11,733	11,121	10,704

(4) Excludes results of operations and employees of LiveTV, LLC, which are unrelated to our airline operations and are immaterial to our consolidated operating results.

Glossary of Airline terminology

Airline terminology used in this section and elsewhere in this report:

- ***Aircraft utilization.*** The average number of block hours operated per day per aircraft for the total fleet of aircraft.
- ***Available seat miles.*** The number of seats available for passengers multiplied by the number of miles the seats are flown.
- ***Average fare.*** The average one-way fare paid per flight segment by a revenue passenger.
- ***Average fuel cost per gallon.*** Total aircraft fuel costs, including fuel taxes and effective portion of fuel hedging, divided by the total number of fuel gallons consumed.
- ***Average stage length.*** The average number of miles flown per flight.
- ***Load factor.*** The percentage of aircraft seating capacity actually utilized, calculated by dividing revenue passenger miles by available seat miles.
- ***Operating expense per available seat mile.*** Operating expenses divided by available seat miles.
- ***Operating expense per available seat mile, excluding fuel.*** Operating expenses, less aircraft fuel, divided by available seat miles.
- ***Operating expense per available seat mile, excluding fuel and profit sharing.*** Operating expenses, less aircraft fuel and profit sharing, divided by available seat miles.
- ***Operating revenue per available seat mile.*** Operating revenues divided by available seat miles.
- ***Passenger revenue per available seat mile.*** Passenger revenue divided by available seat miles.
- ***Revenue passengers.*** The total number of paying passengers flown on all flight segments.
- ***Revenue passenger miles.*** The number of miles flown by revenue passengers.
- ***Yield per passenger mile.*** The average amount one passenger pays to fly one mile.

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

Overview

In 2013 we experienced the continuation of uncertain economic conditions, ongoing fuel price constraints, and the persistent competitiveness of the airline industry. Even with these external factors 2013 was one of the most profitable years in our history. We generated operating revenue growth of over 9% year over year and reported our highest ever net income. We are committed to delivering a safe and reliable JetBlue Experience for our customers as well as increasing returns for our shareholders. We believe our continued focus on cost discipline, product innovation and network enhancements, combined with our service excellence, will drive our future success.

2013 Financial Highlights

- We reported our highest ever net income of $168 million, an increase of $40 million compared to 2012.
- We generated over $5.4 billion in operating revenue. Our ancillary revenue continues to be a source of significant revenue growth, primarily driven by customer demand for our Even More products as well as changes to our fee structure.
- Operating margin increased by 0.4 points to 7.9% and we improved our return on invested capital, or ROIC, to 5.3%.
- Our earnings per diluted share reached $0.52, the highest since 2003.
- We generated $758 million in cash from operations and $121 million in free cash flow.
- Operating expenses per available seat mile increased 1.9% to 11.71 cents. Excluding fuel and profit sharing, our cost per available seat mile increased 3.8% in 2013.
- We entered into a Credit and Guaranty Agreement consisting of a $350 million revolving credit and a letter of credit facility with Citibank.

Company Initiatives

Strengthening of our Balance Sheet

Throughout 2013 we continued to focus on strengthening our balance sheet. We ended the year with unrestricted cash, cash equivalents and short-term investments of $627 million and undrawn lines of credit of $550 million. Our unrestricted cash, cash equivalents and short-term investments is at approximately 12% of trailing twelve months revenue. We reduced our overall debt balance by $266 million, including a prepayment for approximately $94 million related to four A320 aircraft in the fourth quarter of 2013. We have increased the number of unencumbered aircraft and spare engines in 2013 bringing total unencumbered aircraft to 23 and spare engines to 30 as of December 31, 2013. In 2013 the holders of our 5.5% Convertible Debentures due 2038 (Series A) converted their securities into approximately 12.2 million shares of our common stock. During 2013 we repurchased approximately 0.5 million shares of our common stock for approximately $3 million.

Aircraft

During 2013 we took delivery of 14 aircraft, including four of our new aircraft type, the Airbus A321. In October 2013 we restructured our fleet order book. We deferred 24 EMBRAER 190 aircraft deliveries from 2014-2018 to 2020-2022, converted 18 Airbus A320 positions to A321's and added an incremental order for 35 A321 aircraft. We entered into a flight-hour based maintenance and repair agreement relating to our EMBRAER 190 engines to better provide for more predictable maintenance expenses.

Airport Infrastructure Investments

During 2013 we continued our construction of T5i, the new international arrival extension to T5 at JFK. We expect the creation of a new dedicated site to handle U.S. Customs and Border Protection checks at T5 to eliminate the need for our international customers to arrive at T4, resulting in a more efficient process and a better JetBlue Experience for both our customers and Crewmembers.

Network

As part of our ongoing network initiatives and route optimization efforts we have continued to make schedule and frequency adjustments throughout 2013. We added seven new BlueCities to our network: Charleston, SC, Albuquerque, NM, Philadelphia, PA, Medellin, Colombia, Worcester, MA, Lima, Peru and Port-au-Prince, Haiti. We also added new routes between existing BlueCities.

Outlook for 2014

We ended 2013 with record revenues and our highest ever net income. We believe we will be able to build on this momentum in 2014 by continuing to improve our year over year margins and increase returns for our shareholders. We plan to do this by introducing our new product, Mint™ in June as well as continuing to retrofit our Airbus fleet with Fly-Fi™. We further plan to add new destinations and route pairings based upon market demand, having previously announced three new BlueCities for the first half of 2014. We are continuously looking to expand our other ancillary revenue opportunities, improve our TrueBlue loyalty program and deepen our portfolio of commercial partnerships. We also remain committed to investing in infrastructure and product enhancements which will enable us to reap future benefits. We intend to continue to opportunistically pre-purchase outstanding debt when market conditions and terms are favorable.

For the full year 2014, we estimate our operating capacity to increase approximately 5% to 7% over 2013 with the addition of nine Airbus A321 aircraft to our operating fleet. Assuming fuel prices of $3.06 per gallon, net of our fuel hedging activity, our cost per available seat mile for 2014 is expected to increase by 1% to 3% over 2013, primarily due to increases to salaries, wages and benefits.

Results of Operations

Year 2013 Compared to Year 2012

Operating Revenues

(Revenue in millions)	2013	2012	Year-over-Year Change $	Year-over-Year Change %
Passenger Revenue	$ 4,971	$ 4,550	$ 421	9.3
Other Revenue	470	432	38	8.8
Operating Revenues	$ 5,441	$ 4,982	$ 459	9.2
Average Fare	$ 163.19	$ 157.11	$ 6.08	3.9
Yield per passenger mile *(cents)*	13.87	13.55	0.32	2.4
Passenger revenue per ASM *(cents)*	11.61	11.35	0.26	2.3
Operating revenue per ASM *(cents)*	12.71	12.43	0.28	2.2
Average stage length *(miles)*	1,090	1,085	5	0.5
Revenue passengers *(thousands)*	30,463	28,956	1,507	5.2
Revenue passenger miles *(millions)*	35,836	33,563	2,273	6.8
Available Seat Miles (ASMs) *(millions)*	42,824	40,075	2,749	6.9
Load Factor	83.7%	83.8%		(0.1) pts

Passenger revenue is our primary source of revenue and accounted for over 91% of our total operating revenues for the year ended December 31, 2013. As well as seat revenue it includes revenue from our ancillary product offerings such as EvenMore™ Space. Revenues generated from international routes, including Puerto Rico, accounted for 28% of our passenger revenues in 2013. Revenue is recognized either when transportation is provided or after the ticket or customer credit expires. We measure capacity in terms of available seat miles, which represents the number of seats available for passengers multiplied by the number of miles the seats are flown. Yield, or the average amount one passenger pays to fly one mile, is calculated by dividing passenger revenue by revenue passenger miles. We attempt to increase passenger revenue primarily by increasing our yield per flight which produces higher revenue per available seat mile, or RASM. Our objective is to optimize our fare mix to increase our overall average fare while continuing to provide our customers with competitive fares.

In 2013, the increase in passenger revenues was mainly attributable to the increased capacity and increase in yield. Our largest ancillary product remains the EvenMore™ Space seats, generating approximately $170 million in revenue, an increase of over 13% compared to 2012.

The primary component of other revenue is the fees from reservation changes and excess baggage charged to customers in accordance with our published policies. We also include the marketing component of TrueBlue point sales, on-board product sales, transportation of mail and cargo, Charters, ground handling fees of other airlines and rental income. We additionally include the revenues earned by our subsidiary, LiveTV, LLC, for the sale of in-flight entertainment systems and on-going services provided for these systems on other airlines in Other Revenue.

In 2013, other revenue increased by $38 million compared to 2012. This was primarily due an increase in fees revenue, a factor of which was a change in our fee structure policy over the summer period. Further increases were seen in the marketing component of TrueBlue. These increases were offset slightly by a decrease in LiveTV revenue.

Operating Expenses

(in millions; per ASM data in cents)	2013	2012	Year-over-Year Change $	Year-over-Year Change %	per ASM 2013	per ASM 2012	% Change
Aircraft fuel and related taxes	$ 1,899	$ 1,806	$ 93	5.1	4.43	4.50	(1.6)
Salaries, wages and benefits	1,135	1,044	91	8.7	2.65	2.60	1.9
Landing fees and other rents	305	277	28	10.1	0.71	0.69	2.9
Depreciation and amortization	290	258	32	12.5	0.68	0.65	4.6
Aircraft rent	128	130	(2)	(1.5)	0.30	0.33	(9.1)
Sales and marketing	223	204	19	9.2	0.52	0.51	2.0
Maintenance materials and repairs	432	338	94	28.0	1.01	0.84	20.2
Other operating expenses	601	549	52	9.5	1.41	1.37	2.9
TOTAL OPERATING EXPENSES	**$ 5,013**	**$ 4,606**	**$ 407**	**8.8**	**11.71**	**11.49**	**1.9**

Aircraft Fuel and Hedging

Aircraft fuel and related taxes remains our largest expense category, representing 38% of our total operating expenses in 2013 compared to 39% in 2012. Even though the average fuel price decreased 2% in 2013 to $3.14 per gallon, our fuel expenses increased by $93 million as we consumed 41 million more gallons of aircraft fuel compared to 2012, mainly due to our increased capacity. Based on our expected fuel volume for 2014, a 10% per gallon increase in the cost of aircraft fuel would increase our annual fuel expense by approximately $202 million.

We maintain a diversified fuel hedge portfolio by entering into a variety of fuel hedge contracts in order to provide some protection against sharp and sudden volatility as well as further increases in fuel prices. In total, we hedged 21% of our total 2013 fuel consumption. We also use fixed forward price agreements, or FFPs, which allow us to lock in a price for fixed quantities of fuel to be delivered at a specified date in the future, to manage fuel price volatility. As of December 31, 2013, we had outstanding fuel hedge contracts covering approximately 16% of our forecasted consumption for the first quarter of 2014 and 9% for the full year 2014. We also had 7% of our 2014 fuel consumption requirements covered under FFPs. In January 2014, we entered into jet fuel swap and cap agreements covering an additional 3% of our 2014 forecasted consumption. We will continue to monitor fuel prices closely and intend to take advantage of reasonable fuel hedging opportunities as they become available.

In 2013 we recorded $10 million in fuel hedge losses compared to 2012 when we recorded $10 million in effective fuel hedge gains. Fuel derivatives not qualifying as cash flow hedges in 2013 resulted in immaterial losses compared to $3 million in losses in 2012 which were recorded in interest income and other. Accounting ineffectiveness on fuel derivatives classified as cash flow hedges resulted in immaterial losses in 2013 and 2012 and were recorded in interest income and other. We are unable to predict what the amount of ineffectiveness will be related to these instruments, or the potential loss of hedge accounting which is determined on a derivative-by-derivative basis, due to the volatility in the forward markets for these commodities.

Salaries, Wages and Benefits

Salaries, Wages and Benefits is our second largest expense, representing approximately 23% of our total operating expenses in 2013 and 2012. During 2013 the average number of full-time equivalent employees increased by 5% and the average tenure of our Crewmembers increased to 6.1 years, both of which contributed to a $91 million, or 8.7%, increase compared to 2012. Retirement Plus contributions, which equate to 5% of all of our eligible Crewmembers wages, increased by $4 million and our 3% retirement contribution for a certain portion of our FAA-licensed Crewmembers, which we refer to as *Retirement Advantage*, increased by $6 million. Our increased profitability resulted in $12 million of profit sharing expense compared to $3 million in 2012. The increasing tenure of our Crewmembers, rising healthcare costs and efforts to maintain competitiveness in our overall compensation packages are presenting cost pressures.

We have agreed to provide our pilots with a 20% pay increase in their base rate over the next three years which we expect will equate to approximately $30 million in 2014. In January 2014, the FAA's rule amending the FAA's flight, duty, and rest regulations became effective. Among other things, the new rule requires a ten hour minimum rest period prior to a pilot's flight duty period; mandates a pilot must have an opportunity for eight hours of uninterrupted sleep within the rest period; and imposes new pilot "flight time" and "duty time" limitations based upon report times, the number of scheduled flight segments, and other operational factors. We have hired additional pilots to address the requirements of the new rule.

Maintenance Materials and Repairs

Maintenance materials and repairs are generally expensed when incurred unless covered by a long-term flight hour services contract. The average age of our aircraft in 2013 was 7.1 years which is relatively young compared to our competitors. However, as our fleet ages our maintenance costs will increase significantly, both on an absolute basis and as a percentage of our unit costs, as older aircraft require additional, more expensive repairs over time. We had an average of 11.3 additional operating aircraft in 2013 compared to 2012.

In 2013 maintenance materials and repairs increased by $94 million as we had higher engine related costs for our EMBRAER 190 aircraft. In the latter half of 2013 we finalized a flight-hour based maintenance and repair agreement for these engines, which is expected to result in better planning of maintenance activities. While our maintenance costs will increase as our fleet ages, we expect we will benefit from these new maintenance agreements for our fleet.

Other Operating Expenses

Other operating expenses consist of the following categories: outside services (including expenses related to fueling, ground handling, skycap, security and janitorial services), insurance, personnel expenses, cost of goods sold to other airlines by LiveTV, professional fees, on-board supplies, shop and office supplies, bad debts, communication costs and taxes other than payroll and fuel taxes. Other operating expenses increased by $52 million, or 9.5%, compared to 2012 due to an increase in outside services. As our capacity and number of departures grew in 2013, our related variable handling costs also increased. Additionally we had higher information technology related costs due to increases in volume and usage. Non-recurring items in 2013 included a gain of approximately $2 million relating to the sale of three spare aircraft engines as well as a gain of approximately $7 million relating to the sale of LiveTV's investment in the Airfone business. In 2012 we sold six spare engines and two EMBRAER 190 aircraft resulting in gains of approximately $10 million as well as the termination of a customer by LiveTV resulting in a gain of approximately $8 million.

Income Taxes

Our effective tax rate was 40% in 2013 and 39% in 2012. Our effective tax rate differs from the statutory income tax rate primarily due to state income taxes and the non-deductibility of certain items for tax purposes. It is also affected by the relative size of these items to our 2013 pre-tax income of $279 million and our 2012 pre-tax income of $209 million.

Year 2012 Compared to Year 2011

Overview

We reported net income of $128 million in 2012 compared to $86 million in 2011. We had an operating income of $376 million in 2012, an increase of $54 million over 2011 and an operating margin of 7.5%, up 0.4 points from 2011. Diluted earnings per share were $0.40 for 2012 compared to diluted earnings per share of $0.28 for 2011.

During 2012, despite the continuing uncertain economic conditions and a severe hurricane hitting the core of our operations we managed to produce solid financial results. We generated unit revenue growth throughout the year by continuing to manage the structure and mix of our network. Our efforts to grow key regions were primarily focused in Boston and the Caribbean, which resulted in increased capacity during 2012.

Operating Revenues

(Revenues in millions)	2012	2011	Year-over-Year Change $	Year-over-Year Change %
Passenger Revenue	$ 4,550	$ 4,080	$ 470	11.5%
Other Revenue	432	424	8	2.0
Operating Revenues	$ 4,982	$ 4,504	$ 478	10.6
Average Fare	$ 157.11	$ 154.74	$ 2.37	1.5 %
Yield per passenger mile *(cents)*	13.55	13.29	0.26	2.0
Passenger revenue per ASM *(cents)*	11.35	10.96	0.39	3.6
Operating revenue per ASM *(cents)*	12.43	12.10	0.33	2.8
Average stage length *(miles)*	1,085	1,091	(6)	(0.5)
Revenue passengers *(thousands)*	28,956	26,370	2,586	9.8
Revenue passenger miles *(millions)*	33,563	30,698	2,865	9.3
Available Seat Miles (ASMs) *(millions)*	40,075	37,232	2,843	7.6
Load Factor	83.8%	82.4%		1.4 pts

Passenger revenue accounted for 91% of our total operating revenues in 2012 and was our primary source of revenue. Revenues generated from international routes, including Puerto Rico, accounted for 27% of our passenger revenues in 2012. In 2012, the increase in passenger revenues of 11.5% was mainly attributable to the increased capacity and increase in yield. Our largest ancillary product remained the EvenMore™ Space seats, generating approximately $150 million in revenue. This was an increase of approximately 19% over 2011.

Operating Expenses

(in millions; per ASM data in cents)	2012	2011	Year-over-Year Change $	Year-over-Year Change %	per ASM 2012	per ASM 2011	% Change
Aircraft fuel and related taxes	$ 1,806	$ 1,664	$ 142	8.6	4.50	4.47	0.9
Salaries, wages and benefits	1,044	947	97	10.3	2.60	2.54	2.4
Landing fees and other rents	277	245	32	12.8	0.69	0.66	4.8
Depreciation and amortization	258	233	25	10.5	0.65	0.63	2.7
Aircraft rent	130	135	(5)	(3.6)	0.33	0.36	(10.4)
Sales and marketing	204	199	5	3.0	0.51	0.53	(4.3)
Maintenance materials and repairs	338	227	111	48.4	0.84	0.61	37.9
Other operating expenses	549	532	17	3.2	1.37	1.43	(4.1)
TOTAL OPERATING EXPENSES	**$ 4,606**	**$ 4,182**	**$ 424**	**10.1**	**11.49**	**11.23**	**2.3**

Aircraft Fuel and Hedging

The expenses relating to aircraft fuel and related taxes represented 39% of our total operating expenses in 2012. During 2012 the average fuel price increased 1% compared to 2011; we consumed 38 million more gallons of aircraft fuel and saw an increase in fuel expenses of $142 million. In 2012 we hedged 30% of our total fuel consumption. We also recorded $10 million in effective fuel hedge gains which offset fuel expenses compared to $3 million in 2011. Fuel derivatives not qualifying as cash flow hedges in 2012 resulted in losses of approximately $3 million compared to an immaterial amount in 2011. Accounting ineffectiveness on fuel derivatives classified as cash flow hedges resulted in an immaterial loss in 2012 and $2 million in 2011, recorded in interest income and other. We are unable to predict what the amount of ineffectiveness will be related to these instruments, or the potential loss of hedge accounting which is determined on a derivative-by-derivative basis, due to the volatility in the forward markets for these commodities.

Salaries, Wages and Benefits

The increase in salaries, wages and benefits was primarily due to a 4% increase in the number of average number of full-time equivalent employees needed to support our growth plans. The increasing seniority levels of our Crewmembers combined with pay and benefit increases also contributed to higher expenses. The average tenure of our Crewmembers increased to 5.6 years as of December 31, 2012 resulting in an increase to average wages and benefits per full-time equivalent employees. As a result of increased wages, *Retirement Plus* contributions increased by $3 million. Our increased profitability resulted in $3 million of profit sharing expense to be paid to our Crewmembers in March 2013. During 2012, *Retirement Advantage* contributions totaled $4 million.

Maintenance Materials and Repairs

Maintenance expense represented a significant cost challenge in 2012, increasing $111 million from 2011. In addition to the additional operating aircraft and the aging of our fleet, several aircraft came off of warranty to contribute to higher maintenance costs. Additionally, one of our key engine and component repair maintenance providers liquidated during the first quarter of 2012 resulting in approximately $10 million in additional costs while we found alternative providers.

Income Taxes

Our effective tax rate was 39% in 2012 compared to 41% in 2011. Our effective tax rate differs from the statutory income tax rate primarily due to state income taxes, the change in valuation allowance and the non-deductibility of certain items for tax purposes. The rate decrease was attributable to reductions in certain non-deductible items and the relative size of these items to our pre-tax income.

Costs per Available Seat Mile (Non-GAAP)

Costs per available seat mile, or CASM, is a commonly used metric in the airline industry. Our CASM for 2013 and 2012 are summarized in the table below. We have listed separately our fuel costs and profit sharing expense. While these amounts are included in CASM, we believe excluding fuel costs, which are subject to many economic and political factors beyond our control, as well as profit sharing, which is sensitive to volatility in earnings, is useful to management and investors. We believe this non-GAAP measure is more indicative of our ability to manage our costs and provides a meaningful comparison of our results to the airline industry and our prior year results. Investors should consider this non-GAAP financial measure in addition to, and not as a substitute for, our financial performance measures prepared in accordance with GAAP.

Reconciliation of Operating Expense per ASM, excluding Fuel and Profit Sharing

	2013		2012		Per ASM Year-over-Year Change
(in millions, per ASM data in cents)	$	per ASM	$	per ASM	%
Total operating expenses	$ 5,013	11.71	$ 4,606	11.49	1.9%
Less: Aircraft fuel and related taxes	1,899	4.43	1,806	4.50	(1.6)
Operating expenses, excluding fuel	3,114	7.28	2,800	6.99	4.2
Less: Profit sharing	12	0.03	3	0.01	200.0
OPERATING EXPENSE, EXCLUDING FUEL & PROFIT SHARING	**$ 3,102**	**7.25**	**$ 2,797**	**6.98**	**3.8**

Quarterly Results of Operations

The following table sets forth selected financial data and operating statistics for the four quarters ended December 31, 2013. The information for each of these quarters is unaudited and has been prepared on the same basis as the audited consolidated financial statements appearing elsewhere in this Form 10-K.

	Three Months Ended			
	March 31, 2013	**June 30, 2013**	**September 30, 2013**	**December 31, 2013**
Statements of Operations Data ***(dollars in millions)***				
Operating revenues	$ 1,299	$ 1,335	$ 1,442	$ 1,365
Operating expenses:				
Aircraft fuel and related taxes	467	465	501	466
Salaries, wages and benefits	280	279	283	293
Landing fees and other rents	70	80	81	74
Depreciation and amortization	68	71	73	78
Aircraft rent	32	33	32	31
Sales and marketing	50	53	60	60
Maintenance materials and repairs	114	111	109	98
Other operating expenses[(1)]	159	141	151	150
Total operating expenses	1,240	1,233	1,290	1,250
Operating income	59	102	152	115
Other income (expense)[(2)]	(36)	(42)	(33)	(38)
Income before income taxes	23	60	119	77
Income tax expense	9	24	48	30
NET INCOME	**$ 14**	**$ 36**	**$ 71**	**$ 47**
Operating margin	*4.5%*	*7.6%*	*10.5%*	*8.4%*
Pre-tax margin	*1.8%*	*4.5%*	*8.2%*	*5.7%*
Operating Statistics:				
Revenue passengers *(thousands)*	7,300	7,753	8,059	7,351
Revenue passenger miles *(millions)*	8,506	9,115	9,561	8,654
Available seat miles ASM *(millions)*	10,140	10,741	11,252	10,691
Load factor	83.9%	84.9%	85.0%	80.9%
Aircraft utilization *(hours per day)*	11.9	12.2	12.2	11.5
Average fare	$ 162.53	$ 157.51	$ 164.02	$ 168.94
Yield per passenger mile *(cents)*	13.95	13.40	13.83	14.35
Passenger revenue per ASM *(cents)*	11.70	11.37	11.75	11.62
Operating revenue per ASM *(cents)*	12.81	12.42	12.82	12.77
Operating expense per ASM *(cents)*	12.23	11.48	11.47	11.70
Operating expense per ASM, excluding fuel *(cents)*	7.62	7.15	7.02	7.34
Operating expense per ASM, excluding fuel and profit sharing *(cents)*	7.62	7.15	6.95	7.30
Airline operating expense per ASM *(cents)*[(3)]	12.06	11.36	11.33	11.52
Departures	66,773	70,722	74,206	70,432
Average stage length *(miles)*	1,092	1,088	1,085	1,095
Average number of operating aircraft during period	180.3	183.1	187.1	189.9
Average fuel cost per gallon, including fuel taxes	$ 3.29	$ 3.06	$ 3.14	$ 3.10
Fuel gallons consumed *(millions)*	142	152	160	150
Full-time equivalent employees at period end[(3)]	12,385	12,743	12,124	12,647

(1) During the second quarter of 2013, LiveTV recorded a gain of approximately $7 million relating to the sale of the Airfone business. During the fourth quarter of 2013, we recorded net gains of approximately $2 million related to the sale of three spare aircraft engines.

(2) During the fourth quarter of 2013 we recorded $3 million in losses related to the early extinguishment of a portion of our long-term debt.

(3) Excludes results of operations and employees of LiveTV, LLC, which are unrelated to our airline operations and are immaterial to our consolidated operating results.

Although we experienced significant revenue growth in 2013, this trend may not continue. We expect our expenses to continue to increase significantly as we acquire additional aircraft, as our fleet ages and as we expand the frequency of flights in existing markets and enter into new markets. Accordingly, the comparison of the financial data for the quarterly periods presented may not be meaningful. In addition, we expect our operating results to fluctuate significantly from quarter-to-quarter in the future as a result of various factors, many of which are outside our control. Consequently, we believe quarter-to-quarter comparisons of our operating results may not necessarily be meaningful and you should not rely on our results for any one quarter as an indication of our future performance.

Liquidity and Capital Resources

The airline business is capital intensive. Our ability to successfully execute our profitable growth plans is largely dependent on the continued availability of capital on attractive terms. In addition, our ability to successfully operate our business depends on maintaining sufficient liquidity. We believe we have adequate resources from a combination of cash and cash equivalents, investment securities on hand and two available lines of credit. Additionally, as of December 31, 2013, we had 23 unencumbered aircraft and 30 unencumbered spare engines which we believe could be an additional source of liquidity, if necessary.

We believe a healthy cash balance is crucial to our ability to weather any part of the economic cycle while continuing to execute on our plans for profitable growth and increased returns. Our goal is to continue to be diligent with our liquidity, maintaining financial flexibility and allowing for prudent capital spending, which in turn we expect to lead to improved returns for our shareholders. As of December 31, 2013 our cash and cash equivalents balance increased by 24% to $225 million. We believe our current level of unrestricted cash, cash equivalents and short-term investments of approximately 12% of trailing twelve months revenue, combined with our other available line of credit and portfolio of unencumbered assets provides us with a strong liquidity position and the potential for higher returns on cash deployment. We believe we have taken several important actions during 2013 in solidifying our strong balance sheet and overall liquidity position. Our highlights for 2013 included:

- Reduced our overall debt balance by $266 million.
- Prepaid approximately $94 million in debt resulting in four Airbus A320 aircraft becoming unencumbered. This will result in 2014 interest savings of $5 million and total interest expense savings of $25 million.
- Increased the number of unencumbered aircraft from 11 as of December 31, 2012 to 23 as of December 31, 2013 and extended the operating leases on eight aircraft.
- We entered into a $350 million revolving credit and letter of credit facility with Citibank.
- We signed a $226 million Enhanced Equipment Trust Certificate, or EETC, offering, in pass-through certificates which will be secured by 14 unencumbered Airbus A320 aircraft. Funding for the pass-through certificates is scheduled for March 2014.
- The Greater Orlando Aviation Authority, or GOAA, issued $42 million in special purpose airport facility revenue bonds to refund bonds issued to us in 2005, interest savings will be approximately $1 million per year.

Return on Invested Capital

Return on invested capital, or ROIC, is an important financial metric which we believe provides meaningful information as to how well we generate returns relative to the capital invested in our business. During 2013 our ROIC improved to 5.3%. We are committed to taking appropriate actions which will allow us to continue to improve ROIC while adding capacity and continuing to grow. We believe this non-GAAP measure provides a meaningful comparison of our results to the airline industry and our prior year results. Investors should consider this non-GAAP financial measure in addition to, and not as a substitute for, our financial performance measures prepared in accordance with GAAP.

Reconciliation of Return on Invested Capital (Non-GAAP)

(in millions, except as otherwise noted)	Twelve Months Ended December 31, 2013	2012
Numerator		
Operating Income	$ 428	$ 376
Add: Interest income (expense) and other	(1)	1
Add: Interest component of capitalized aircraft rent[(a)]	67	68
Subtotal	494	445
Less: Income tax expense impact	194	172
Operating Income After Tax, Adjusted	**$ 300**	**$ 273**
Denominator		
Average Stockholders' equity	$ 2,011	$ 1,822
Average total debt	2,718	2,994
Capitalized aircraft rent[(a)]	899	913
Invested Capital	**$ 5,628**	**$ 5,729**
RETURN ON INVESTED CAPITAL	**5.3%**	**4.8%**
(a) Capitalized Aircraft Rent		
Aircraft rent, as reported	$ 128	$ 130
Capitalized aircraft rent (7 * Aircraft rent)[(b)]	899	913
Interest component of capitalized aircraft rent (Imputed interest at 7.5%)	67	68

(b) In determining the Invested Capital component of ROIC, we include a non-GAAP adjustment for aircraft operating leases, as operating lease obligations are not reflected on our balance sheets, but do represent a significant financing obligation. In making the adjustment, we used a multiple of 7 times our aircraft rent as this is the multiple which is routinely used with in the airline community to represent the financing component of aircraft operating lease obligations.

Analysis of Cash Flows

We had cash and cash equivalents of $225 million as of December 31, 2013. This compares to $182 million and $673 million as of December 31, 2012 and 2011 respectively. We held both short and long term investments in 2013, 2012 and 2011. Our short-term investments totaled $402 million as of December 31, 2013 compared to $549 million and $553 million as of December 31, 2012 and 2011 respectively. Our long-term investments totaled $114 million as of December 31, 2013 compared to $136 million and $38 million as of December 31, 2012 and 2011 respectively.

Operating Activities

Cash flows provided by operating activities totaled $758 million in 2013 compared to $698 million in 2012 and $614 million in 2011. There was a $60 million increase in cash flows from operating activities in 2013 compared to 2012. During 2013 we saw a 7% increase in capacity, a 4% increase in average fares and a 2% decrease in the price of fuel which all helped to improve operating cash flows. The $84 million increase in cash flows from operations in 2012 compared to 2011 was primarily as a result of the 2% increase in average fares and 8% increase in capacity but was offset by an increase of 1% in fuel prices. As of December 31, 2013, our unrestricted cash, cash equivalents and short-term investments as a percentage of trailing twelve months revenue was approximately 12%. We rely primarily on cash flows from operations to provide working capital for current and future operations.

Investing Activities

The capital expenditure for seven new EMBRAER 190 aircraft, three new Airbus A320 aircraft and four new Airbus A321 aircraft during 2013 was $365 million. We additionally paid $22 million for flight equipment deposits and $54 million for spare parts. Capital expenditures for other property and equipment, including ground equipment purchases, facilities improvements and LiveTV inflight-entertainment equipment inventory were $196 million. During 2013 LiveTV sold its investment in the Airfone business for $8 million in proceeds. Investing activities also include the net purchase of $161 million in investment securities.

During 2012, capital expenditures related to our purchase of flight equipment included $344 million for seven Airbus A320 aircraft, four EMBRAER 190 aircraft and five spare engines. It also included $283 million for flight equipment deposits, including a $200 million prepayment in exchange for favorable pricing terms, and $32 million for spare part purchases. Capital expenditures for other property and equipment, including ground equipment purchases, facilities improvements and LiveTV inflight-entertainment equipment inventory were $166 million, which includes the final $32 million for the 16 slots we purchased at LaGuardia and Reagan National in 2011 and $17 million for T5i, which was paid for using cash from operations. The receipt of $46 million in proceeds from the sale of two EMBRAER 190 aircraft and six spare engines is included in investing activities. Investing activities also include the net purchase of $104 million in investment securities.

During 2011, capital expenditures related to our purchase of flight equipment included $318 million for four Airbus A320 aircraft, five EMBRAER 190 aircraft and nine spare engines, $44 million for flight equipment deposits and $27 million for spare part purchases. Capital expenditures for other property and equipment, including ground equipment purchases, facilities improvements and LiveTV inventory, were $135 million, which includes $40 million for the 16 slots we purchased at LaGuardia and Reagan National. Investing activities in 2011 also included the net proceeds from the sale and maturities of $24 million in investment securities.

We currently anticipate 2014 capital expenditures to be approximately $935 million, including approximately $595 million for aircraft and predelivery deposits. The remaining capital expenditures of approximately $340 million relate to non-aircraft projects such as the completion of our investment at T5i, our purchase of the Slots at DCA, LiveTV's continued investment in Fly-Fi™ and the new facility near Orlando airport for Crewmember lodging.

Financing Activities

Financing activities during 2013 consisted of (1) scheduled maturities of $392 million of debt and capital lease obligations, (2) our issuance of $350 million in fixed rate equipment notes secured by 12 aircraft, (3) the prepayment of $94 million in high-interest debt secured by four Airbus A320 aircraft and $119 million relating to our Spare Parts EETC, (4) the refunding of our Series 2005 GOAA bonds with proceeds of $43 million from the issuance of new 2013 GOAA bonds (5) the repayment of $13 million in principal related to our construction obligation for T5 and (6) the acquisition of $8 million in treasury shares primarily related to our share repurchase program and the withholding of taxes upon the vesting of restricted stock units.

Financing activities during 2012 consisted of (1) scheduled maturities of $198 million of debt and capital lease obligations, (2) the pre-payment of $185 million in high-cost debt secured by seven Airbus A320 aircraft, (3) the repayment of $35 million of debt related to two EMBRAER 190 aircraft which were sold in 2012, (4) proceeds of $215 million in non-public floating rate aircraft-related financing secured by four Airbus A320 aircraft and four EMBRAER 190 aircraft, (5) the net repayment of $88 million under our available lines of credit, (6) the repayment of $12 million in principal related to our construction obligation for Terminal 5 and (7) the acquisition of 4.8 million treasury shares for $26 million primarily related to our share repurchase program and the withholding of taxes upon the vesting of restricted stock units.

Financing activities during 2011 consisted primarily of (1) the early extinguishment of $39 million principal of our 6.75% Series A convertible debentures due 2039 for $45 million, (2) scheduled maturities of $188 million of debt and capital lease obligations, (3) the early payment of $3 million on our spare parts pass-through certificates, (4) proceeds of $121 million in fixed rate and $124 million in non-public floating rate aircraft-related financing secured by four Airbus A320 aircraft and five EMBRAER 190 aircraft, (5) the net borrowings of $88 million under our available line of credit, (6) the repayment of $10 million in principal related to our construction obligation for Terminal 5 and (7) the acquisition of $4 million in treasury shares related to the withholding of taxes, upon the vesting of restricted stock units.

In November 2012, we filed an automatic shelf registration statement with the SEC. Under this universal shelf registration statement, we have the capacity to offer and sell from time to time debt securities, pass-through certificates, common stock, preferred stock and/or other securities. The net proceeds of any securities we sell under this registration statement may be used to fund working capital and capital expenditures, including the purchase of aircraft and construction of facilities on or near airports. Through December 31, 2013 we had not issued any securities under this registration statement and at this time we have no plans to sell any such securities under this registration statement. We may utilize this universal shelf registration statement in the future to raise capital to fund the continued development of our products and services, the commercialization of our products and services or for other general corporate purposes.

None of our lenders or lessors are affiliated with us.

Capital Resources

We have been able to generate sufficient funds from operations to meet our working capital requirements and we have historically financed our aircraft through either secured debt or lease financing. As of December 31, 2013 we operated a fleet of 194 aircraft including 21 Airbus A320 and two EMBRAER 190 unencumbered aircraft. Of the remaining aircraft, 60 were financed under operating leases, four were financed under capital leases and 107 were financed by private and public secured debt. We additionally have 30 unencumbered spare engines and a five spare engines that are secured by financings. Approximately 63%% of our property and equipment is pledged as security under various loan arrangements.

We have committed financing for four out of the nine Airbus A321 aircraft scheduled for delivery in 2014. We plan to purchase the remaining 2014 scheduled deliveries with cash. To the extent we cannot pay in cash we may be required to secure financing or further modify our aircraft acquisition plans. Although we believe debt and/or lease financing should be available to us if needed, we cannot give assurance we will be able to secure financing on terms attractive to us, if at all.

Working Capital

We had working capital deficit of $818 million at December 31, 2013 compared to a deficit of $508 million at December 31, 2012 and a working capital of $216 million at December 31, 2011. Working capital deficits can be customary in the airline industry since air traffic liability is classified as a current liability. Our working capital deficit increased in 2013 mainly due to a $132 million increase in air traffic liability and an increase of $75 million relating to the current maturity of long-term debt. Also contributing to our working capital deficit as of December 31, 2013 is $114 million in marketable investment securities classified as long-term assets, including $52 million related to a deposit made to lower the interest rate on the debt secured by two aircraft. These funds on deposit are readily available to us; however, if we were to draw upon this deposit, the interest rates on the debt would revert to the higher rates in effect prior to the re-financing.

In 2012, we entered into a revolving line of credit with Morgan Stanley for up to $100 million, and increased the line of credit for up to $200 million in December 2012. This line of credit is secured by a portion of our investment securities held by Morgan Stanley and the borrowing amount may vary accordingly. This line of credit bears interest at a floating rate of interest based upon LIBOR, plus a margin. During the year we borrowed $190 million on this line of credit, which was fully repaid, leaving the line undrawn as of December 31, 2013.

In April 2013 we entered into a Credit and Guaranty Agreement which consists of a revolving credit up to $350 million and letter of credit facility with Citibank, N.A. as the administrative agent. Borrowing under the Credit Facility bear interest at a variable rate equal to LIBOR, plus a margin and the facility terminates in 2016. The Credit Facility is secured by take-off and landing slots at JFK, Newark, LaGuardia, Reagan National and certain other assets. The Credit Facility includes covenants that require us to maintain certain minimum balances in unrestricted cash, cash equivalents, and unused commitments available under all revolving credit facilities. In addition the covenants restrict our ability to incur additional indebtedness, issue preferred stock or pay dividends. During 2013, we did not borrow on this facility and the line was undrawn as of December 31, 2013.

Concurrent with entering into the above agreement with Citibank, N.A. for the revolving credit and letter of credit facility, we terminated our unsecured revolving credit facility with American Express which had allowed us to borrow up to a maximum of $125 million.

We expect to meet our obligations as they become due through available cash, investment securities and internally generated funds, supplemented as necessary by financing activities, as they may be available to us. We expect to generate positive working capital through our operations. However, we cannot predict what the effect on our business might be from the extremely competitive environment we are operating in or from events beyond our control, such as volatile fuel prices, economic conditions, weather-related disruptions, the impact of airline bankruptcies, restructurings or consolidations, U.S. military actions or acts of terrorism. We believe the working capital available to us will be sufficient to meet our cash requirements for at least the next 12 months.

Debt and Capital Leases

Our scheduled debt maturities are expected to increase over the next five years, with a scheduled peak in 2016 of approximately $474 million. As part of our efforts to effectively manage our balance sheet and improve ROIC, we expect to continue to actively manage our debt balances. Our approach to debt management includes managing the mix of fixed vs. floating rate debt, managing the annual maturities of debt, and managing the weighted average cost of debt. Further, we intend to continue to opportunistically pre-purchase outstanding debt when market conditions and terms are favorable. Additionally, our unencumbered assets, including 21 Airbus A320 aircraft, two EMBRAER 190 aircraft and 30 engines, allow some flexibility in managing our cost of debt and capital requirements.

In September 2013 as part of a private placement Enhanced Equipment Trust Certificate ("EETC") offering we priced $226 million in pass-through certificates to be secured by 14 of our unencumbered Airbus A320 aircraft. Funding for the pass-through certificates is scheduled for March 2014 to coincide with the final scheduled principal payments of $188 million associated with our March 2004 EETC Class G-2 certificates.

Free Cash Flow

The table below reconciles cash provided by operations determined in accordance with U.S. GAAP to Free Cash Flow, a non-GAAP measure. Management believes that Free Cash Flow is a relevant measure of liquidity and is useful in assessing our ability to fund capital commitments and other obligations. Investors should consider this non-GAAP financial measure in addition to, and not as a substitute for, our financial measures prepared in accordance with U.S. GAAP.

Reconciliation of Free Cash Flow (Non-GAAP)

	Year Ended December 31,				
(in millions)	2013	2012	2011	2010	2009
Net cash provided by operating activities	$ 758	$ 698	$ 614	$ 523	$ 486
Capital expenditures	(615)	(542)	(480)	(249)	(434)
Pre-delivery deposits for flight equipment	(22)	(283)	(44)	(50)	(27)
	(637)	(825)	(524)	(299)	(461)
Free Cash Flow	**$ 121**	**$ (127)**	**$ 90**	**$ 224**	**$ 25**

Contractual Obligations

Our noncancelable contractual obligations at December 31, 2013 include (in millions):

		Payments due in					
	Total	2014	2015	2016	2017	2018	Thereafter
Long-term debt and capital lease obligations(1)	$ 3,255	$ 570	$ 370	$ 550	$ 270	$ 300	$ 1,195
Lease commitments	1,390	205	205	140	120	115	605
Flight equipment obligations	6,870	500	660	785	835	855	3,235
Financing obligations and other(2)	3,865	730	570	435	415	435	1,280
TOTAL	**$ 15,380**	**$ 2,005**	**$ 1,805**	**$ 1,910**	**$ 1,640**	**$ 1,705**	**$ 6,315**

(1) Includes actual interest and estimated interest for floating-rate debt based on December 31, 2013 rates.

(2) Amounts include noncancelable commitments for the purchase of goods and services.

The interest rates are fixed for $1.46 billion of our debt and capital lease obligations, with the remaining $1.12 billion having floating interest rates. The floating interest rates adjust quarterly or semi-annually based on the London Interbank Offered Rate, or LIBOR. The weighted average maturity of all of our debt was 7 years at December 31, 2013.

We are subject to certain collateral ratio requirements in our spare engine financing issued in December 2007. If we fail to maintain these collateral ratios we are required to provide additional collateral or redeem some or all of the equipment notes so the ratios are met. We previously had pledged as collateral a spare engine with a carrying value of $7 million in order to maintain these ratios however as of December 31, 2013 this is no longer required. At December 31, 2013, we were in compliance with all of our other covenants of our debt and lease agreements and 63% of our owned property and equipment were pledged as security under various loan agreements.

We have operating lease obligations for 60 aircraft with lease terms that expire between 2016 and 2026. Five of these leases have variable-rate rent payments which adjust semi-annually based on LIBOR. We also lease airport terminal space and other airport facilities in each of our markets, as well as office space and other equipment. We have approximately $31 million of restricted assets pledged under standby letters of credit related to certain of our leases which will expire at the end of the related leases.

We modified our long-term order book in October 2013 and our firm aircraft order at December 31, 2013 is as follows:

Year	Airbus A320	Airbus A320neo	Airbus A321	Airbus A321neo	EMBRAER 190	Total
2014	—	—	9	—	—	9
2015	—	—	12	—	—	12
2016	3	—	12	—	—	15
2017	—	—	15	—	—	15
2018	—	5	1	9	—	15
2019	—	—	—	15	—	15
2020	—	9	—	6	10	25
2021	—	16	—	—	7	23
2022	—	—	—	—	7	7
TOTAL	**3**	**30**	**49**	**30**	**24**	**136**

Committed expenditures for our firm aircraft and spare engines include estimated amounts for contractual price escalations and predelivery deposits. We expect to meet our predelivery deposit requirements for our aircraft by paying cash or by using short-term borrowing facilities for deposits required six to 24 months prior to delivery. Any predelivery deposits paid by the issuance of notes are fully repaid at the time of delivery of the related aircraft.

Our Terminal at JFK, T5, is governed by a lease agreement we entered into with the PANYNJ in 2005. We are responsible for making various payments under the lease. This includes ground rents for the terminal site which began at the time of the lease execution in 2005 and facility rents commenced in October 2008 upon our occupancy of the terminal. The facility rents are based on the number of passengers enplaned out of the terminal, subject to annual minimums. The PANYNJ reimbursed us for construction costs of this project in accordance with the terms of the lease, except for approximately $76 million in leasehold improvements provided by us. In 2013 we amended this lease to include additional ground space for our international arrivals facility, T5i, which we are currently constructing and expect to open in late 2014. For financial reporting purposes, the T5 project is being accounted for as a financing obligation, with the constructed asset and related liability being reflected on our balance sheets. The T5i project is being accounted for at cost. Minimum ground and facility rents for this terminal totaling $816 billion are included in the commitments table above as lease commitments and financing obligations.

Our commitments also include those of LiveTV, which has several noncancelable long-term purchase agreements with various suppliers to provide equipment to be installed on its customers' aircraft, including JetBlue's aircraft.

We enter into individual employment agreements with each of our FAA-licensed Crewmembers as well as inspectors and air traffic controllers. Each employment agreement is for a term of five years and automatically renews for an additional five-year term unless the Crewmember is terminated for cause or the Crewmember elects not to renew it. Pursuant to these agreements, these Crewmembers can only be terminated for cause. In the event of a downturn in our business requiring a reduction in flying and related work hours, we are obligated to pay these Crewmembers a guaranteed level of income and to continue their benefits. As we are not currently obligated to pay this guaranteed income and benefits, no amounts related to these guarantees are included in the table above.

Off-Balance Sheet Arrangements

None of our operating lease obligations are reflected on our balance sheet. Although some of our aircraft lease arrangements are with variable interest entities, as defined by the *Consolidations* topic of the Financial Accounting Standards Board's Accounting Standards Codification™, or Codification, none of them require consolidation in our financial statements. The decision to finance these aircraft through operating leases rather than through debt was based on an analysis of the cash flows and tax consequences of each financing alternative and a consideration of liquidity implications. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value or other guarantees to our lessors.

We have determined we hold a variable interest in, but are not the primary beneficiary of, certain pass-through trusts. These pass-through trusts are the purchasers of equipment notes issued by us to finance the acquisition of new aircraft and certain aircraft spare parts owned by JetBlue. They maintain liquidity facilities whereby a third party agrees to make payments sufficient to pay up to 18 months of interest on the applicable certificates if a payment default occurs. The liquidity providers for the Series 2004-1 aircraft certificates and the spare parts certificates are Landesbank Hessen-Thüringen Girozentrale and Morgan Stanley Capital Services Inc. The liquidity providers for the Series 2004-2 aircraft certificates are Landesbank Baden-Württemberg and Citibank, N.A.

We use a policy provider to provide credit support on our Class G-1 and Class G-2 floating rate enhanced equipment notes. The policy provider has unconditionally guaranteed the payment of interest on the certificates when due and the payment of principal on the certificates no later than 18 months after the final expected regular distribution date. The policy provider is MBIA Insurance Corporation (a subsidiary of MBIA, Inc.). Financial information for the parent company of the policy provider is available at the SEC's website at *http://www.sec.gov* or at the SEC's public reference room in Washington, D.C.

We have also made certain guarantees and indemnities to other unrelated parties that are not reflected on our balance sheet which we believe will not have a significant impact on our results of operations, financial condition or cash flows. We have no other off-balance sheet arrangements. See Notes 2, 3 and 12 to our consolidated financial statements for a more detailed discussion of our variable interests and other contingencies, including guarantees and indemnities.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires management to adopt accounting policies as well as make estimates and judgments to develop amounts reported in our financial statements and accompanying notes. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the estimates that are required to prepare our financial statements. We believe our estimates and judgments are reasonable; however, actual results and the timing of recognition of such amounts could differ from those estimates. In addition, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

Critical accounting policies and estimates are defined as those that are reflective of significant judgments and uncertainties that could potentially result in materially different results under different assumptions and conditions. The policies and estimates discussed below have been reviewed with our independent registered public accounting firm and with the Audit Committee of our Board of Directors. For a discussion of these and other accounting policies, see Note 1 to our consolidated financial statements.

Passenger revenue

Passenger ticket sales are initially deferred in air traffic liability. The air traffic liability also includes customer credits issued and unused tickets whose travel date has passed. Credit for unused tickets and customer credits can each be applied towards another ticket within 12 months of the original scheduled service or 12 months from the issuance of the customer credit. Revenue is recognized when transportation is provided or when a ticket or customer credit expires. We also defer in the air traffic liability account an estimate for customer credits issued in conjunction with the JetBlue Airways Customer Bill of Rights that we expect to be ultimately redeemed. These estimates are based on historical experience and are periodically evaluated, and adjusted if necessary, based on actual credit usage.

Frequent flyer accounting

We utilize a number of estimates in accounting for our TrueBlue customer loyalty program, or TrueBlue. We record a liability for the estimated incremental cost of outstanding points earned from JetBlue purchases that we expect to be redeemed. This liability was $19 million and $10 million as of December 31, 2013 and 2012, respectively. The estimated cost includes incremental fuel, insurance, passenger food and supplies, and reservation costs. We adjust this liability, which is included in air traffic liability, based on points earned and redeemed, changes in the estimated incremental costs associated with providing travel and changes in the TrueBlue program. Customers earn points based on the value paid for a trip rather than the length of the trip. In addition, there is no longer an automatic generation of a travel award once minimum award levels are reached, but instead the points are maintained in the account until used by the member. In June 2013 we further amended the program so points earned by members never expire. This change has resulted in a reassessment of our assumptions used in calculating the liability and our estimate of the points that remain unused, the breakage, has been reduced by approximately $5 million in 2013. In October 2013 we introduced the pooling of points between small groups of people, branded as Family Pooling. We believe Family Pooling has not had a material impact on the breakage calculation at year-end. Periodically, we evaluate our assumptions for appropriateness, including comparison of the cost estimates to actual costs incurred as well as the expiration and redemption assumptions to actual experience. Changes in the minimum award levels or in the lives of the awards would also require us to reevaluate the liability, potentially resulting in a significant impact in the year of change as well as in future years.

Points in TrueBlue can also be sold to participating companies, including credit card and car rental companies. These sales are accounted for as multiple-element arrangements, with one element representing the fair value of the travel that will ultimately be provided when the points are redeemed and the other consisting of marketing related activities we conduct with the participating company. The fair value of the transportation portion of these point sales is deferred and recognized as passenger revenue when transportation is provided. The marketing portion, which is the excess of the total sales proceeds over the estimated fair value of the transportation to be provided, is recognized in other revenue when the points are sold. Deferred revenue for points sold and not redeemed is recognized as revenue when management determines the probability of redemption is remote. Deferred revenue was $131 million and $101 million at December 31, 2013 and 2012, respectively. We recorded $2 million and $5 million in revenue for point expirations in 2013 and 2012, respectively.

Accounting for long-lived assets

In accounting for long-lived assets, we make estimates about the expected useful lives, projected residual values and the potential for impairment. In estimating useful lives and residual values of our aircraft, we have relied upon actual industry experience with the same or similar aircraft types and our anticipated utilization of the aircraft. Changing market prices of new and used aircraft, government regulations and changes in our maintenance program or operations could result in changes to these estimates. Changes in expected useful lives of assets have resulted in acceleration of depreciation.

Our long-lived assets are evaluated for impairment at least annually or when events and circumstances indicate the assets may be impaired. Indicators include operating or cash flow losses, significant decreases in market value or changes in technology. As our assets are all relatively new and we continue to have positive operating cash flows, we have not identified any significant impairment related to our long-lived assets at this time.

Intangible assets

Our intangible assets consist of acquired take-off and landing slots at certain domestic airports. Slots are rights to take-off or land at a specific airport during a specific time period during the day and are a means by which airport capacity and congestion can be managed. The Federal government controls slots at four domestic airports under the High Density rule, including Reagan National Airport in Washington D.C. and LaGuardia and JFK Airport in New York City. In accounting for our slot-related intangible assets we make estimates about their expected useful lives. In December 2013, due to recent regulatory and market activities stemming from the auctioning of slots at LaGuardia and Reagan National airports, we reassessed the useful lives of these assets and concluded that slots at High Density airports are indefinite lived intangible assets and will no longer amortize them, while slots at other airports will continue to be amortized on a straight-line basis over their expected useful lives, up to 15 years. Changes in our operations, government regulations or demand for air travel at these airports could result in changes to these estimates.

We evaluate our intangible assets for impairment at least annually or when events and circumstances indicate they may be impaired. Indicators include operating or cash flow losses as well as significant decreases in market value.

Lease accounting

We operate airport facilities, offices buildings and aircraft under operating leases with minimum lease payments. We recognize the costs associated with these agreements as rent expense on a straight-line basis over the expected lease term. Within the provisions of certain leases there are minimum escalations in payments over the base lease term. There are also periodic adjustments of lease rates, landing fees, and other charges applicable under such agreements, as well as renewal periods. The effects of the escalations and other adjustments have been reflected in rent expense on a straight-line basis over the lease term. This includes renewal periods when it is deemed to be reasonably assured at the inception of the lease that we would incur an economic penalty for not renewing. The amortization period for leasehold improvements is the term used in calculating straight-line rent expense or their estimated economic life, whichever is shorter.

Derivative instruments used for aircraft fuel

We utilize financial derivative instruments to manage the risk of changing aircraft fuel prices. We do not purchase or hold any derivative instrument for trading purposes. At December 31, 2013, we had a net $6 million asset related to the net fair value of these derivative instruments; the majority of which are not traded on a public exchange. Fair values are determined using commodity prices provided to us by independent third parties. When possible, we designate these instruments as cash flow hedges for accounting purposes, as defined by the *Derivatives and Hedging* topic of the Codification which permits the deferral of the effective portions of gains or losses until contract settlement.

The *Derivatives and Hedging* topic is a complex accounting standard. It requires we develop and maintain a significant amount of documentation related to:

(1) our fuel hedging program and fuel management approach.

(2) statistical analysis supporting a highly correlated relationship between the underlying commodity in the derivative financial instrument and the risk being hedged (i.e. aircraft fuel) on both a historical and prospective basis.

(3) cash flow designation for each hedging transaction executed, to be developed concurrently with the hedging transaction.

This documentation requires we estimate forward aircraft fuel prices since there is no reliable forward market for aircraft fuel. These prices are developed through the observation of similar commodity futures prices, such as crude oil and/or heating oil, and adjusted based on variations to those like commodities. Historically, our hedges have settled within 24 months; therefore, the deferred gains and losses have been recognized into earnings over a relatively short period of time.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

The risk inherent in our market risk sensitive instruments and positions is the potential loss arising from adverse changes to the price of fuel and interest rates as discussed below. The sensitivity analyses presented do not consider the effects such adverse changes may have on the overall economic activity, nor do they consider additional actions we may take to mitigate our exposure to such changes. Variable-rate leases are not considered market sensitive financial instruments and, therefore, are not included in the interest rate sensitivity analysis below. Actual results may differ. See Notes 1, 2 and 13 to our consolidated financial statements for accounting policies and additional information.

Aircraft fuel

Our results of operations are affected by changes in the price and availability of aircraft fuel. Market risk is estimated as a hypothetical 10% increase in the December 31, 2013 cost per gallon of fuel. Based on projected 2014 fuel consumption, such an increase would result in an increase to aircraft fuel expense of approximately $202 million in 2014. This is compared to an estimated $190 million for 2013 measured as of December 31, 2012. As of December 31, 2013, we had hedged approximately 9% of our projected 2014 fuel requirements. All hedge contracts existing at December 31, 2013 settle by December 31, 2014.

The financial derivative instrument agreements we have with our counterparties may require us to fund all, or a portion of, outstanding loss positions related to these contracts prior to their scheduled maturities. The amount of collateral posted, if any, is periodically adjusted based on the fair value of the hedge contracts.

Interest

Our earnings are affected by changes in interest rates due to the impact those changes have on interest expense from variable-rate debt instruments and on interest income generated from our cash and investment balances. The interest rate is fixed for $1.46 billion of our debt and capital lease obligations, with the remaining $1.12 billion having floating interest rates. If interest rates were, on average, 100 basis points higher in 2014 than they were during 2013, our interest expense would increase by approximately $12 million. This is determined by considering the impact of the hypothetical change in interest rates on our variable rate debt.

If interest rates average 10% lower in 2014 than they did during 2013, our interest income from cash and investment balances would remain relatively constant, similar to the relative constant level of interest income for 2013 measured as of December 31, 2012. These amounts are determined by considering the impact of the hypothetical interest rates on our cash equivalents and investment securities balances at December 31, 2013 and 2012.

Fixed Rate Debt

On December 31, 2013, our $230 million aggregate principal amount of convertible debt had a total estimated fair value of $431 million, based on quoted market prices. If there were a 10% increase in stock prices, the fair value of this debt would have been $470 million as of December 31, 2013.

ITEM 8. Financial Statements and Supplementary Data

JetBlue Airways Corporation

Consolidated Balance Sheets

(in millions, except share data)	December 31, 2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 225	$ 182
Investment securities	402	549
Receivables, less allowance (2013-$6; 2012-$7)	129	106
Inventories, less allowance (2013-$6; 2012-$5)	48	36
Prepaid expenses	126	119
Other	6	1
Deferred income taxes	120	107
Total current assets	1,056	1,100
PROPERTY AND EQUIPMENT		
Flight equipment	5,778	5,168
Predelivery deposits for flight equipment	181	338
	5,959	5,506
Less accumulated depreciation	1,185	995
	4,774	4,511
Other property and equipment	688	585
Less accumulated depreciation	251	221
	437	364
Assets constructed for others	561	561
Less accumulated depreciation	116	93
	445	468
Total property and equipment	5,656	5,343
OTHER ASSETS		
Investment securities	114	136
Restricted cash	57	51
Other	467	440
Total other assets	638	627
TOTAL ASSETS	**$ 7,350**	**$ 7,070**

See accompanying notes to consolidated financial statements.

JetBlue Airways Corporation

Consolidated Balance Sheets

(in millions, except share data)	December 31, 2013	2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 180	$ 153
Air traffic liability	825	693
Accrued salaries, wages and benefits	171	172
Other accrued liabilities	229	196
Current maturities of long-term debt and capital leases	469	394
Total current liabilities	1,874	1,608
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	2,116	2,457
CONSTRUCTION OBLIGATION	501	514
DEFERRED TAXES AND OTHER LIABILITIES		
Deferred income taxes	605	481
Other	120	122
Total non-current liabilities	725	603
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; 25,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value; 900,000,000 shares authorized, 346,489,574 and 330,589,532 shares issued and 295,587,126 and 281,007,806 shares outstanding at 2013 and 2012, respectively	3	3
Treasury stock, at cost; 50,902,448 and 49,581,726 shares at 2013 and 2012, respectively	(43)	(35)
Additional paid-in capital	1,573	1,495
Retained earnings	601	433
Accumulated other comprehensive loss	—	(8)
Total stockholders' equity	2,134	1,888
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 7,350**	**$ 7,070**

See accompanying notes to consolidated financial statements.

JetBlue Airways Corporation

Consolidated Statements of Operations

	Year Ended December 31,		
(in millions, except per share amounts)	**2013**	**2012**	**2011**
OPERATING REVENUES			
Passenger	$ 4,971	$ 4,550	$ 4,080
Other	470	432	424
Total operating revenues	5,441	4,982	4,504
OPERATING EXPENSES			
Aircraft fuel and related taxes	1,899	1,806	1,664
Salaries, wages and benefits	1,135	1,044	947
Landing fees and other rents	305	277	245
Depreciation and amortization	290	258	233
Aircraft rent	128	130	135
Sales and marketing	223	204	199
Maintenance materials and repairs	432	338	227
Other operating expenses	601	549	532
Total operating expenses	5,013	4,606	4,182
OPERATING INCOME	428	376	322
OTHER INCOME (EXPENSE)			
Interest expense	(161)	(176)	(179)
Capitalized interest	13	8	5
Interest income (expense) and other	(1)	1	(3)
Total other income (expense)	(149)	(167)	(177)
INCOME BEFORE INCOME TAXES	279	209	145
Income tax expense	111	81	59
NET INCOME	**$ 168**	**$ 128**	**$ 86**
EARNINGS PER COMMON SHARE:			
Basic	$ 0.59	$ 0.45	$ 0.31
Diluted	$ 0.52	$ 0.40	$ 0.28

See accompanying notes to consolidated financial statements.

JetBlue Airways Corporation

Consolidated Statements of Comprehensive Income

(in millions)	Years Ended December 31, 2013	2012	2011
NET INCOME	**$ 168**	**$ 128**	**$ 86**
Changes in fair value of derivative instruments, net of reclassifications into earnings (net of \$5, \$5, and \$(4) of taxes in 2013, 2012 and 2011, respectively)	8	7	(5)
Total other comprehensive income (loss)	8	7	(5)
COMPREHENSIVE INCOME	**$ 176**	**$ 135**	**$ 81**

See accompanying notes to consolidated financial statements.

JetBlue Airways Corporation

Consolidated Statements of Cash Flows

	Year Ended December 31,		
(in millions)	**2013**	**2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 168	$ 128	$ 86
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	107	76	58
Depreciation	258	230	213
Amortization	48	39	34
Share-based compensation	14	13	13
Losses (Gains) on sale of assets, debt extinguishment and customer contract termination	(1)	(17)	6
Collateral returned for derivative instruments	8	8	10
Changes in certain operating assets and liabilities:			
Decrease (Increase) in receivables	(22)	1	(10)
Decrease (Increase) in inventories, prepaid and other	(23)	38	4
Increase in air traffic liability	132	66	113
Increase in accounts payable and other accrued liabilities	52	92	26
Other, net	17	24	61
Net cash provided by operating activities	758	698	614
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(615)	(542)	(480)
Pre-delivery deposits for flight equipment	(22)	(283)	(44)
Proceeds from the sale of assets	8	46	—
Assets constructed for others	—	(2)	(3)
Purchase of held-to-maturity investments	(234)	(444)	(450)
Proceeds from the maturities of held-to-maturity investments	300	434	573
Purchase of available-for-sale securities	(413)	(532)	(602)
Sale of available-for-sale securities	508	438	503
Other, net	(8)	18	1
Net cash used in investing activities	(476)	(867)	(502)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of common stock	10	9	10
Issuance of long-term debt	393	215	245
Short-term borrowings and lines of credit	190	375	128
Construction obligation	—	—	6
Repayment of:			
Long-term debt and capital lease obligations	(612)	(418)	(238)
Short-term borrowings and lines of credit	(190)	(463)	(40)
Construction obligation	(13)	(12)	(10)
Other, net	(17)	(28)	(5)
Net cash provided by (used in) financing activities	(239)	(322)	96
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**43**	**(491)**	**208**
Cash and cash equivalents at beginning of period	182	673	465
Cash and cash equivalents at end of period	$ 225	$ 182	$ 673

See accompanying notes to consolidated financial statements.

JetBlue Airways Corporation

Consolidated Statements of Stockholders' Equity

(in millions)	Common Shares	Common Stock	Treasury Shares	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
Balance at December 31, 2010	322	$ 3	28	$ (4)	$ 1,446	$ 219	$ (10)	$ 1,654
Net income	—	—	—	—	—	86	—	86
Changes in comprehensive income	—	—	—	—	—	—	(5)	(5)
Vesting of restricted stock units	2	—	1	(4)	—	—	—	(4)
Stock compensation expense	—	—	—	—	15	—	—	15
Stock issued under crewmember stock purchase plan	2	—	—	—	8	—	—	8
Shares returned pursuant to 2008 share lending	—	—	16	—	—	—	—	—
Other	1	—	—	—	3	—	—	3
Balance at December 31, 2011	327	3	45	(8)	1,472	305	(15)	1,757
Net income	—	—	—	—	—	128	—	128
Changes in comprehensive income	—	—	—	—	—	—	7	7
Vesting of restricted stock units	2	—	1	(4)	—	—	—	(4)
Stock compensation expense	—	—	—	—	13	—	—	13
Stock issued under Crewmember stock purchase plan	2	—	—	—	7	—	—	7
Shares repurchased under 2012 share repurchase plan	—	—	4	(23)	—	—	—	(23)
Other	—	—	—	—	3	—	—	3
Balance at December 31, 2012	331	3	50	(35)	1,495	433	(8)	1,888
Net income	—	—	—	—	—	168	—	168
Changes in comprehensive income	—	—	—	—	—	—	8	8
Vesting of restricted stock units	2	—	1	(5)	—	—	—	(5)
Stock compensation expense	—	—	—	—	14	—	—	14
Stock issued under Crewmember stock purchase plan	2	—	—	—	10	—	—	10
Shares repurchased under 2012 share repurchase plan	—	—	—	(3)	—	—	—	(3)
Convertible debt redemption	12	—	—	—	55	—	—	55
Other	—	—	—	—	(1)	—	—	(1)
Balance at December 31, 2013	**347**	**$ 3**	**51**	**$ (43)**	**$ 1,573**	**$ 601**	**$ —**	**$ 2,134**

See accompanying notes to consolidated financial statements.

JetBlue Airways Corporation

Notes to Consolidated Financial Statements

JetBlue Airways Corporation, or JetBlue, is New York's Hometown Airline™, commencing service on February 11, 2000. We believe our differentiated product and service offerings combined with our competitive cost advantage enables us to effectively compete in the high-value geography we serve. As of December 31, 2013, we served 82 destinations in 25 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, and 15 countries in the Caribbean and Latin America. Our wholly owned subsidiary, LiveTV, LLC, or LiveTV, provides in-flight entertainment systems and internet connectivity for commercial aircraft.

NOTE 1 Summary of Significant Accounting Policies

Basis of Presentation

JetBlue predominately provides air transportation services across the United States, Caribbean and Latin America. Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S., or U.S. GAAP, and include the accounts of JetBlue and our subsidiaries. All majority-owned subsidiaries are consolidated on a line by line basis, with all intercompany transactions and balances being eliminated. Air transportation services accounted for substantially all of the Company's operations in 2013, 2012 and 2011. Accordingly, segment information is not provided for LiveTV. In the first half of 2013 we recorded $4 million of maintenance expense and $2 million in other operating expenses that relate to prior years. Such amounts are not considered material to the prior or current year results.

Use of Estimates

The preparation of our consolidated financial statements and accompanying notes in conformity with U.S. GAAP require us to make certain estimates and assumptions. Actual results could differ from those estimates.

Fair Value

The Fair Value Measurements and Disclosures topic of the Financial Accounting Standards Board's, or FASB, Accounting Standards Codification™, or Codification, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. This topic clarifies fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The topic also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs. See Note 14 for more information.

Cash and Cash Equivalents

Our cash and cash equivalents include short-term, highly liquid investments which are readily convertible into cash. These investments include money market securities, treasury bills, and commercial paper with maturities of three months or less when purchased.

Restricted Cash

Restricted cash primarily consists of security deposits, funds held in escrow for estimated workers' compensation obligations and performance bonds for aircraft and facility leases.

Accounts and Other Receivables

Accounts and other receivables are carried at cost. They primarily consist of amounts due from credit card companies associated with sales of tickets for future travel. We estimate an allowance for doubtful accounts based on known troubled accounts, if any, and historical experience of losses incurred.

Investment Securities

Investment securities consist of available-for-sale investment securities and held-to-maturity investment securities. When sold, we use a specific identification method to determine the cost of the securities.

Available-for-sale investment securities: Our available-for-sale investment securities include (a) highly liquid investments, such as certificates of deposits and treasury bills, with maturities greater than three months when purchased, stated at fair value and (b) commercial paper with maturities between three and twelve months, stated at fair value.

Held-to-maturity investment securities: Our held-to-maturity investments consist of investment-grade interest bearing instruments, primarily corporate bonds, which are stated at amortized cost. We do not intend to sell these investment securities and the contractual maturities are not greater than 24 months. Those with maturities less than twelve months are included in short-term investments on our consolidated balance sheets. Those with remaining maturities in excess of twelve months are included in long-term investments on our consolidated balance sheets. We did not record any material gains or losses on these securities during the years ended December 31, 2013, 2012 or 2011. The estimated fair value of these investments approximated their carrying value as of December 31, 2013 and 2012.

Also included in our held-to-maturity investment securities as of December 31, 2013 are deposits made to lower the interest rate on the debt secured by two aircraft as discussed in Note 2. These funds on deposit are readily available to us and are invested with a bank with a deposit maturity within the next 12 months. If we were to draw upon this deposit, the interest rates on the debt reverts to the higher rates in effect prior to the re-financing. As such, we have classified these time deposits as long-term held-to-maturity investments to reflect our intent to hold them in connection with the maturity of the associated debt.

The carrying values of investment securities consisted of the following at December 31, 2013 and 2012 (in millions):

	2013	2012
Available-for-sale securities		
Time deposits	$ 70	$ 65
Treasury Bills	—	68
Commercial paper	118	142
	188	275
Held-to-maturity securities		
Corporate bonds	275	313
Government bonds	—	40
Time deposits	53	57
	328	410
TOTAL	**$ 516**	**$ 685**

Derivative Instruments

Derivative instruments, including fuel hedge contracts and interest rate swap agreements, are stated at fair value, net of any collateral postings. Derivative instruments are included in other current assets and other current liabilities in our consolidated balance sheets. See Note 13 for more information.

Inventories

Inventories consist of expendable aircraft spare parts and supplies that are stated at average cost as well as aircraft fuel that is accounted for on a first-in, first-out basis. These items are expensed when used or consumed. An allowance for obsolescence on aircraft spare parts is provided over the remaining useful life of the related aircraft fleet.

Property and Equipment

We record our property and equipment at cost and depreciate these assets on a straight-line basis over their estimated useful lives to their estimated residual values. We capitalize additions, modifications enhancing the operating performance of our assets and the interest related to predelivery deposits used to acquire new aircraft and the construction of our facilities.

Estimated useful lives and residual values for our property and equipment are as follows:

	Estimated Useful Life	Residual Value
Aircraft	25 years	20%
In-flight entertainment systems	5-10 years	0%
Aircraft parts	Fleet life	10%
Flight equipment leasehold improvements	Lower of lease term or economic life	0%
Ground property and equipment	2-10 years	0%
Leasehold improvements—other	Lower of lease term or economic life	0%
Buildings on leased land	Lease term	0%

Property under capital leases is initially recorded at an amount equal to the present value of future minimum lease payments which is computed on the basis of our incremental borrowing rate or, when known, the interest rate implicit in the lease. Amortization of property under capital leases is on a straight-line basis over the expected useful life and is included in depreciation and amortization expense.

We record impairment losses on long-lived assets used in operations when events and circumstances indicate the assets may be impaired and the undiscounted future cash flows estimated to be generated by the assets are less than the assets' net book value. If impairment occurs, the loss is measured by comparing the fair value of the asset to its carrying amount. Impairment losses are recorded in depreciation and amortization expense.

Software

We capitalize certain costs related to the acquisition and development of computer software. We amortize these costs using the straight-line method over the estimated useful life of the software, which is generally between five and ten years. The net book value of computer software, which is included in other assets on our consolidated balance sheets, was $70 million and $53 million as of December 31, 2013 and 2012, respectively. Amortization expense related to computer software was $18 million, $13 million and $10 million for the years ended December 31, 2013, 2012 and 2011, respectively. Amortization expense related to computer software as of December 31, 2013 is expected to be approximately $27 million in 2014, $18 million in 2015, $9 million in 2016, $7 million in 2017, and $4 million in 2018.

Intangible Assets

Our intangible assets consist primarily of acquired take-off and landing slots, or Slots, at certain domestic airports. Slots are rights to take-off or land at a specific airport during a specific time period during the day and are a means by which airport capacity and congestion can be managed. The Federal government controls Slots at four domestic airports under the High Density rule, including Reagan National Airport in Washington D.C. and LaGuardia and JFK Airport in New York City. In December 2013, due to recent regulatory and market activities stemming from the auctioning of slots at LaGuardia and Reagan National airports, we reassessed the useful lives of these assets and concluded that Slots at High Density airports are indefinite lived intangible assets and will no longer amortize them, while Slots at other airports will continue to be amortized on a straight-line basis over their expected useful lives, up to 15 years. We evaluate all Slots for impairment at least annually. As of December 31, 2013, the carrying value of Slots at High Density airports was $64 million and the carrying value of other Slots was $1 million. In January 2014, we were notified of our successful bid to acquire 24 takeoff and landing slots at Reagan National airport. The acquisition of these Slots is subject to final approval by the Department of Justice and customary written agreements.

Passenger Revenues

Passenger revenue is recognized when the transportation is provided or after the ticket or customer credit (issued upon payment of a change fee) expires. It is recognized net of the taxes that we are required to collect from our customers, including federal transportation taxes, security taxes and airport facility charges. Tickets sold but not yet recognized as revenue and unexpired credits are included in air traffic liability.

Loyalty Program

We account for our customer loyalty program, TrueBlue, by recording a liability for the estimated incremental cost of outstanding points earned from JetBlue purchases that we expect to be redeemed. The estimated cost includes incremental fuel, insurance, passenger food and supplies, and reservation costs. We adjust this liability, which is included in air traffic liability, based on points earned and redeemed, changes in the estimated incremental costs associated with providing travel and changes in the TrueBlue program. In June 2013 we amended the program so points earned by members never expire. As a result of these changes, our estimate for the points that will remain unused, breakage, decreased resulting in a $5 million reduction in revenue and a corresponding increase in air traffic liability. In October 2013, we introduced the pooling of points between small groups of people, branded as Family Pooling. We believe Family Pooling has not had a material impact on the breakage calculation at year-end.

Points in TrueBlue can also be sold to participating companies, including credit card and car rental companies. These sales are accounted for as multiple-element arrangements, with one element representing the fair value of the travel that will ultimately be provided when the points are redeemed and the other consisting of marketing related activities that we conduct with the participating company. The fair value of the transportation portion of these point sales is deferred and recognized as passenger revenue when transportation is provided. The marketing portion, which is the excess of the total sales proceeds over the estimated fair value of the transportation to be provided, is recognized in other revenue when the points are sold. TrueBlue points sold to participating companies which are not redeemed are recognized as revenue when management determines the probability of redemption is remote. We recorded $2 million, $5 million, and $3 million in revenue related to point expirations during 2013, 2012 and 2011, respectively.

Our original co-branded credit card agreement, under which we sell TrueBlue points as described above, provided for a minimum cash payment guarantee, which was paid to us throughout the life of the agreement if specified point sales and other ancillary activity payments were not achieved, and was subject to refund in the event the cash payments exceeded future minimums through April 2011. We recognized approximately $10 million of other revenue during 2011 related to this guarantee.

Upon the re-launch of the TrueBlue program in November 2009, we extended our co-branded credit card and membership rewards participation agreements. In connection with these extensions, we received a one-time payment of $37 million, which we deferred and are recognizing as other revenue over the term of the agreement through 2015. We recognized approximately $7 million, $7 million, and $6 million of revenue related to this one-time payment during 2013, 2012 and 2011, respectively. In connection with exclusive benefits to be introduced for our co-branded credit card, we received a one-time payment of $6 million during 2012, which we have deferred and will recognize as other revenue over the remaining term of the agreement. As of December 31, 2013, we have recorded $1 million of revenue related to this one-time payment.

LiveTV Commercial Agreements

LiveTV provides inflight entertainment solutions for various commercial airlines. These solutions include equipment and related installation as well as agreements for ongoing service and support, which extended through 2022 as of December 31, 2013. We account for the equipment agreements as operating leases, with related revenue recognized ratably over the term of the related customer agreement in accordance with the *Revenue Recognition-Multiple-Element Arrangements* topic of the Codification. This determination is principally as a result of the long term nature of these agreements and the resulting uncertainties surrounding the total costs to provide ongoing equipment maintenance and upkeep throughout the contractual term. We account for payments for ongoing service and support ratably over the term of the related customer contract. Customer advances to be applied in the next 12 months are included in other current liabilities on our consolidated balance sheets while those beyond 12 months are included in other liabilities.

Airframe and Engine Maintenance and Repair

Regular airframe maintenance for owned and leased flight equipment is charged to expense as incurred unless covered by a third-party long-term flight hour services contract. We have separate service agreements in place covering scheduled and unscheduled repairs of certain airframe line replacement unit components as well as the engines on our fleet. These agreements, who's original terms generally range from ten to 15 years, require monthly payments at rates based either on the number of cycles each aircraft was operated during each month or the number of flight hours each engine was operated during each month, subject to annual escalations. These power by the hour contracts transfer certain risks, including cost risks, to the third-party service providers. They generally fix the amount we pay per flight hour or number of cycles in exchange for maintenance and repairs under a predefined maintenance program, which are representative of the time and materials that would be consumed. These costs are expensed as the related flight hours or cycles are incurred. One of our maintenance providers is a subsidiary of a large shareholder of ours and during 2013, we recorded approximately $19 million in maintenance expense provided by this related party.

Advertising Costs

Advertising costs, which are included in sales and marketing, are expensed as incurred. Advertising expense was $61 million in 2013, $57 million in 2012 and $57 million in 2011.

Share-Based Compensation

We record compensation expense for share-based awards based on the grant date fair value of those awards. Share-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis.

Under the *Compensation-Stock Compensation* topic of the Codification, the benefits associated with tax deductions in excess of recognized compensation cost are required to be reported as a financing cash flow. We recorded an immaterial amount in excess tax benefits generated from option exercises in each of 2013, 2012 and 2011. Our policy is to issue new shares for purchases under all of our stock based plans.

Income Taxes

We account for income taxes utilizing the liability method. Deferred income taxes are recognized for the tax consequences of temporary differences between the tax and financial statement reporting bases of assets and liabilities. A valuation allowance for deferred tax assets is provided unless realizability is judged by us to be more likely than not. Our policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

New Accounting Standards

New accounting rules and disclosure requirements can impact our financial results and the comparability of our financial statements. Authoritative literature has recently been issued which we believe will impact our consolidated financial statements is described below. There are also several new proposals under development, including proposals related to leases, revenue recognition and financial instruments. If and when enacted these proposals may have a significant impact on our financial statements.

In February 2013, the FASB issued ASU 2013-02, amending the *Comprehensive Income* topic of the Codification. This update amends the requirement to present either on the face of the statement of operations or in the notes, the effects of significant net income line items reclassified out of accumulated other comprehensive income or loss, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, the Company is required to cross-reference to other disclosures that provide additional detail about those amounts. ASU 2013-02 became effective for the annual and interim periods beginning January 1, 2013. The required disclosures are included in Note 15.

In July 2013, the FASB issued ASU 2013-10, amending the *Derivatives and Hedging* topic of the Codification. This update permits the Federal Funds Effective Swap rate (Overnight Index Swap rate, or OIS) to be designated as a benchmark interest rate for hedging accounting purposes for all new or redesigned hedging relationships as of the issue date of the final guidance. Adoption of this standard did not have a material impact on our consolidated financial statements or notes thereto.

In December 2011, the FASB issued ASU 2011-11, amending the *Balance Sheet* topic of the Codification. This update enhances the disclosure requirements regarding offsetting assets and liabilities. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. These amendments are effective for annual and interim reporting periods beginning on or after January 1, 2013 and should be applied retrospectively. We evaluated our instruments and transactions, including derivative instruments, which are eligible for offset but the adoption of this standard did not have a material impact on our our consolidated financial statements or notes thereto.

On January 1, 2011, the September 2009 Emerging Issues Task Force updates to the *Revenue Recognition* topic of the Codification rules became effective, which changed the accounting for certain revenue arrangements. The new requirements change the allocation methods used in determining how to account for multiple element arrangements and may result in accounting for more deliverables and potentially change the amount of revenue deferrals. Additionally, this new accounting treatment requires enhanced disclosures in financial statements. This new accounting treatment will impact any new contracts entered into by LiveTV, as well as any TrueBlue loyalty program or commercial partnership arrangements we may enter into or materially modify. Since adoption of this new accounting treatment, we have not entered into any material new or modified contracts.

NOTE 2 Long-term Debt, Short-term Borrowings and Capital Lease Obligations

Long-term debt and capital lease obligations and the related weighted average interest rate at December 31, 2013 and 2012 consisted of the following (in millions):

	2013		2012	
Secured Debt				
Floating rate equipment notes, due through 2025(1)	$ 634	2.8%	$ 816	2.7%
Floating rate enhanced equipment notes (2) (3)				
Class G-1, due 2013, 2014 and 2016	55	4.5%	173	3.1%
Class G-2, due 2014 and 2016	373	1.0%	373	2.6%
Class B-1, due 2014	—	—%	49	6.5%
Fixed rate equipment notes, due through 2026	1,110	5.8%	960	6.3%
Fixed rate special facility bonds, due through 2036(4)	78	5.0%	82	6.0%
Unsecured Debt				
6.75% convertible debentures due in 2039(5)	162		162	
5.5% convertible debentures due in 2038(6)	68		123	
Capital Leases(7)	105	3.9%	113	3.9%
Total debt and capital lease obligations	**2,585**		**2,851**	
Less: Current maturities	(469)		(394)	
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	**$ 2,116**		**$ 2,457**	

(1) Interest rates adjust quarterly or semi-annually based on the London Interbank Offered Rate, or LIBOR, plus a margin.

(2) In November 2006 we completed a public offering of $124 million of pass-through certificates to finance a certain number of our owned aircraft spare parts. Separate trusts were established for each class of these certificates. In November 2011, we redeemed $3 million of class G-1 certificates. In 2013, the remaining $119 million principal amount of the Class G-1 and Class B-1 certificates due in January 2014 were prepaid on December 16, 2013, ahead of the scheduled maturities. In April 2009 we entered into interest rate swap agreements for half of the Class G-1 certificates and all of the Class B-1 certificates in the November 2006 offering which expired in 2013.

(3) In March and November 2004 we completed public offerings for $431 million and $498 million respectively, of pass-through certificates. These offerings were set up in order to finance the purchase of 28 new Airbus A320 aircraft delivered through 2005. Separate trusts were established for each class of these certificates. Quarterly principal payments are required on the Class G-1 certificates. In February 2008 we entered into interest rate swap agreements for the Class G-1 certificates in the November 2004 offering. These swap agreements effectively fixed the interest rate for the remaining term of these certificates. As of December 31, 2013 these certificates had a balance of $55 million and an effective interest rate of 4.5%. The entire principal amount of the Class G-2 certificates is scheduled to be paid in a lump sum on the applicable maturity dates. In February 2009, we entered into interest rate swap agreements for the Class G-2 certificates in the November 2004 offering which expired in 2013. The interest rate for all other certificates is based on three month LIBOR plus a margin. Interest is payable quarterly.

(4) In November 2005, the Greater Orlando Aviation Authority, or GOAA, issued special purpose airport facilities revenue bonds to us as a reimbursement for certain airport facility construction and other costs. In April 2013 GOAA issued $42 million in special purpose airport facility revenue bonds to refund the bonds issued in 2005. The proceeds from the refunded bonds were loaned to us and we recorded the issuance of $43 million, net of $1 million premium, as long term debt on our consolidated balance sheet. In December 2006, the New York City Industrial Development Agency issued special facility revenue bonds for JFK to us as a reimbursement to us for certain airport facility construction and other costs. We recorded the principal amount of both bonds, net of discounts, as long-term debt on our consolidated balance sheets because we have issued a guarantee of the debt payments on the bonds. This fixed rate debt is secured by leasehold mortgages of our airport facilities.

(5) In June 2009, we completed a public offering for an aggregate principal amount of $115 million of 6.75% Series A convertible debentures due 2039, or the Series A 6.75% Debentures. We simultaneously completed a public offering for an aggregate principal amount of $86 million of 6.75% Series B convertible debentures due 2039, or the Series B 6.75% Debentures. These are collectively known as the 6.75% Debentures. The 6.75% Debentures are general obligations and rank equal in right of payment with all of our existing and future senior unsecured debt. They are effectively junior in right of payment to our existing and future secured debt, including our secured equipment debentures, to the extent of the value of the assets securing such debt, and senior in right of payment to any subordinated debt. In addition, the 6.75% Debentures are structurally subordinated to all existing and future liabilities of our subsidiaries. The net proceeds were approximately $197 million after deducting underwriting fees and other transaction related expenses. Interest on the 6.75% Debentures is payable semi-annually on April 15 and October 15. The first interest payment on the 6.75% Debentures was paid October 15, 2009.

Holders of either the Series A or Series B 6.75% Debentures may convert them into shares of our common stock at any time at a conversion rate of 204.6036 shares per $1,000 principal amount of the 6.75% Debentures. The conversion rates are subject to adjustment should we declare common stock dividends or effect any common stock splits or similar transactions. If the holders convert the Series A 6.75% Debentures in connection with a fundamental change that occurs prior to October 15, 2014, the applicable conversion rate may be increased depending on our then current common stock price. The same applies to the Series B 6.75% Debentures prior to October 15, 2016. The maximum number of shares into which all of the 6.75% Debentures are convertible, including pursuant to this make-whole fundamental change provision, is 235.2941 shares per $1,000 principal amount of the 6.75% Debentures outstanding, as adjusted, or 38.1 million shares as of December 31, 2013.

We may redeem any of the 6.75% Debentures for cash at a redemption price of 100% of their principal amount, plus accrued and unpaid interest at any time on or after October 15, 2014 for the Series A 6.75% Debentures and October 15, 2016 for the Series B 6.75% Debentures. Holders may require us to repurchase the 6.75% Debentures for cash at a repurchase price equal to 100% of their principal amount plus accrued and unpaid interest, if any, on October 15, 2014, 2019, 2024, 2029 and 2034 for the Series A 6.75% Debentures and October 15, 2016, 2021, 2026, 2031 and 2036 for the Series B 6.75% Debentures; or at any time prior to their maturity upon the occurrence of a certain designated event.

During 2011, we repurchased a total of $39 million principal amount of our Series A 6.75% Debentures for approximately $45 million. We recognized a loss of approximately $6 million on these transactions, which was included in interest income and other in our consolidated statements of operation during 2011.

We evaluated the various embedded derivatives within the supplemental indenture for bifurcation from the 6.75% Debentures under the applicable provisions, including the basic conversion feature, the fundamental change make-whole provision and the put and call options. Based upon our detailed assessment, we concluded these embedded derivatives were either (i) excluded from bifurcation as a result of being clearly and closely related to the 6.75% Debentures or are indexed to our common stock and would be classified in stockholders' equity if freestanding or (ii) are immaterial embedded derivatives.

(6) In June 2008, we completed a public offering for an aggregate principal amount of $100.6 million of 5.5% Series A convertible debentures due 2038, or the Series A 5.5% Debentures. We simultaneously completed a public offering for an aggregate principal amount of $100.6 million for 5.5% Series B convertible debentures due 2038, or the Series B 5.5% Debentures. These are collectively known as the 5.5% Debentures. The 5.5% Debentures are general senior obligations and were originally secured in part by an escrow account for each series. We deposited approximately $32 million of the net proceeds from the offering, representing the first six scheduled semi-annual interest payments on the 5.5% Debentures, into escrow accounts for the exclusive benefit of the holders of each series of the 5.5% Debentures. As of December 31, 2011, all funds originally deposited in the escrow account had been used. Interest on the 5.5% Debentures is payable semi-annually on April 15 and October 15.

Holders of the Series A 5.5% Debentures may convert them into shares of our common stock at any time at a conversion rate of 220.6288 shares per $1,000 principal amount of Series A 5.5% Debenture. Holders of the Series B 5.5% Debentures may convert them into shares of our common stock at any time at a conversion rate of 225.2252 shares per $1,000 principal amount of Series B 5.5% Debenture. The conversion rates are subject to adjustment should we declare common stock dividends or effect any common stock splits or similar transactions. If the holders convert the Series B 5.5% Debentures in connection with any fundamental corporate change that occurs prior to October 15, 2015 the applicable conversion rate may be increased depending upon our then current common stock price. The maximum number of shares of common stock into which all of the remaining 5.5% Debentures are convertible, including pursuant to this make-whole fundamental change provision, is 18.2 million shares. Holders who converted their 5.5% Debentures prior to April 15, 2011 received, in addition to the number of shares of our common stock calculated at the applicable conversion rate, a cash payment from the escrow account for the 5.5% Debentures of the series converted equal to the sum of the remaining interest payments that would have been due on or before April 15, 2011 in respect of the converted 5.5% Debentures.

We may redeem any of the 5.5% Debentures for cash at a redemption price of 100% of their principal amount, plus accrued and unpaid interest at any time on or after October 15, 2015 for the Series B 5.5% Debentures. Holders may require us to repurchase the 5.5% Debentures for cash at a repurchase price equal to 100% of their principal amount plus accrued and unpaid interest, if any, on October 15, 2013, 2018, 2023, 2028, and 2033 for the Series A 5.5% Debentures and October 15, 2015, 2020, 2025, 2030, and 2035 for the Series B 5.5% Debentures; or at any time prior to their maturity upon the occurrence of a specified designated event.

In June 2008, in conjunction with the public offering of the 5.5% Debentures described above, we also entered into a share lending agreement with Morgan Stanley & Co. Incorporated, an affiliate of the underwriter of the offering, or the share borrower, pursuant to which we loaned the share borrower approximately 44.9 million shares of our common stock. Under the share lending agreement, the share borrower is required to return the borrowed shares when the debentures are no longer outstanding. We did not receive any proceeds from the sale of the borrowed shares by the share borrower, but we did receive a nominal lending fee of $0.01 per share from the share borrower for the use of borrowed shares.

Our share lending agreement requires the shares borrowed be returned upon the maturity of the related debt, October 2038, or earlier, if the debentures are no longer outstanding. We determined the fair value of the share lending arrangement was approximately $5 million at the date of the issuance based on the value of the estimated fees the shares loaned would have generated over the term of the share lending arrangement. The $5 million value was recognized as a debt issuance cost and is being amortized to interest expense through the earliest put date of the related debt, October 2013 and October 2015 for Series A and Series B, respectively. As of December 31, 2013, approximately $1 million of net debt issuance costs remain outstanding related to the share lending arrangement and will continue to be amortized through the earliest put date of the related debt.

During 2008 and 2009, approximately $79 million principal amount of the 5.5% Debentures were voluntarily converted by holders. As a result, we issued 17.5 million shares of our common stock. Cash payments from the escrow accounts related to the 2008 conversions were $11 million and borrowed shares equivalent to the number of shares of our common stock issued upon these conversions were returned to us pursuant to the share lending agreement described above. The borrower returned 10.0 million shares to us in September 2009, almost all of which were voluntarily returned shares in excess of converted shares, pursuant to the share lending agreement. In October 2011, approximately 16.6 million shares were voluntarily returned to us by the borrower, leaving 1.4 million shares outstanding under the share lending arrangement. At December 31, 2013 the fair value of similar common shares not subject to our share lending arrangement, based upon our closing stock price, was approximately $12 million. During the fourth quarter of 2013 the remaining principal amount of approximately $55 million of the Series A 5.5% Debentures were converted by holders and as a result, we issued 12.2 million shares of our common stock. At December 31, 2013, the remaining principal balance of Series B 5.5% Debentures was $68 million, which is currently convertible into 15.2 million shares of our common stock.

(7) At December 31, 2013 and 2012, four capital leased Airbus A320 aircraft were included in property and equipment at a cost of $152 million with accumulated amortization of $33 million and $28 million, respectively. The future minimum lease payments under these non-cancelable leases are $14 million in each of 2014 through 2017, $13 million in 2018, and $69 million in the years thereafter. Included in the future minimum lease payments is $33 million representing interest, resulting in a present value of capital leases of $105 million with a current portion of $8 million and a long-term portion of $97 million.

During 2012, we modified the debt secured by three of our Airbus A320 aircraft, effectively lowering the borrowing rates over the remaining term of the loans. In exchange for lower borrowing rates associated with two of these aircraft loans, we deposited funds equivalent to the outstanding principal balance, a total of approximately $57 million. The deposit, which is included in long-term investment securities on our consolidated balance sheet, will be reduced as quarterly principal payments are made. If we withdraw the funds deposited, the interest rate on the debt reverts back to the original borrowing rate. As of December 31, 2013 the remaining balance on these funds was approximately $52 million. These deposits are discussed further in Note 1.

In December 2013, we prepaid approximately $94 million of a financing agreement relating to four Airbus A320 aircraft. This prepayment resulted in a net loss of $3 million, inclusive of premium paid over principal outstanding and deferred financing fees write-off. In December 2013 we additionally prepaid the remaining $119 million on our Enhanced Equipment Trust Certificate, or EETC, Class G-1 and B-1 certificates that was due to mature in January 2014.

In September 2013, we priced a private placement EETC of pass-through certificates Series 2013-1 for $226 million which will be secured by fourteen Airbus A320 aircraft. We closed the certificates in October 2013 and are scheduled to receive funding in March 2014 to coincide with the final scheduled principal payments of $188 million associated with our March 2004 EETC Class G-2 certificates.

Maturities of long-term debt and capital leases, including the assumption our convertible debt will be redeemed upon the first put date, for the next five years are as follows (in millions):

Year	Maturities
2014	$ 469
2015	276
2016	474
2017	201
2018	245
Thereafter	920

Aircraft, engines, and other equipment and facilities having a net book value of $3.58 billion at December 31, 2013 were pledged as security under various loan agreements. Cash payments for interest related to debt and capital lease obligations, net of capitalized interest, aggregated $117 million, $136 million and $136 million in 2013, 2012 and 2011, respectively.

The carrying amounts and estimated fair values of our long-term debt at December 31, 2013 and 2012 were as follows (in millions):

	December 31, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Public Debt				
Floating rate enhanced equipment notes				
Class G-1, due through 2013, 2014 and 2016	$ 55	$ 54	$ 173	$ 164
Class G-2, due 2014 and 2016	373	365	373	351
Class B-1, due 2014	—	—	49	48
Fixed rate special facility bonds, due through 2036	78	68	82	82
6.75% convertible debentures due in 2039	162	297	162	225
5.5% convertible debentures due in 2038	68	134	123	173
Non-Public Debt				
Floating rate equipment notes, due through 2025	634	645	816	776
Fixed rate equipment notes, due through 2026	1,110	1,161	960	1,050
TOTAL	**$ 2,480**	**$ 2,724**	**$ 2,738**	**$ 2,869**

The estimated fair values of our publicly held long-term debt are classified as Level 2 in the fair value hierarchy. The fair values of our enhanced equipment notes and our special facility bonds were based on quoted market prices in markets with low trading volumes. The fair value of our convertible debentures was based upon other observable market inputs since they are not actively traded. The fair value of our non-public debt was estimated using a discounted cash flow analysis based on our borrowing rates for instruments with similar terms and therefore classified as Level 3 in the fair value hierarchy. The fair values of our other financial instruments approximate their carrying values. Refer to Note 14 for additional information on fair value.

We utilize a policy provider to provide credit support on the Class G-1 and Class G-2 certificates. The policy provider has unconditionally guaranteed the payment of interest on the certificates when due and the payment of principal on the certificates no later than 18 months after the final expected regular distribution date. The policy provider is MBIA Insurance Corporation (a subsidiary of MBIA, Inc.).

We have determined that each of the trusts related to our aircraft EETCs meet the definition of a variable interest entity as defined in the *Consolidations* topic of the Codification and must be considered for consolidation in our financial statements. Our assessment of the EETCs considers both quantitative and qualitative factors, including whether we have the power to direct the activities and to what extent we participate in the sharing of benefits and losses. We evaluated the purpose for which these trusts were established and nature of risks in each. These trusts were not designed to pass along variability to us. We concluded we are not the primary beneficiary in these trusts due to our involvement in them being limited to principal and interest payments on the related notes and the variability created by credit risk related to us and the likelihood of our defaulting on the notes. Therefore, we have not consolidated these trusts in our financial statements.

Short-term Borrowings

We have several lines of credit which bear interest at a floating rate based upon LIBOR plus a margin range of between 1.0% and 2.75%

Morgan Stanley Line of Credit

In July 2012, we entered into a revolving line of credit with Morgan Stanley for up to approximately $100 million, and in December 2012, the available line was increased to allow for borrowings up to $200 million. This line of credit is secured by a portion of our investment securities held by them and the amount available to us under this line of credit may vary accordingly. This line of credit bears interest at a floating rate based upon LIBOR, plus a margin. During the year we borrowed $190 million on this line of credit, which was fully repaid. As of December 31, 2013, we did not have a balance outstanding under this line of credit.

CitiBank Line of Credit

On April 23, 2013, we entered into a Credit and Guaranty Agreement consists of a $350 million revolving credit and letter of credit facility with Citibank, N.A. as the administrative agent which terminates in 2016. Borrowing under the Credit Facility bear interest at a variable rate equal to LIBOR, plus a margin. The Credit Facility is secured by Slots at JFK, Newark, LaGuardia and Reagan National airports as well as certain other assets.

The Credit Facility includes covenants that require us to maintain certain minimum balances in unrestricted cash, cash equivalents, and unused commitments available under all revolving credit facilities. In addition the covenants restrict our ability to incur additional indebtedness, issue preferred stock or pay dividends. As of December 31, 2013, we did not have an outstanding balance under our credit facilities.

American Express Unsecured Revolving Credit Facility

In September 2011, we entered into a corporate purchasing line with American Express, which allowed us to borrow up to a maximum of $125 million. Concurrent to entering into the above agreement with Citibank, N.A. for the Credit Facility, we terminated the unsecured revolving credit facility with American Express in April 2013.

NOTE 3 Operating Leases

We lease aircraft, all of our facilities at the airports we serve, office space and other equipment. These leases have varying terms and conditions, with some having early termination clauses which we determine to be the lease expiration date. The length of the lease depends upon the type of asset being leased, with the latest lease expiring in 2035. Total rental expense for all operating leases in 2013, 2012 and 2011 was $295 million, $284 million and $269 million, respectively. We have approximately $31 million in assets that serve as collateral for letters of credit related to certain of our leases, which are included in restricted cash.

At December 31, 2013, 60 of the 194 aircraft in our fleet were leased under operating leases, with lease expiration dates ranging from 2016 to 2026. Five of the 60 aircraft operating leases have variable rate rent payments based on LIBOR. Leases for 46 of our aircraft can generally be renewed at rates based on fair market value at the end of the lease term for one or two years. We have purchase options in 45 of our aircraft leases at the end of the lease term at fair market value and a one-time option during the term at fixed amounts that were expected to approximate fair market value at lease inception.

During 2013, we extended the leases on eight Airbus A320 aircraft that were previously set to expire starting from 2014. These extensions resulted in an additional $42 million of lease commitments through 2022. During 2012, we extended the leases on three Airbus A320 aircraft that were previously set to expire in 2013. These extensions resulted in an additional $24 million of lease commitments through 2018. During 2010, we leased six used Airbus A320 aircraft from a third party, each with a separate six year operating lease term.

Future minimum lease payments under noncancelable operating leases, including those described above, with initial or remaining terms in excess of one year at December 31, 2013, are as follows (in millions):

	Aircraft	Other	Total
2014	$ 141	$ 64	$ 205
2015	150	55	205
2016	90	50	140
2017	77	44	121
2018	75	39	114
Thereafter	271	336	607
TOTAL MINIMUM OPERATING LEASE PAYMENTS	**$ 804**	**$ 588**	**$ 1,392**

We have entered into sale-leaseback arrangements with a third party lender for 45 of our operating aircraft. The sale-leasebacks occurred simultaneously with the delivery of the related aircraft to us from their manufacturers. Each sale-leaseback transaction was structured with a separate trust set up by the third party lender, the assets of which consist of the one aircraft initially transferred to it following the sale by us and the subsequent lease arrangement with us. Because of their limited capitalization and the potential need for additional financial support, these trusts are variable interest entities as defined in the *Consolidations* topic of the Codification and must be considered for consolidation in our financial statements. Our assessment of each trust considers both quantitative and qualitative factors, including whether we have the power to direct the activities and to what extent we participate in the sharing of benefits and losses of the trusts. JetBlue does not retain any equity interests in any of these trusts and our obligations to them are limited to the fixed rental payments we are required to make to them. These were approximately $695 million as of December 31, 2013 and are reflected in the future minimum lease payments in the table above. Our only interest in these entities is the purchase options to acquire the aircraft as specified above. Since there are no other arrangements (either implicit or explicit) between us and the individual trusts that would result in our absorbing additional variability from the trusts, we concluded we are not the primary beneficiary of these trusts. We account for these leases as operating leases, following the appropriate lease guidance as required by the *Leases* topic in the Codification.

NOTE 4 JFK Terminal 5

We operate out of T5 at JFK and our occupancy is governed by various lease agreements with the PANYNJ. Under the terms of the facility lease agreement we were responsible for the construction of the 635,000 square foot 26-gate terminal, a parking garage, roadways and an AirTrain Connector, all of which are owned by the PANYNJ and collectively referred to as the T5 Project. In 2012, we commenced construction on T5i, an expansion to T5 that will be used as an international arrival facility. An extension of the original T5 lease was executed in 2013 which incorporates approximately 19 acres of additional space for the T5i facilities. The construction of T5i is expected to be completed in late 2014. T5i is anticipated to include six international arrival gates comprised of three new and three converted from T5 as well as an international arrivals hall with full U.S. Customs and Border Protection services. The lease terms, as amended, for our terminal lease at JFK ends on the 28th anniversary of the date of beneficial occupancy of T5i, which is expected in late 2014. We have an early termination option in 2033 for our terminal lease. We are responsible for various payments under the leases, including ground rents which are reflected in the future minimum lease payments table in Note 3, and facility rents which are included below. The facility rents are based upon the number of passengers enplaned out of the terminal, subject to annual minimums.

We were considered the owner of the T5 Project for financial reporting purposes only and have been required to reflect an asset and liability for the T5 Project on our consolidated balance sheets since construction commenced in 2005. The cost of the T5 Project and the related liability are being accounted for as a financing obligation. Our construction of T5i is accounted for at cost with no financing obligation. Our capital expenditure to date relating to T5i is approximately $88 million, of which approximately $71 million was incurred in 2013.

Total costs incurred for the elements of the T5 Project were $637 million, of which $561 million is classified as Assets Constructed for Others and the remaining $76 million is classified as leasehold improvements in our consolidated balance sheets. Assets Constructed for Others are being amortized over the shorter of the 25 years non-cancelable lease term or their economic life. We recorded amortization expense of $23 million in each of 2013 and 2012, and $22 million in 2011.

The PANYNJ has reimbursed us for the amounts currently included in Assets Constructed for Others. These reimbursements and related interest are reflected as Construction Obligation in our consolidated balance sheets. When the facility rents are paid they are treated as a debt service on the Construction Obligation, with the portion not relating to interest reducing the principal balance. Minimum estimated facility payments including escalations associated with the facility lease are estimated to be $40 million per year in 2014 through 2018 and $616 million thereafter. The portion of these scheduled payments serving to reduce the principal balance of the Construction Obligation is $14 million in 2014, $15 million in each of 2015 and 2016, $16 million in 2017 and $17 million in 2018. Payments could exceed these amounts depending on future enplanement levels at JFK. Scheduled facility payments representative of interest totaled $27 million, $27 million and $28 million in 2013, 2012 and 2011, respectively.

We sublease portions of T5, including space for concessionaires, our service provider for the airspace lounge and the TSA. Two of our airline commercial partners operate from this terminal and sublease facilities from us, Hawaiian Airlines and Aer Lingus. Minimum lease payments due to us are subject to various escalation amounts through 2021. Future minimum lease payments due to us during each of the next five years are estimated to be $12 million per year in each of 2014 through 2016, $10 million in 2017 and $9 million in 2018.

NOTE 5 Stockholders' Equity

In September 2012, our Board of Directors authorized a share repurchase program for up to 25 million shares of common stock over a five year period. The repurchases may be commenced or suspended from time to time without prior notice. During the fourth quarter of 2012, we repurchased approximately 4.1 million shares of our common stock for approximately $23 million. During 2013 we repurchased approximately 0.5 million shares of our common stock for approximately $3 million. The shares repurchased under our share repurchase program were purchased in open market transactions. As of December 31, 2013, 20.4 million shares remain available for repurchase under the program.

As of December 31, 2013, we had a total of 168.9 million shares of our common stock reserved for issuance related to our equity incentive plans, our convertible debt, and our share lending facility. As of December 31, 2013, we had a total of 50.9 million shares of treasury stock, the majority of which resulted from the return of borrowed shares under our share lending agreement and also include shares repurchased under our share repurchase program described above. Refer to Note 2 for further details on the share lending agreement and Note 7 for further details on our share-based compensation.

NOTE 6 Earnings Per Share

The following table shows how we computed basic and diluted earnings per common share for the years ended December 31 (dollars in millions; share data in thousands):

	2013	2012	2011
Numerator:			
Net income	$ 168	$ 128	$ 86
Effect of dilutive securities:			
Interest on convertible debt, net of income taxes and profit sharing	9	9	12
Net income applicable to common stockholders after assumed conversions for diluted earnings per share	$ 177	$ 137	$ 98
Denominator:			
Weighted average shares outstanding for basic earnings per share			
Effect of dilutive securities:	282,755	282,317	278,689
Employee stock options	2,108	1,237	1,660
Convertible debt	58,562	60,575	66,118
Adjusted weighted average shares outstanding and assumed conversions for diluted earnings per share	343,425	344,129	346,467
Shares excluded from EPS calculation (in millions):			
Shares issuable upon conversion of our convertible debt as assumed conversion would be antidilutive	—	—	—
Shares issuable upon exercise of outstanding stock options or vesting of restricted stock units as assumed exercise would be antidilutive	13.8	19.5	22.3

As of December 31, 2013, a total of approximately 1.4 million shares of our common stock, which were lent to our share borrower pursuant to the terms of our share lending agreement as described in Note 2, were issued and outstanding for corporate law purposes. Holders of the borrowed shares have all the rights of a holder of our common stock. However, because the share borrower must return all borrowed shares to us (or identical shares or, in certain circumstances of default by the counterparty, the cash value thereof), the borrowed shares are not considered outstanding for the purpose of computing and reporting basic or diluted earnings per share.

NOTE 7 Share-Based Compensation

We have various equity incentive plans under which we have granted stock awards to our eligible Crewmembers and Directors. These includes the JetBlue Airways Corporation 2002 Stock Incentive Plan, and the Restated and Amended 2002 Stock Incentive Plan which were replaced by the JetBlue Airways Corporation 2011 Incentive Compensation Plan. We additionally have an employee stock purchase plan which we refer to as the Crewmember Stock Purchase Plan, or CSPP, that is available to all eligible Crewmembers.

Unrecognized stock-based compensation expense was approximately $15 million as of December 31, 2013, relating to a total of 4.8 million unvested restricted stock units under our 2002 Plan and 2011 Plan. We expect to recognize this stock-based compensation expense over a weighted average period of approximately two years.

2011 Incentive Compensation Plan

At our Annual Shareholders Meeting held on May 26, 2011, our shareholders approved the new 2011 Plan. This replaced the 2002 Plan which was set to expire at the end of 2011. Upon inception the 2011 Plan had 15.0 million shares of our common stock reserved for issuance. The 2011 Plan, by its terms, will terminate no later than May 2021. This plan provides for RSUs to be granted to certain employees and members of our Board of Directors. It also provides for DSUs to be granted to members of our Board of Directors and performance stock units, or PSUs, to be granted to certain member of our executive leadership team.

The following is a summary of RSU activity under the 2011 Plan for the years ended December 31, 2013 and 2012 respectively. Activity in 2011 for the 2011 Plan was immaterial.

	2013		2012	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	2,483,664	$ 5.77	65,914	$ 5.08
Granted	2,653,842	6.08	2,570,891	5.79
Vested	(828,291)	5.77	(20,249)	5.09
Forfeited	(190,366)	5.82	(132,892)	5.83
NONVESTED AT END OF YEAR	**4,118,849**	**$ 5.94**	**2,483,664**	**$ 5.77**

The total intrinsic value, determined as of the date of vesting, of all RSUs under both Plans vested and converted to shares of common stock during the year ended December 31, 2013, 2012 and 2011 was $13 million, $11 million and $10 million respectively.

The vesting period for DSUs under the 2011 Plan is either one or three years of service. Once vested, shares are issued six months and one day following the Director's departure from the Board. During the years ended December 31, 2013, 2012 and 2011, we granted an immaterial amount of DSUs, almost all of which remain outstanding at December 31, 2013. In 2013 we granted immaterial PSUs to members of our executive leadership team which are based upon certain performance criteria.

Amended and Restated 2002 Stock Incentive Plan

The 2002 Plan, which included stock options issued during 1999 through 2001 under a previous plan as well as all options issued from 2002 through adoption of the 2011 Plan, provided for incentive and non-qualified stock options and restricted stock units, or RSUs, to be granted to certain employees and members of our Board of Directors, as well as deferred stock units, or DSUs, to be granted to members of our Board of Directors. The 2002 Plan became effective following our initial public offering in April 2002, we began issuing RSUs from 2007 and DSUs from 2008. Prior to 2011, the DSUs vested immediately upon being granted. The RSUs vested in annual installments over three years which can be accelerated upon the occurrence of a change in control as defined in the 2002 Plan. Our policy is to grant RSUs based on the market price of the underlying common stock on the date of grant.

The following is a summary of RSU activity under the 2002 Plan for the year ended December 31:

	2013		2012		2011	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	2,029,081	$ 5.85	4,093,484	$ 5.64	3,681,013	$ 5.18
Granted	—	—	—	—	2,677,809	6.01
Vested	(1,257,045)	5.76	(1,921,940)	5.41	(1,731,145)	5.26
Forfeited	(60,542)	5.99	(142,463)	5.76	(534,193)	5.53
NONVESTED AT END OF YEAR	**711,494**	**$ 6.00**	**2,029,081**	**$ 5.85**	**4,093,484**	**$ 5.64**

Stock Options

All options issued under the 2002 Plan expire ten years from the date of grant, with the last options vesting in 2012. Our policy is to grant options with an exercise price equal to the market price of the underlying common stock on the date of grant.

The following is a summary of stock option activity for the years ended December 31:

	2013		2012		2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	15,845,124	$ 14.87	21,807,170	$ 13.91	23,600,494	$ 13.42
Granted	—	—	—	—	—	—
Exercised	(10,800)	7.79	(493,731)	4.00	(934,993)	2.09
Forfeited	—	—	—	—	(23,700)	8.92
Expired	(4,449,636)	18.50	(5,468,315)	12.03	(834,631)	13.33
Outstanding at end of year	**11,384,688**	**$ 13.45**	**15,845,124**	**$ 14.87**	**21,807,170**	**$ 13.91**
Vested at end of year	11,384,688	$ 13.45	15,845,124	$ 14.87	21,550,526	$ 13.94
Available for future grants	60,615,340		56,105,162		50,494,384	

The following is a summary of outstanding stock options at December 31, 2013:

	Options Outstanding, Vested and Exercisable			
Range of exercise prices	Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Aggregate Intrinsic Value (millions)
$7.79 to $19.25	11,384,688	1.8	$ 13.45	$ —
	11,384,688			$ —

The total intrinsic value, determined as of the date of exercise, of options exercised was immaterial during the year ended December 31, 2013, and $1 million and $3 million during the years ended December 31, 2012 and 2011 respectively. Amounts received in cash for options exercised were immaterial for the year ended December 31, 2013 and $2 million in each of the years ended December 31, 2012 and 2011. We have not granted any stock options since 2008 and those previously granted became fully expensed in 2012. The total fair value of stock options vested was approximately $2 million and $5 million during 2012 and 2011, respectively.

Fair Value Assumptions

We used a Black-Scholes-Merton option pricing model to estimate the fair value of share-based awards in accordance with the *Compensation-Stock Compensation* topic of the Codification, for stock options under our 2002 Plan. The Black-Scholes-Merton option pricing model incorporates various and highly subjective assumptions, including expected term and expected volatility. We reviewed our historical pattern of option exercises under our 2002 Plan and determined meaningful differences in option exercise activity existed among employee job categories. Therefore, for all stock options granted after January 1, 2006, we categorized these awards into three groups of employees for valuation purposes.

We estimated the expected term of options granted using an implied life derived from the results of a lattice model. This incorporates our historical exercise and post-vesting employment termination patterns, which we believe are representative of future behavior. The expected term for our restricted stock units is based on the associated service period.

We estimated the expected volatility of our common stock at the grant date using a blend of 75% historical volatility of our common stock and 25% implied volatility of two-year publicly traded options on our common stock as of the option grant date. Our decision to use a blend of historical and implied volatility was based upon the volume of actively traded options on our common stock and our belief historical volatility alone may not be completely representative of future stock price trends.

Our risk-free interest rate assumption was determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. We have never paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. Therefore, we assumed an expected dividend yield of zero.

The *Compensation-Stock Compensation* topic of the Codification requires us to estimate pre-vesting forfeitures at the time of grant and periodically revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We record stock-based compensation expense only for those awards expected to vest using an estimated forfeiture rate based on our historical pre-vesting forfeiture data.

Crewmember Stock Purchase Plan

In May 2011, our shareholders also approved the new 2011 Crewmember Stock Purchase Plan, or the 2011 CSPP, to replace the original Crewmember Stock Purchase Plan, which was set to expire in April 2012. At inception, the 2011 CSPP had 8.0 million shares of our common stock reserved for issuance. The 2011 CSPP, by its terms, will terminate no later than the last business day of April 2021.

The following is a summary of CSPP share reserve activity under the 2011 CSPP for the year ended December 31:

	2013		2012	
	Shares	Weighted Average	Shares	Weighted Average
Available for future purchases, beginning of year	6,436,224		8,000,000	
Shares reserved for issuance	—		—	
Common stock purchased	(1,581,080)	$ 6.20	(1,563,776)	$ 4.75
AVAILABLE FOR FUTURE PURCHASES, END OF YEAR	**4,855,144**		**6,436,224**	

The 2011 CSPP has a series of six months offering periods, with a new offering period beginning on the first business day of May and November each year. Employees can only join an offering period on the start date. Employees may contribute up to 10% of their pay, through payroll deductions, toward the purchase of common stock. Purchase dates occur on the last business day of April and October each year.

Until April 2013 our 2011 CSPP was considered non-compensatory as the purchase price discount was 5% based upon the stock price on the date of purchase. The plan was amended and restated in May 2013, with the CSPP purchase price discount increasing to 15% based upon the stock price on the date of purchase. In accordance with the *Compensation-Stock Compensation* topic of the Codification the 2011 CSPP no longer meets the non-compensatory definition as the terms of the plan are more favorable than those to all holders of the common stock. For all offering periods starting from May 2013 the compensation cost relating to the discount is recognized over the offering period. For the year ended December 31, 2013 the total expense recognized relating to the 2011 CSPP was approximately $2 million.

Should we be acquired by merger or sale of substantially all of our assets or sale of more than 50% of our outstanding voting securities, all outstanding purchase rights will automatically be exercised immediately prior to the effective date of the acquisition at a price equal to 85% of the fair market value per share immediately prior to the acquisition.

Our original CSPP was available to all employees at its inception in April 2002. The following is a summary of CSPP share reserve activity under the original CSPP for the year ended December 31, 2011. There was no activity in 2012 and 2013 under the original CSPP and the shares remain reserved at December 31, 2013.

	2011	
	Shares	**Weighted Average**
Available for future purchases, beginning of year	20,923,959	
Shares reserved for issuance	—	
Common stock purchased	(1,617,602)	$ 4.76
AVAILABLE FOR FUTURE PURCHASES, END OF YEAR	**19,306,357**	

Taxation

The *Compensation-Stock Compensation* topic of the Codification requires deferred taxes be recognized on temporary differences that arise with respect to stock-based compensation attributable to nonqualified stock options and awards. However, no tax benefit is recognized for stock-based compensation attributable to incentive stock options (ISO) or CSPP shares until there is a disqualifying disposition, if any, for income tax purposes. A portion of our stock-based compensation is attributable to ISO and CSPP shares; therefore, our effective tax rate is subject to fluctuation.

LiveTV Equity Incentive Plan

In April 2009, our Board of Directors approved the LiveTV Equity Incentive Plan, or EIP, an equity based incentive plan for certain members of leadership at our wholly-owned subsidiary, LiveTV. Notional equity units were available under the EIP, representing up to 12% of the notional equity interest of LiveTV. Compensation cost was recorded ratably over the service period. In May 2011, we terminated the EIP. In exchange for the release of their rights under the EIP, participants were granted restricted stock units under the 2002 Plan.

NOTE 8 LiveTV

Through December 31, 2013, LiveTV had installed in-flight entertainment systems for other airlines on 461 aircraft and had firm commitments for installations of in-flight entertainment and Ka broadband connectivity on 196 additional aircraft scheduled to be installed through 2015, with options for nine additional in-flight entertainment installations through 2016. Revenues in 2013, 2012 and 2011 were $72 million, $81 million and $82 million, respectively. Deferred profit on hardware sales and advance deposits for future hardware sales are included in other accrued liabilities and other long term liabilities on our consolidated balance sheets depending on whether we expect to recognize it in the next 12 months or beyond. They totaled $42 million and $34 million as of December 31, 2013 and 2012, respectively. Deferred profit to be recognized on installations completed through December 31, 2013 will be approximately $3 million per year from 2014 through 2018 and $6 million thereafter. The net book value of equipment installed for other airlines was approximately $102 million and $109 million as of December 31, 2013 and 2012, respectively, and is included in other assets on our consolidated balance sheets.

In December 2011, LiveTV terminated its contract with one of its airline customers. In connection with the termination, the customer paid approximately $16 million, which was included in other accrued liabilities on the consolidated balance sheet as of December 31, 2011. Upon fulfilling our obligation to deactivate service on the customer's aircraft, we recorded a gain of $8 million in other operating expenses in 2012.

NOTE 9 Income Taxes

The provision for income taxes consisted of the following for the years ended December 31 (in millions):

	2013	2012	2011
Deferred:			
Federal	$ 95	$ 68	$ 51
State	12	8	7
Deferred income tax expense	107	76	58
Current income tax expense	4	5	1
TOTAL INCOME TAX EXPENSE	**$ 111**	**$ 81**	**$ 59**

The effective tax rate on income before income taxes differed from the federal income tax statutory rate for the years ended December 31 for the following reasons (in millions):

	2013	2012	2011
Income tax expense at statutory rate	$ 98	$ 73	$ 51
Increase resulting from:			
State income tax, net of federal benefit	9	6	5
Other, net	4	2	3
TOTAL INCOME TAX EXPENSE	**$ 111**	**$ 81**	**$ 59**

Cash payments for income taxes were $4 million in 2013, $4 million in 2012 and zero in 2011.

The net deferred taxes below include a current net deferred tax asset of $120 million and a long-term net deferred tax liability of $605 million at December 31, 2013, and a current net deferred tax asset of $107 million and a long-term net deferred tax liability of $481 million at December 31, 2012.

The components of our deferred tax assets and liabilities as of December 31 are as follows (in millions):

	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$ 157	$ 127
Employee benefits	40	36
Deferred revenue/gains	95	82
Rent expense	24	22
Terminal 5 lease	29	26
Capital loss carryforwards	20	20
Other	32	37
Valuation allowance	(20)	(20)
Deferred tax assets, net	377	330
Deferred tax liabilities:		
Accelerated depreciation	(862)	(704)
Deferred tax liabilities	(862)	(704)
NET DEFERRED TAX LIABILITY	**$ (485)**	**$ (374)**

At December 31, 2013, we had U.S. Federal regular and alternative minimum tax net operating loss ("NOL") carryforwards of $456 million and $446 million, respectively, which begin to expire in 2025. In addition, at December 31, 2013, we had deferred tax assets associated with state NOLs of $9 million, which begin to expire in 2016. Our NOL carryforwards at December 31, 2013 include an unrecorded benefit of approximately $9 million related to stock-based compensation that will be recorded in equity when, and to the extent, realized. Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to use its NOL carryforwards if it experiences an "ownership change." As of December 31, 2013, our valuation allowance did not include any amounts attributable to this limitation; however, if an "ownership change" were to occur in the future, the ability to use our NOLs could be limited.

In evaluating the realizability of the deferred tax assets, we assess whether it is more likely than not that some portion, or all, of the deferred tax assets, will be realized. We consider, among other things, the generation of future taxable income (including reversals of deferred tax liabilities) during the periods in which the related temporary differences will become deductible. At December 31, 2013, we continue to maintain a $20 million valuation allowance to reduce the deferred tax assets to an amount that we consider is more likely than not to be realized. Our valuation allowance at December 31, 2013 is related to capital loss carryforwards which expire in 2015 and 2016.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follow (in millions):

Unrecognized tax benefits December 31, 2010	$ 11
Increases for tax positions taken during the period	1
Unrecognized tax benefits December 31, 2011	12
Increases for tax positions taken during the period	1
Unrecognized tax benefits December 31, 2012	13
Increases for tax positions taken during the period	2
Decreases for settlement with tax authorities during the period	(4)
Unrecognized tax benefits December 31, 2013	**$ 11**

Interest and penalties accrued on unrecognized tax benefits were not significant. If recognized, $9 million of the unrecognized tax benefits at December 31, 2013 would impact our effective tax rate. We do not expect any significant change in the amount of the unrecognized tax benefits within the next twelve months. As a result of NOLs and statute of limitations in our major tax jurisdictions, years 2002 through 2012 remain subject to examination by the relevant tax authorities.

NOTE 10 Employee Retirement Plan

We sponsor a retirement savings 401(k) defined contribution plan, or the Plan, covering all of our employees. In 2013, we matched 100% of our employee contributions up to 5% of their compensation. The contributions vest over five years, measured from an employee's hire date. Participants are immediately vested in their voluntary contributions.

Another component of the Plan is a Company discretionary contribution of 5% of eligible non-management employee compensation, which we refer to as *Retirement Plus*. *Retirement Plus* contributions vest over three years, measured from an employee's hire date. Our non-management employees are also eligible to receive profit sharing, calculated as 15% of adjusted pre-tax income reduced by the *Retirement Plus* contributions discussed above. Certain FAA-licensed employees receive an additional contribution of 3% of eligible compensation, which we refer to as *Retirement Advantage*. Total *Retirement Plus, Retirement Advantage*, 401(k) company match and profit sharing expensed in 2013, 2012 and 2011 were $94 million, $73 million and $61 million, respectively.

NOTE 11 Commitments

Flight Equipment Commitments

As of December 31, 2013, our firm aircraft orders consisted of three Airbus A320 aircraft, 49 Airbus A321 aircraft, 30 Airbus A320 new engine option (A320neo), 30 Airbus A321neo, 24 EMBRAER 190 aircraft and 10 spare engines scheduled for delivery through 2022. Committed expenditures for these aircraft and related flight equipment, including estimated amounts for contractual price escalations and predelivery deposits, will be approximately $500 million in 2014, $660 million in 2015, $785 million in 2016, $835 million in 2017, $855 million in 2018 and $3,235 billion thereafter. We are scheduled to receive nine new Airbus A321 in 2014, four of which have committed financing. We plan to purchase the remaining 2014 scheduled deliveries with cash.

In December 2012, we prepaid $200 million for certain 2013 aircraft deliveries and deposits on future aircraft deliveries in exchange for favorable pricing terms. In 2012 we amended our Embraer purchase agreement several times. In July 2012 we accelerated the delivery of one aircraft to 2013, from 2014 and in December 2012 we accelerated the delivery of four aircraft from 2018 to 2013. In October 2013 we amended our purchase agreements with both Embraer and Airbus. We deferred 24 EMBRAER 190 aircraft from 2014-2018 to 2020-2022. We converted eight existing A320 orders to A321 orders and 10 A320neo orders to A321neo orders. We incrementally ordered 15 A321 aircraft for delivery between 2015 and 2017 and 20 A321neo aircraft for delivery between 2018 and 2020.

Other Commitments

We utilize several credit card processors to process our ticket sales. Our agreements with these processors do not contain covenants, but do generally allow the processor to withhold cash reserves to protect the processor for potential liability for tickets purchased, but not yet used for travel. While we currently do not have any collateral requirements related to our credit card processors, we may be required to issue collateral to our credit card processors, or other key vendors, in the future. As of December 31, 2013, we had approximately $25 million pledged related to our workers compensation insurance policies and other business partner agreements, which will expire according to the terms of the related policies or agreements.

Our commitments also include those of LiveTV, which has several noncancelable long-term purchase agreements with its suppliers to provide equipment to be installed on its customers' aircraft, including JetBlue's aircraft. At December 31, 2013, committed expenditures to these suppliers were approximately $45 million in 2014, and $2 million in each of 2015 through 2017.

In March 2011, we executed a seven year agreement, subject to an optional three year extension, with ViaSat Inc. to develop and introduce in-flight broadband connectivity technology on our aircraft. Committed expenditures under this agreement as of December 31, 2013 include a minimum of $20 million through 2020 and an additional $25 million for minimum hardware and software purchases.

We enter into individual employment agreements with each of our FAA-licensed employees, which include pilots, dispatchers, technicians and inspectors as well as air traffic controllers. Each employment agreement is for a term of 5 years and automatically renews for an additional five-year term unless either the employee or we elect not to renew it by giving at least 90 days notice before the end of the relevant term. Pursuant to these agreements, these employees can only be terminated for cause. In the event of a downturn in our business that would require a reduction in work hours, we are obligated to pay these employees a guaranteed level of income and to continue their benefits if they do not obtain other aviation employment. None of our employees are covered by collective bargaining agreements.

NOTE 12 Contingencies

We self-insure a portion of our losses from claims related to workers' compensation, environmental issues, property damage, medical insurance for employees and general liability. Losses are accrued based on an estimate of the ultimate aggregate liability for claims incurred, using standard industry practices and our actual experience.

We are a party to many routine contracts under which we indemnify third parties for various risks. These indemnities consist of the following:

All of our bank loans, including our aircraft and engine mortgages, contain standard provisions present in loans of this type. These provisions obligate us to reimburse the bank for any increased costs associated with continuing to hold the loan on our books which arise as a result of broadly defined regulatory changes, including changes in reserve requirements and bank capital requirements. These indemnities would have the practical effect of increasing the interest rate on our debt if they were to be triggered. In all cases, we have the right to repay the loan and avoid the increased costs. The term of these indemnities matches the length of the related loan up to 15 years.

Under both aircraft leases with foreign lessors and aircraft and engine mortgages with foreign lenders, we have agreed to customary indemnities concerning withholding tax law changes. Under these contracts we are responsible, should withholding taxes be imposed, for paying such amount of additional rent or interest as is necessary to ensure that the lessor or lender still receives, after taxes, the rent stipulated in the lease or the interest stipulated under the loan. The term of these indemnities matches the length of the related lease up to 20 years.

We have various leases with respect to real property as well as various agreements among airlines relating to fuel consortia or fuel farms at airports. Under these contracts we have agreed to standard language indemnifying the lessor against environmental liabilities associated with the real property or operations described under the agreement, even if we are not the party responsible for the initial event that caused the environmental damage. In the case of fuel consortia at airports, these indemnities are generally joint and several among the participating airlines. We have purchased a standalone environmental liability insurance policy to help mitigate this exposure. Our existing aviation hull and liability policy includes some limited environmental coverage when a cleanup is part of an associated single identifiable covered loss.

Under certain contracts, we indemnify specified parties against legal liability arising out of actions by other parties. The terms of these contracts range up to 30 years. Generally, we have liability insurance protecting ourselves for the obligations we have undertaken relative to these indemnities.

LiveTV provides product warranties to third party airlines to which it sells its products and services. We do not accrue a liability for product warranties upon sale of the hardware since revenue is recognized over the term of the related service agreements of up to 10 years. Expenses for warranty repairs are recognized as they occur. In addition, LiveTV has provided indemnities against any claims which may be brought against its customers related to allegations of patent, trademark, copyright or license infringement as a result of the use of the LiveTV system. LiveTV customers include other airlines, which may be susceptible to the inherent risks of operating in the airline industry and/or economic downturns, which may in turn have a negative impact on our business.

Under a certain number of our LiveTV third party agreements as well as a certain number of our operating lease agreements; we are required to restore certain property or equipment to its original form upon expiration of the related agreement. We have recorded the estimated fair value of these retirement obligations of approximately $9 million as of December 31, 2013. This liability may increase over time.

We are unable to estimate the potential amount of future payments under the foregoing indemnities and agreements.

Environmental Liability

Many aspects of airlines' operations are subject to increasingly stringent federal, state, local, and foreign laws protecting the environment. Since the domestic airline industry is increasingly price sensitive we may not be able to recover the cost of compliance with new or more stringent environmental laws and regulations from our passengers, which could adversely affect our business. Although it is not expected that the costs of complying with current environmental regulations will have a material adverse effect on our financial position, results of operations or cash flows, no assurance can be made that the costs of complying with environmental regulations in the future will not have such an effect. The impact to us and our industry from such actions is likely to be adverse and could be significant, particularly if regulators were to conclude that emissions from commercial aircraft cause significant harm to the upper atmosphere or have a greater impact on climate change than other industries.

In 2012, during the performance of environmental testing which was required in connection with the demolition of the passenger terminal buildings and closure of the defunct hydrant fuel systems at JFK the presence of light non-aqueous phase petroleum liquid was discovered in certain subsurface monitoring wells on the property. Our lease with the PANYNJ provides, under certain circumstances, we may be responsible for investigating, delineating, and remediating such subsurface contamination, even if we are not necessarily the party that caused its release. We have engaged environmental consultants to assess the extent of the contamination and assist us in determining steps to remediate it. A preliminary estimate indicates costs of remediation could range from $1 million up to approximately $3 million. As of December 31, 2013, we had accrued $2 million for current estimates of remediation costs, which is included in current liabilities on our consolidated balance sheets. However, as with any environmental contamination, there is the possibility this contamination could be more extensive than estimated at this early stage. We have a pollution insurance policy that protects us against these types of environmental liabilities, which we expect will mitigate most of our exposure in this matter.

Based upon information currently known to us we do not expect these environmental proceedings to have a material adverse effect on our consolidated financial position, results of operations, or cash flows. However, it is not possible to predict with certainty the impact on us of future environmental compliance requirements or the costs of resolving the matter, in part because the scope of the remediation that may be required is not certain and environmental laws and regulations are subject to modification and changes in interpretation.

Legal Matters

Occasionally, we are involved in various claims, lawsuits, regulatory examinations, investigations and other legal matters arising, for the most part, in the ordinary course of business. The outcome of litigation and other legal matters is always uncertain. The Company believes it has valid defenses to the legal matters currently pending against it, is defending itself vigorously and has recorded accruals determined in accordance with U.S. GAAP, where appropriate. In making a determination regarding accruals, using available information, we evaluate the likelihood of an unfavorable outcome in legal or regulatory proceedings to which we are a party to and record a loss contingency when it is probable a liability has been incurred and the amount of the loss can be reasonably estimated. These judgments are subjective, based on the status of such legal or regulatory proceedings, the merits of our defenses and consultation with legal counsel. Actual outcomes of these legal and regulatory proceedings may materially differ from our current estimates. It is possible that resolution of one or more of the legal matters currently pending or threatened could result in losses material to our consolidated results of operations, liquidity or financial condition.

To date, none of these types of litigation matters, most of which are typically covered by insurance, has had a material impact on our operations or financial condition. We have insured and continue to insure against most of these types of claims. A judgment on any claim not covered by, or in excess of, our insurance coverage could materially adversely affect our financial condition or results of operations.

Employment Agreement Dispute. In or around March 2010, attorneys representing a group of current and former pilots (the "Claimants") filed a Request for Mediation with the American Arbitration Association concerning a dispute over the interpretation of a provision of their individual JetBlue Airways Corporation Employment Agreement for Pilots ("Employment Agreement"). In their Fourth Amended Arbitration Demand, dated June 8, 2012, the Claimants (972 pilots) alleged that JetBlue breached the base salary provision of the Employment Agreement and sought back pay and related damages for pay adjustments that occurred in each of 2002, 2007 and 2009. The Claimants also asserted that JetBlue had violated numerous New York state labor laws. In July 2012, in response to JetBlue's partial motion to dismiss, the Claimants withdrew the 2002 claims. Following an arbitration hearing on the remaining claims, in May 2013, the arbitrator issued an interim decision on the contractual provisions of the Employment Agreement. In 2007, all pilots received market rate pay adjustments. The arbitrator determined that a 26.7% base pay rate increase provided to certain pilots during 2007 triggered the base salary provision of the Employment Agreement. The 2009 claims and all New York state labor law claims were dismissed. The parties started the damages phase of the arbitration in June of 2013. Many variables remain undetermined, including the number of eligible Claimants and what elements of pay, if any, could be included in any damages calculation award. Motion practice began in July 2013 and in late August 2013, the arbitrator granted JetBlue's motion to significantly limit the scope of damages. Motion practice continues that may further limit the number of pilots with valid claims and reduce the scope of damages.

In January 2014, the Claimants specified $13 million in damages that they are seeking. We believe that any damages ultimately resulting from this dispute will be significantly less than the amount of damages sought by the Claimants and have accrued an amount which we believe is probable. Our estimate of reasonably possible losses in excess of the probable loss is not material. However, the outcome of any arbitration is inherently uncertain and any final judgment may differ materially.

WestJet Complaint. In December 2013, WestJet, a customer of LiveTV, filed a complaint against LiveTV alleging breach of contract. WestJet has alleged $15 million in damages plus unspecified damages for removing the inflight entertainment systems from its aircraft. In January 2014, LiveTV filed a response to this Complaint and a series of Counterclaims. LiveTV disputes the accuracy and validity of the WestJet claims and to the extent WestJet is able to establish any liability on the part of LiveTV, LiveTV contends that the as-yet unliquidated damages sought by LiveTV in its Counterclaims are likely to exceed any actual damages awarded to WestJet on its Complaint. We believe the Complaint to be without merit and will continue to assert defenses; however, as the case is in its early stages, it is not possible to assess the likelihood of loss.

NOTE 13 Financial Derivative Instruments and Risk Management

As part of our risk management techniques, we periodically purchase over the counter energy derivative instruments and enter into fixed forward price agreements, or FFPs, to manage our exposure to the effect of changes in the price of aircraft fuel. Prices for the underlying commodities have historically been highly correlated to aircraft fuel, making derivatives of them effective at providing short-term protection against sharp increases in average fuel prices. We also periodically enter into jet fuel basis swaps for the differential between heating oil and jet fuel, to further limit the variability in fuel prices at various locations.

To manage the variability of the cash flows associated with our variable rate debt, we have also entered into interest rate swaps. We do not hold or issue any derivative financial instruments for trading purposes.

Aircraft fuel derivatives

We attempt to obtain cash flow hedge accounting treatment for each aircraft fuel derivative that we enter into. This treatment is provided for under the *Derivatives and Hedging* topic of the Codification which allows for gains and losses on the effective portion of qualifying hedges to be deferred until the underlying planned jet fuel consumption occurs, rather than recognizing the gains and losses on these instruments into earnings during each period they are outstanding. The effective portion of realized aircraft fuel hedging derivative gains and losses is recognized in aircraft fuel expense in the period the underlying fuel is consumed.

Ineffectiveness results, in certain circumstances, when the change in the total fair value of the derivative instrument differs from the change in the value of our expected future cash outlays for the purchase of aircraft fuel and is recognized immediately in interest income and other. Likewise, if a hedge does not qualify for hedge accounting, the periodic changes in its fair value are recognized in the period of the change in interest income and other. When aircraft fuel is consumed and the related derivative contract settles, any gain or loss previously recorded in other comprehensive income is recognized in aircraft fuel expense. All cash flows related to our fuel hedging derivatives are classified as operating cash flows.

Our current approach to fuel hedging is to enter into hedges on a discretionary basis without a specific target of hedge percentage needs. We view our hedge portfolio as a form of insurance to help mitigate the impact of price volatility and protect us against severe spikes in oil prices, when possible.

The following table illustrates the approximate hedged percentages of our projected fuel usage by quarter as of December 31, 2013, related to our outstanding fuel hedging contracts that were designated as cash flow hedges for accounting purposes.

	Jet fuel swap agreements	Jet fuel cap agreements	Total
First Quarter 2014	8%	8%	16%
Second Quarter 2014	7%	8%	15%
Third Quarter 2014	2%	—%	2%
Fourth Quarter 2014	2%	—%	2%

In January 2014, we entered into jet fuel swap transactions representing an additional 7% and 6% of our forecasted consumption in each of the third and fourth quarter of 2014 respectively.

During 2013 we determined certain derivatives no longer qualified for hedge accounting. As such, we prospectively discontinued the application of hedge accounting for the remaining portion of our outstanding Brent crude oil agreements. Any incremental increase or decrease in the value of these contracts was recognized in interest income during 2013 until the contracts settled. As of December 31, 2013 there were no outstanding contracts related to Brent crude oil. Throughout the year we also entered into basis swaps, which did not qualify as cash flow hedges for accounting purposes and as a result we marked to market in earnings each period outstanding based on their current fair value. As of December 31, 2013 there were no outstanding contracts related to basis swaps.

Interest rate swaps

The interest rate swap agreements we had outstanding as of December 31, 2013 effectively swap floating rate debt for fixed rate debt, taking advantage of lower borrowing rates in existence at the time of the hedge transaction as compared to the date our original debt instruments were executed. As of December 31, 2013, we had $55 million in notional debt outstanding related to these swaps, which cover certain interest payments through August 2016. The notional amount decreases over time to match scheduled repayments of the related debt. Refer to Note 2 for information on the debt outstanding related to these swap agreements.

All of our outstanding interest rate swap contracts qualify as cash flow hedges in accordance with the *Derivatives and Hedging* topic of the Codification. Since all of the critical terms of our swap agreements match the debt to which they pertain, there was no ineffectiveness relating to these interest rate swaps in 2013, 2012 or 2011, and all related unrealized losses were deferred in accumulated other comprehensive income. We recognized approximately $8 million, $11 million and $10 million in additional interest expense as the related interest payments were made during 2013, 2012 and 2011, respectively.

The table below reflects quantitative information related to our derivative instruments and where these amounts are recorded in our financial statements (dollar amounts in millions).

	As of December 31, 2013	2012
Fuel derivatives		
Asset fair value recorded in prepaid expenses and other (1)	$ 6	$ —
Liability fair value recorded in other accrued liabilities (1)	—	1
Longest remaining term *(months)*	12	9
Hedged volume *(barrels, in thousands)*	1,320	675
Estimated amount of existing gains (losses) expected to be reclassified into earnings in the next 12 months	3	(1)
Interest rate derivatives		
Liability fair value recorded in other long term liabilities (2)	3	12
Estimated amount of existing losses expected to be reclassified into earnings in the next 12 months	(2)	(9)

	2013	2012	2011
Fuel derivatives			
Hedge effectiveness gains (losses) recognized in aircraft fuel expense	$ (10)	$ 10	$ 3
Hedge ineffectiveness losses recognized in other expense	—	—	(2)
Losses on derivatives not qualifying for hedge accounting recognized in other expense	—	(3)	—
Hedge gains (losses) on derivatives recognized in comprehensive income	(6)	14	(11)
Percentage of actual consumption economically hedged	21%	30%	40%
Interest rate derivatives			
Hedge gains (losses) on derivatives recognized in comprehensive income	1	(3)	(7)
Hedge losses on derivatives recognized in interest expense	(8)	(11)	(10)

(1) Gross asset or liability of each contract prior to consideration of offsetting positions with each counterparty

(2) Gross liability, prior to impact of collateral posted

Any outstanding derivative instrument exposes us to credit loss in connection with our fuel contracts in the event of nonperformance by the counterparties to the agreements, but we do not expect any of our three counterparties will fail to meet their obligations. The amount of such credit exposure is generally the fair value of our outstanding contracts for which we are in a receivable position. To manage credit risks, we select counterparties based on credit assessments, limit our overall exposure to any single counterparty and monitor the market position with each counterparty. Some of our agreements require cash deposits from either counterparty if market risk exposure exceeds a specified threshold amount.

We have master netting arrangements with our counterparties allowing us the right of offset to mitigate credit risk in derivative transactions. The financial derivative instrument agreements we have with our counterparties may require us to fund all, or a portion of, outstanding loss positions related to these contracts prior to their scheduled maturities. The amount of collateral posted, if any, is periodically adjusted based on the fair value of the hedge contracts. Our policy is to offset the liabilities represented by these contracts with any cash collateral paid to the counterparties. We did not have any collateral posted related to our outstanding fuel hedge contracts at December 31, 2013 or December 31, 2012. We had $3 million and $12 million posted in collateral related to our interest rate derivatives which offset the hedge liability in other current liabilities at December 31, 2013 and 2012, respectively. The impact of offsetting derivative instruments is depicted below (dollar amounts in millions):

	Gross Amount of Recognized		Gross Amount of Cash Collateral	Net Amount Presented in Balance Sheet	
	Assets	Liabilities	Offset	Assets	Liabilities
As of December 31, 2013					
Fuel derivatives	$ 6	$ —	$ —	$ 6	$ —
Interest rate derivatives	—	3	3	—	—
As of December 31, 2012					
Fuel derivatives	—	1	—	—	1
Interest rate derivatives	—	12	12	—	—

NOTE 14 Fair Value

Under the *Fair Value Measurements and Disclosures* topic of the Codification, disclosures are required about how fair value is determined for assets and liabilities and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

- **Level 1** quoted prices in active markets for identical assets or liabilities;
- **Level 2** quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or
- **Level 3** unobservable inputs for the asset or liability, such as discounted cash flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following is a listing of our assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the fair value hierarchy, as described in Note 1 (in millions). The carrying values of all other financial instruments approximated their fair values at December 31, 2013 and 2012. Refer to Note 2 for fair value information related to our outstanding debt obligations as of December 31, 2013 and 2012.

	As of December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 51	$ —	$ —	$ 51
Restricted cash	—	—	—	—
Available-for-sale investment securities	—	188	—	188
Aircraft fuel derivatives	—	6	—	6
	$ 51	$ 194	$ —	$ 245
Liabilities				
Interest rate swap	—	3	—	3
	$ —	$ 3	$ —	$ 3

	As of December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 84	$ —	$ —	$ 84
Restricted cash	4	—	—	4
Available-for-sale investment securities	68	207	—	275
	$ 156	$ 207	$ —	$ 363
Liabilities				
Aircraft fuel derivatives	$ —	$ 1	$ —	$ 1
Interest rate swap	—	12	—	12
	$ —	$ 13	$ —	$ 13

Cash and Cash Equivalents

Our cash and cash equivalents include money market securities, treasury bills, and commercial papers which are readily convertible into cash with maturities of three months or less when purchased. All of these instruments are considered to be highly liquid and easily tradable. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

Available-for-sale investment securities

Included in our available-for-sale investment securities are certificates of deposits and commercial paper with original maturities greater than 90 days but less than one year. The fair values of these instruments are based on observable inputs in non-active markets, which are therefore classified as Level 2 in the hierarchy. At December 31, 2012, we also held treasury bills with maturities greater than three months when purchased. The fair value of the treasury bills are based on actively traded quoted market prices and are therefore classified as Level 1 in the hierarchy. We did not record any material gains or losses on these securities during the twelve months ended December 31, 2013 or 2012.

Interest rate swaps

The fair values of our interest rate swaps are based on inputs received from the related counterparty, which are based on observable inputs for active swap indications in quoted markets for similar terms. Their fair values are determined using a market approach based on inputs that are readily available from public markets; therefore, they are classified as Level 2 inputs.

Aircraft fuel derivatives

Our jet fuel swaps, jet fuel, heating oil and crude oil collars, and crude oil caps are not traded on public exchanges. Their fair values are determined using a market approach based on inputs that are readily available from public markets for commodities and energy trading activities; therefore, they are classified as Level 2 inputs. The data inputs are combined into quantitative models and processes to generate forward curves and volatilities related to the specific terms of the underlying hedge contracts.

NOTE 15 Accumulated Other Comprehensive Income (Loss)

Comprehensive income includes changes in fair value of our aircraft fuel derivatives and interest rate swap agreements, which qualify for hedge accounting. A rollforward of the amounts included in accumulated other comprehensive income (loss), net of taxes for the years ended December 31, 2011, 2012 and 2013 is as follows (in millions):

	Aircraft Fuel Derivatives(1)	Interest Rate Swaps(2)	Total
Beginning accumulated gains (losses) at December 31, 2010	$ 4	$ (14)	$ (10)
Reclassifications into earnings (net of $3 of taxes)	(1)	6	5
Change in fair value (net of $(7) of taxes)	(6)	(4)	(10)
Balance of accumulated losses at December 31, 2011	(3)	(12)	(15)
Reclassifications into earnings (net of $0 of taxes)	(6)	7	1
Change in fair value (net of $5 of taxes)	8	(2)	6
Balance of accumulated losses at December 31, 2012	(1)	(7)	(8)
Reclassifications into earnings (net of $7 of taxes)	6	5	11
Change in fair value (net of $(2) of taxes)	(4)	1	(3)
ENDING ACCUMULATED GAINS (LOSSES), AT DECEMBER 31, 2013	**$ 1**	**$ (1)**	**$ —**

(1) Reclassified to aircraft fuel expense
(2) Reclassified to interest expense

NOTE 16 Geographic Information

Under the *Segment Reporting* topic of the Codification, disclosures are required for operating segments, which are regularly reviewed by the chief operating decision makers. Air transportation services accounted for substantially all the Company's operations in 2013, 2012 and 2011.

Operating revenues are allocated to geographic regions, as defined by the DOT, based upon the origination and destination of each flight segment. We currently serve 24 locations in the Caribbean and Latin American region, or Latin America as defined by the DOT. However, our management includes our three destinations in Puerto Rico and two destinations in the U.S. Virgin Islands in our Caribbean and Latin America allocation of revenues. Therefore, we have reflected these locations within the Caribbean and Latin America region in the table below. Operating revenues by geographic regions for the years ended December 31 are summarized below (in millions):

	2013	2012	2011
Domestic	$ 3,886	$ 3,666	$ 3,351
Caribbean & Latin America	1,555	1,316	1,153
TOTAL	**$ 5,441**	**$ 4,982**	**$ 4,504**

Our tangible assets primarily consist of our fleet of aircraft, which is deployed system wide, with no individual aircraft dedicated to any specific route or region; therefore our assets do not require any allocation to a geographic area.

NOTE 17 Quarterly Financial Data (Unaudited)

Quarterly results of operations for the years ended December 31 are summarized below (in millions, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013(1)				
Operating revenues	$ 1,299	$ 1,335	$ 1,442	$ 1,365
Operating income	59	102	152	115
Net income	14	36	71	47
Basic earnings per share	$ 0.05	$ 0.13	$ 0.25	$ 0.16
Diluted earnings per share	$ 0.05	$ 0.11	$ 0.21	$ 0.14
2012(2)				
Operating revenues	$ 1,203	$ 1,277	$ 1,308	$ 1,194
Operating income	89	130	113	44
Net income	30	52	45	1
Basic earnings per share	$ 0.11	$ 0.19	$ 0.16	$ —
Diluted earnings per share	$ 0.09	$ 0.16	$ 0.14	$ —

(1) During the first quarter of 2013 we had a gain of $7 million on the sale of the Airfone business by LiveTV. During the fourth quarter of 2013 we sold three spare engines resulting in gains of approximately $2 million as well as $3 million in losses on the early extinguishment of debt.

(2) During the first quarter of 2012, LiveTV terminated a customer contract resulting in a gain of approximately $8 million in other operating expenses. During the second quarter of 2012, we recorded net gains of approximately $10 million on the sale of two EMBRAER 190 aircraft and six spare aircraft engines in other operating expenses, as well as net gains of approximately $2 million in interest income and other on the early extinguishment of debt secured by six aircraft. During the fourth quarter of 2012, we recognized losses of approximately $3 million in interest income and other on the early extinguishment of debt secured by two aircraft.

The sum of the quarterly earnings per share amounts does not equal the annual amount reported since per share amounts are computed independently for each quarter and for the full year based on respective weighted-average common shares outstanding and other dilutive potential common shares.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
JetBlue Airways Corporation

We have audited the accompanying consolidated balance sheets of JetBlue Airways Corporation as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of JetBlue Airways Corporation at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), JetBlue Airways Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

February 18, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
JetBlue Airways Corporation

We have audited JetBlue Airways Corporation's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). JetBlue Airways Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, JetBlue Airways Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of JetBlue Airways Corporation as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2013 of JetBlue Airways Corporation and our report dated February 18, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York

February 18, 2014

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information required to be disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and our Chief Financial Officer, or CFO, to allow timely decisions regarding required disclosure. Management, with the participation of our CEO and CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2013. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2013.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2013 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. GAAP.

Ernst & Young LLP, the independent registered public accounting firm that audited our Consolidated Financial Statements included in this Annual Report on Form 10-K, audited the effectiveness of our internal control over financial reporting as of December 31, 2013. Ernst & Young LLP has issued their report which is included elsewhere herein.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2013, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our controls performed during that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Code of Ethics

We adopted a Code of Ethics within the meaning of Item 406(b) of SEC Regulation S-K. This Code of Ethics applies to our principal executive officer, principal financial officer and principal accounting officer. This Code of Ethics is publicly available on our website at *http://investor.jetblue.com*. If we make substantive amendments to this Code of Ethics or grant any waiver, including any implicit waiver, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K within four days of such amendment or waiver.

Information relating to executive officers is set forth in Part I of this report following Item 4 under "Executive Officers of the Registrant". The other information required by this Item will be included in and is incorporated herein by reference from our definitive proxy statement for our 2014 Annual Meeting of Stockholders to be held on May 22, 2014 to be filed with the SEC pursuant to Regulation 14A within 120 days after the end of our 2013 fiscal year, or our Proxy Statement.

ITEM 11. Executive Compensation

The information required by this Item will be included in and is incorporated herein by reference from our Proxy Statement.

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

Equity Compensation Plan Information

The table below provides information relating to our equity compensation plans (including individual compensation arrangements) under which our common stock is authorized for issuance as of December 31, 2013, as adjusted for stock splits:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	16,764,500	$ 11.04	94,424,966
Equity compensation plans not approved by security holders	—	—	—
TOTAL	**16,764,500**	**$ 11.04**	**94,424,966**

See Note 7 to our consolidated financial statements for further information regarding the material features of the above plans.

The other information required by this Item will be included in and is incorporated herein by reference from our Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be included in and is incorporated herein by reference from our Proxy Statement.

ITEM 14. Principal Accounting Fees and Services

The information required by this Item will be included in and is incorporated herein by reference from our Proxy statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

1.	Financial statements:	
	Consolidated Balance Sheets — December 31, 2013 and December 31, 2012	
	Consolidated Statements of Operations — For the years ended December 31, 2013, 2012 and 2011	
	Consolidated Statements of Comprehensive Income — For the years ended December 31, 2013, 2012 and 2011	
	Consolidated Statements of Cash Flows — For the years ended December 31, 2013, 2012 and 2011	
	Consolidated Statements of Stockholders' Equity — For the years ended December 31, 2013, 2012 and 2011	
	Notes to Consolidated Financial Statements	
	Reports of Independent Registered Public Accounting Firm	
2.	Financial Statement Schedule:	
	Report of Independent Registered Public Accounting Firm on Financial Statement Schedule	S-1
	Schedule II — Valuation of Qualifying Accounts and Reserves	S-2
	All other schedules have been omitted because they are inapplicable, not required, or the information is included elsewhere in the consolidated financial statements or notes thereto.	
3.	Exhibits: See accompanying Exhibit Index included after the signature page of this report for a list of the exhibits filed or furnished with or incorporated by reference in this report.	

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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.

JETBLUE AIRWAYS CORPORATION

(Registrant)

By: **/s/ DONALD DANIELS**

Vice President, Controller, and Chief Accounting Officer
(Principal Accounting Officer)

Date:
February 18, 2014

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James G. Hnat his or her attorney-in-fact with power of substitution for him or her in any and all capacities, to sign any amendments, supplements or other documents relating to this Annual Report on Form 10-K which he or she deems necessary or appropriate, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that such attorney-in-fact or their substitute may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated (and, as indicated with an asterisk, representing at least a majority of the members of the Board of Directors).

Signature	Capacity	Date
/S/ DAVID BARGER David Barger	Chief Executive Officer and Director (Principal Executive Officer)	February 18, 2014
/S/ MARK D. POWERS Mark D. Powers	Chief Financial Officer (Principal Financial Officer)	February 18, 2014
/S/ DONALD DANIELS Donald Daniels	Vice President, Controller, and Chief Accounting Officer (Principal Accounting Officer)	February 18, 2014
/S/ JENS BISCHOF Jens Bischof *	Director	February 18, 2014
/S/ PETER BONEPARTH Peter Boneparth *	Director	February 18, 2014
/S/ DAVID CHECKETTS David Checketts *	Director	February 18, 2014
/S/ VIRGINIA GAMBALE Virginia Gambale *	Director	February 18, 2014
/S/ STEPHAN GEMKOW Stephan Gemkow *	Director	February 18, 2014
/S/ ELLEN JEWETT Ellen Jewett *	Director	February 18, 2014
/S/ STANLEY MCCHRYSTAL Stanley McChrystal *	Director	February 18, 2014
/S/ JOEL PETERSON Joel Peterson *	Director	February 18, 2014
/S/ ANN RHOADES Ann Rhoades *	Director	February 18, 2014
/S/ FRANK SICA Frank Sica *	Director	February 18, 2014
/S/ THOMAS WINKELMANN Thomas Winkelmann *	Director	February 18, 2014

EXHIBIT INDEX

2.1	Membership Interest Purchase Agreement among Harris Corporation and Thales Avionics In-Flight Systems, LLC and In-Flight Liquidating, LLC and Glenn S. Latta and Jeffrey A. Frisco and Andreas de Greef and JetBlue Airways Corporation, dated as of September 9, 2002 relating to the interests in LiveTV, LLC—incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K dated September 27, 2002.
3.2(a)	Amended and Restated Certificate of Incorporation of JetBlue Airways Corporation—incorporated by reference to Exhibit 3.5 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.
3.2(b)	Certificate of Amendment of Certificate of Incorporation, dated May 20, 2010—incorporated by reference to Exhibit 3.2(b) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.
3.3(e)	Fifth Amended and Restated Bylaws of JetBlue Airways Corporation—incorporated by reference to Exhibit 3.6 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.
3.3(f)	Fifth Amended and Restated Bylaws of JetBlue Airways Corporation (consolidated amendments as of November 12, 2009)—incorporated by reference to Exhibit 3.3(f) to our Annual Report on Form 10-K for the year ended December 31, 2009.
3.3(g)	Amended Consolidated Fifth Amended and Restated Bylaws of JetBlue Airways Corporation—incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated April 11, 2011.
3.3(h)	Amended Consolidated Fifth Amended and Restated Bylaws of JetBlue Airways Corporation—incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated September 18, 2012.
3.4	Certificate of Designation of Series A Participating Preferred Stock dated April 1, 2002—incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K dated July 10, 2003.
4.1	Specimen Stock Certificate—incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1, as amended (File No. 333-82576).
4.2	Amended and Restated Registration Rights Agreement, dated as of August 10, 2000, by and among JetBlue Airways Corporation and the Stockholders named therein—incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1, as amended (File No. 333-82576).
4.2(a)	Amendment No. 1, dated as of June 30, 2003, to Amended and Restated Registration Rights Agreement, dated as of August 10, 2000, by and among JetBlue Airways Corporation and the Stockholders named therein—incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-3, filed on July 3, 2003, as amended on July 10, 2003 (File No. 333-106781).
4.2(b)	Amendment No. 2, dated as of October 6, 2003, to Amended and Restated Registration Rights Agreement, dated as of August 10, 2000, by and among JetBlue Airways Corporation and the Stockholders named therein—incorporated by reference to Exhibit 4.9 to the Registration Statement on Form S-3, filed on October 7, 2003 (File No. 333-109546).
4.2(c)	Amendment No. 3, dated as of October 4, 2004, to Amended and Restated Registration Rights Agreement, dated as of August 10, 2000, by and among JetBlue Airways Corporation and the Stockholders named therein—incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K/A dated October 4, 2004.
4.2(d)	Amendment No. 4, dated as of June 22, 2006, to Amended and Restated Registration Rights Agreement, dated as of August 10, 2000, by and among JetBlue Airways Corporation and the Stockholders named therein—incorporated by reference to Exhibit 4.19 to our Registration Statement on Form S-3 ARS, filed on June 30, 2006 (File No. 333-135545).
4.4	Summary of Rights to Purchase Series A Participating Preferred Stock—incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-1, as amended (File No. 333-82576).
4.5	Stockholder Rights Agreement—incorporated by reference to Exhibit 4.3 to our Annual Report on Form 10-K for the year ended December 31, 2002.
4.5(a)	Amendment to the Stockholder Rights Agreement, dated as of January 17, 2008, by and between JetBlue Airways Corporation and Computershare Trust Company, N.A.—incorporated by reference to Exhibit 4.5(a) to our Current Report on Form 8-K dated January 23, 2008.
4.7	Form of Three-Month LIBOR plus 0.375% JetBlue Airways Pass Through Certificate Series 2004-1G-1-O—incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated March 24, 2004.
4.7(a)	Form of Three-Month LIBOR plus 0.420% JetBlue Airways Pass Through Certificate Series 2004-1G-2-O—incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated March 24, 2004.
4.7(b)	Form of Three-Month LIBOR plus 4.250% JetBlue Airways Pass Through Certificate Series 2004-1C-O—incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K dated March 24, 2004.
4.7(c)	Pass Through Trust Agreement, dated as of March 24, 2004, between JetBlue Airways Corporation and Wilmington Trust Company, as Pass Through Trustee, made with respect to the formation of JetBlue Airways Pass Through Trust, Series 2004-1G-1-O and the issuance of Three-Month LIBOR plus 0.375% JetBlue Airways Pass Through Trust, Series 2004-1G-1-O, Pass Through Certificates—incorporated by reference to Exhibit 4.4 to our Current Report on Form 8-K dated March 24, 2004 (1).
4.7(d)	Revolving Credit Agreement (2004-1G-1), dated as of March 24, 2004, between Wilmington Trust Company, as Subordination Agent, as agent and trustee for the JetBlue Airways 2004-1G-1 Pass Through Trust, as Borrower, and Landesbank Hessen-Thüringen Girozentrale, as Primary Liquidity Provider—incorporated by reference to Exhibit 4.5 to our Current Report on Form 8-K dated March 24, 2004.
4.7(e)	Revolving Credit Agreement (2004-1G-2), dated as of March 24, 2004, between Wilmington Trust Company, as Subordination Agent, as agent and trustee for the JetBlue Airways 2004-1G-2 Pass Through Trust, as Borrower, and Landesbank Hessen-Thüringen Girozentrale, as Primary Liquidity Provider—incorporated by reference to Exhibit 4.6 to our Current Report on Form 8-K dated March 24, 2004.

4.7(f)	Revolving Credit Agreement (2004-1C), dated as of March 24, 2004, between Wilmington Trust Company, as Subordination Agent, as agent and trustee for the JetBlue Airways 2004-1C Pass Through Trust, as Borrower, and Landesbank Hessen-Thüringen Girozentrale, as Primary Liquidity Provider—incorporated by reference to Exhibit 4.7 to our Current Report on Form 8-K dated March 24, 2004.
4.7(g)	Deposit Agreement (Class G-1), dated as of March 24, 2004, between Wilmington Trust Company, as Escrow Agent, and HSH Nordbank AG, New York Branch, as Depositary—incorporated by reference to Exhibit 4.8 to our Current Report on Form 8-K dated March 24, 2004.
4.7(h)	Deposit Agreement (Class G-2), dated as of March 24, 2004, between Wilmington Trust Company, as Escrow Agent, and HSH Nordbank AG, New York Branch, as Depositary—incorporated by reference to Exhibit 4.9 to our Current Report on Form 8-K dated March 24, 2004.
4.7(i)	Deposit Agreement (Class C), dated as of March 24, 2004, between Wilmington Trust Company, as Escrow Agent, and HSH Nordbank AG, New York Branch, as Depositary—incorporated by reference to Exhibit 4.10 to our Current Report on Form 8-K dated March 24, 2004.
4.7(j)	Escrow and Paying Agent Agreement (Class G-1), dated as of March 24, 2004, among Wilmington Trust Company, as Escrow Agent, Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and Credit Lyonnais Securities (USA) Inc., as Underwriters, Wilmington Trust Company, as Pass Through Trustee for and on behalf of JetBlue Airways Corporation Pass Through Trust 2004-1G-1-O, as Pass Through Trustee, and Wilmington Trust Company, as Paying Agent—incorporated by reference to Exhibit 4.11 to our Current Report on Form 8-K dated March 24, 2004.
4.7(k)	Escrow and Paying Agent Agreement (Class G-2), dated as of March 24, 2004, among Wilmington Trust Company, as Escrow Agent, Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and Credit Lyonnais Securities (USA) Inc., as Underwriters, Wilmington Trust Company, as Pass Through Trustee for and on behalf of JetBlue Airways Corporation Pass Through Trust 2004-1G-2-O, as Pass Through Trustee, and Wilmington Trust Company, as Paying Agent—incorporated by reference to Exhibit 4.12 to our Current Report on Form 8-K dated March 24, 2004.
4.7(l)	Escrow and Paying Agent Agreement (Class C), dated as of March 24, 2004, among Wilmington Trust Company, as Escrow Agent, Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and Credit Lyonnais Securities (USA) Inc., as Underwriters, Wilmington Trust Company, as Pass Through Trustee for and on behalf of JetBlue Airways Corporation Pass Through Trust 2004-1C-O, as Pass Through Trustee, and Wilmington Trust Company, as Paying Agent—incorporated by reference to Exhibit 4.13 to our Current Report on Form 8-K dated March 24, 2004.
4.7(m)	ISDA Master Agreement, dated as of March 24, 2004, between Morgan Stanley Capital Services Inc., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways Corporation Pass Through Trust 2004-1G-1-O—incorporated by reference to Exhibit 4.14 to our Current Report on Form 8-K dated March 24, 2004 (2).
4.7(n)	Schedule to the ISDA Master Agreement, dated as of March 24, 2004, between Morgan Stanley Capital Services Inc., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways Corporation Pass Through Trust 2004-1G-1-O—incorporated by reference to Exhibit 4.15 to our Current Report on Form 8-K dated March 24, 2004.
4.7(o)	Schedule to the ISDA Master Agreement, dated as of March 24, 2004, between Morgan Stanley Capital Services, Inc., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways Corporation Pass Through Trust 2004-1G-2-O—incorporated by reference to Exhibit 4.16 to our Current Report on Form 8-K dated March 24, 2004.
4.7(p)	Schedule to the ISDA Master Agreement, dated as of March 24, 2004, between Morgan Stanley Capital Services, Inc., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways Corporation Pass Through Trust 2004-1C-O—incorporated by reference to Exhibit 4.17 to our Current Report on Form 8-K dated March 24, 2004.
4.7(q)	Class G-1 Above Cap Liquidity Facility Confirmation, dated March 24, 2004, between Morgan Stanley Capital Services Inc., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.18 to our Current Report on Form 8-K dated March 24, 2004.
4.7(r)	Class G-2 Above Cap Liquidity Facility Confirmation, dated March 24, 2004, between Morgan Stanley Capital Services Inc., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.19 to our Current Report on Form 8-K dated March 24, 2004.
4.7(s)	Class C Above Cap Liquidity Facility Confirmation, dated March 24, 2004, between Morgan Stanley Capital Services Inc., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.20 to our Current Report on Form 8-K dated March 24, 2004.
4.7(t)	Guarantee, dated March 24, 2004, of Morgan Stanley Capital Services Inc. with respect to the Class G-1 Above Cap Liquidity Facility—incorporated by reference to Exhibit 4.21 to our Current Report on Form 8-K dated March 24, 2004.
4.7(u)	Guarantee, dated March 24, 2004, of Morgan Stanley Capital Services Inc. with respect to the Class G-2 Above Cap Liquidity Facility—incorporated by reference to Exhibit 4.22 to our Current Report on Form 8-K dated March 24, 2004.
4.7(v)	Guarantee, dated March 24, 2004, of Morgan Stanley Capital Services Inc. with respect to the Class C Above Cap Liquidity Facility—incorporated by reference to Exhibit 4.23 to our Current Report on Form 8-K dated March 24, 2004.
4.7(w)	Insurance and Indemnity Agreement, dated as of March 24, 2004, among MBIA Insurance Corporation, as Policy Provider, JetBlue Airways Corporation and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.24 to our Current Report on Form 8-K dated March 24, 2004.
4.7(x)	MBIA Insurance Corporation Financial Guaranty Insurance Policy, dated March 24, 2004, bearing Policy Number 43567(1) issued to Wilmington Trust Company, as Subordination Agent for the Class G-1 Certificates—incorporated by reference to Exhibit 4.25 to our Current Report on Form 8-K dated March 24, 2004.
4.7(y)	MBIA Insurance Corporation Financial Guaranty Insurance Policy, dated March 24, 2004, bearing Policy Number 43567(2) issued to Wilmington Trust Company, as Subordination Agent for the Class G-2 Certificates—incorporated by reference to Exhibit 4.26 to our Current Report on Form 8-K dated March 24, 2004.

4.7(z)	Intercreditor Agreement, dated as of March 24, 2004, among Wilmington Trust Company, as Pass Through Trustee, Landesbank Hessen- Thüringen Girozentrale, as Primary Liquidity Provider, Morgan Stanley Capital Services, Inc., as Above-Cap Liquidity Provider, MBIA Insurance Corporation, as Policy Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.27 to our Current Report on Form 8-K dated March 24, 2004.
4.7(aa)	Note Purchase Agreement, dated as of March 24, 2004, among JetBlue Airways Corporation, Wilmington Trust Company, in its separate capacities as Pass Through Trustee, as Subordination Agent, as Escrow Agent and as Paying Agent—incorporated by reference to Exhibit 4.28 to our Current Report on Form 8-K dated March 24, 2004.
4.7(ab)	Form of Trust Indenture and Mortgage between JetBlue Airways Corporation, as Owner, and Wilmington Trust Company, as Mortgagee—incorporated by reference to Exhibit 4.29 to our Current Report on Form 8-K dated March 24, 2004.
4.7(ac)	Form of Participation Agreement among JetBlue Airways Corporation, as Owner, and Wilmington Trust Company, in its separate capacities as Mortgagee, as Pass Through Trustee and as Subordination Agent—incorporated by reference to Exhibit 4.30 to our Current Report on Form 8-K dated March 24, 2004.
4.8	Form of Three-Month LIBOR plus 0.375% JetBlue Airways Pass Through Certificate Series 2004-2G-1-O, with attached form of Escrow Receipt—incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated November 9, 2004.
4.8(a)	Form of Three-Month LIBOR plus 0.450% JetBlue Airways Pass Through Certificate Series 2004-2G-2-O, with attached form of Escrow Receipt—incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated November 9, 2004.
4.8(b)	Form of Three-Month LIBOR plus 3.100% JetBlue Airways Pass Through Certificate Series 2004-2C-O, with attached form of Escrow Receipt—incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K dated November 9, 2004.
4.8(c)	Pass Through Trust Agreement, dated as of November 15, 2004, between JetBlue Airways Corporation and Wilmington Trust Company, as Pass Through Trustee, made with respect to the formation of JetBlue Airways Pass Through Trust, Series 2004-2G-1-O and the issuance of Three-Month LIBOR plus 0.375% JetBlue Airways Pass Through Trust, Series 2004-2G-1-O, Pass Through Certificates—incorporated by reference to Exhibit 4.4 to our Current Report on Form 8-K dated November 9, 2004 (3).
4.8(d)	Revolving Credit Agreement (2004-2G-1), dated as of November 15, 2004, between Wilmington Trust Company, as Subordination Agent, as agent and trustee for the JetBlue Airways 2004-2G-1 Pass Through Trust, as Borrower, and Landesbank Baden-Württemberg, as Primary Liquidity Provider—incorporated by reference to Exhibit 4.5 to our Current Report on Form 8-K dated November 9, 2004.
4.8(e)	Revolving Credit Agreement (2004-2G-2), dated as of November 15, 2004, between Wilmington Trust Company, as Subordination Agent, as agent and trustee for the JetBlue Airways 2004-2G-2 Pass Through Trust, as Borrower, and Landesbank Baden-Württemberg, as Primary Liquidity Provider—incorporated by reference to Exhibit 4.6 to our Current Report on Form 8-K dated November 9, 2004.
4.8(f)	Revolving Credit Agreement (2004-2C), dated as of November 15, 2004, between Wilmington Trust Company, as Subordination Agent, as agent and trustee for the JetBlue Airways 2004-2C Pass Through Trust, as Borrower, and Landesbank Baden-Württemberg, as Primary Liquidity Provider—incorporated by reference to Exhibit 4.7 to our Current Report on Form 8-K dated November 9, 2004.
4.8(g)	Deposit Agreement (Class G-1), dated as of November 15, 2004, between Wilmington Trust Company, as Escrow Agent, and HSH Nordbank AG, New York Branch, as Depositary—incorporated by reference to Exhibit 4.8 to our Current Report on Form 8-K dated November 9, 2004.
4.8(h)	Deposit Agreement (Class G-2), dated as of November 15, 2004, between Wilmington Trust Company, as Escrow Agent, and HSH Nordbank AG, New York Branch, as Depositary—incorporated by reference to Exhibit 4.9 to our Current Report on Form 8-K dated November 9, 2004.
4.8(i)	Deposit Agreement (Class C), dated as of November 15, 2004, between Wilmington Trust Company, as Escrow Agent, and HSH Nordbank AG, New York Branch, as Depositary—incorporated by reference to Exhibit 4.10 to our Current Report on Form 8-K dated November 9, 2004.
4.8(j)	Escrow and Paying Agent Agreement (Class G-1), dated as of November 15, 2004, among Wilmington Trust Company, as Escrow Agent, Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., HSBC Securities (USA) Inc. and J.P. Morgan Securities, Inc., as Underwriters, Wilmington Trust Company, as Pass Through Trustee for and on behalf of JetBlue Airways Corporation Pass Through Trust 2004-2G-2-O, as Pass Through Trustee, and Wilmington Trust Company, as Paying Agent—incorporated by reference to Exhibit 4.11 to our Current Report on Form 8-K dated November 9, 2004.
4.8(k)	Escrow and Paying Agent Agreement (Class G-2), dated as of November 15, 2004, among Wilmington Trust Company, as Escrow Agent, Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., HSBC Securities (USA) Inc. and J.P. Morgan Securities, Inc., as Underwriters, Wilmington Trust Company, as Pass Through Trustee for and on behalf of JetBlue Airways Corporation Pass Through Trust 2004-2G-2-O, as Pass Through Trustee, and Wilmington Trust Company, as Paying Agent—incorporated by reference to Exhibit 4.12 to our Current Report on Form 8-K dated November 9, 2004.
4.8(l)	Escrow and Paying Agent Agreement (Class C), dated as of November 15, 2004, among Wilmington Trust Company, as Escrow Agent, Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., HSBC Securities (USA) Inc. and J.P. Morgan Securities, Inc., as Underwriters, Wilmington Trust Company, as Pass Through Trustee for and on behalf of JetBlue Airways Corporation Pass Through Trust 2004-2C-O, as Pass Through Trustee, and Wilmington Trust Company, as Paying Agent—incorporated by reference to Exhibit 4.13 to our Current Report on Form 8-K dated November 9, 2004.
4.8(m)	ISDA Master Agreement, dated as of November 15, 2004, between Citibank, N.A., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways Corporation Pass Through Trust 2004-2G-1-O—incorporated by reference to Exhibit 4.14 to our Current Report on Form 8-K dated November 9, 2004 (4).
4.8(n)	Schedule to the ISDA Master Agreement, dated as of November 15, 2004, between Citibank, N.A., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways Corporation Pass Through Trust 2004-2G-1-O—incorporated by reference to Exhibit 4.15 to our Current Report on Form 8-K dated November 9, 2004.

4.8(o)	Schedule to the ISDA Master Agreement, dated as of November 15, 2004, between Citibank, N.A., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways Corporation Pass Through Trust 2004-2G-2-O—incorporated by reference to Exhibit 4.16 to our Current Report on Form 8-K dated November 9, 2004.
4.8(p)	Schedule to the ISDA Master Agreement, dated as of November 15, 2004, between Citibank, N.A., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways Corporation Pass Through Trust 2004-2C-O—incorporated by reference to Exhibit 4.17 to our Current Report on Form 8-K dated November 9, 2004.
4.8(q)	Class G-1 Above Cap Liquidity Facility Confirmation, dated November 15, 2004, between Citibank, N.A., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.18 to our Current Report on Form 8-K dated November 9, 2004.
4.8(r)	Class G-2 Above Cap Liquidity Facility Confirmation, dated November 15, 2004, between Citibank, N.A., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.19 to our Current Report on Form 8-K dated November 9, 2004.
4.8(s)	Class C Above Cap Liquidity Facility Confirmation, dated November 15, 2004, between Citibank, N.A., as Above Cap Liquidity Facility Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.20 to our Current Report on Form 8-K dated November 9, 2004.
4.8(t)	Insurance and Indemnity Agreement, dated as of November 15, 2004, among MBIA Insurance Corporation, as Policy Provider, JetBlue Airways Corporation and Wilmington Trust Company, as Subordination Agent and Trustee—incorporated by reference to Exhibit 4.21 to our Current Report on Form 8-K dated November 9, 2004.
4.8(u)	MBIA Insurance Corporation Financial Guaranty Insurance Policy, dated November 15, 2004, bearing Policy Number 45243 issued to Wilmington Trust Company, as Subordination Agent for the Class G-1 Certificates—incorporated by reference to Exhibit 4.22 to our Current Report on Form 8-K dated November 9, 2004.
4.8(v)	MBIA Insurance Corporation Financial Guaranty Insurance Policy, dated November 15, 2004, bearing Policy Number 45256 issued to Wilmington Trust Company, as Subordination Agent for the Class G-2 Certificates—incorporated by reference to Exhibit 4.23 to our Current Report on Form 8-K dated November 9, 2004.
4.8(w)	Intercreditor Agreement, dated as of November 15, 2004, among Wilmington Trust Company, as Pass Through Trustee, Landesbank Baden-Württemberg, as Primary Liquidity Provider, Citibank, N.A., as Above-Cap Liquidity Provider, MBIA Insurance Corporation, as Policy Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.24 to our Current Report on Form 8-K dated November 9, 2004.
4.8(x)	Note Purchase Agreement, dated as of November 15, 2004, among JetBlue Airways Corporation, Wilmington Trust Company, in its separate capacities as Pass Through Trustee, as Subordination Agent, as Escrow Agent and as Paying Agent—incorporated by reference to Exhibit 4.25 to our Current Report on Form 8-K dated November 9, 2004.
4.8(y)	Form of Trust Indenture and Mortgage between JetBlue Airways Corporation, as Owner, and Wilmington Trust Company, as Mortgagee—incorporated by reference to Exhibit 4.26 to our Current Report on Form 8-K dated November 9, 2004.
4.8(z)	Form of Participation Agreement among JetBlue Airways Corporation, as Owner, and Wilmington Trust Company, in its separate capacities as Mortgagee, as Pass Through Trustee and as Subordination Agent—incorporated by reference to Exhibit 4.27 to our Current Report on Form 8-K dated November 9, 2004.
4.9	Indenture, dated as of March 16, 2005, between JetBlue Airways Corporation and Wilmington Trust Company, as Trustee, relating to the Company's debt securities—incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated March 10, 2005.
4.9(b)	Second Supplemental Indenture to the Indenture filed as Exhibit 4.9 to this report, dated as of June 4, 2008, between JetBlue Airways Corporation and Wilmington Trust Company, as Trustee, relating to the Company's 5.5% Convertible Debentures due 2038—incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated June 5, 2008.
4.9(c)	Third Supplemental Indenture to the Indenture filed as Exhibit 4.9 to this report, dated as of June 4, 2008, between JetBlue Airways Corporation and Wilmington Trust Company, as Trustee, relating to the Company's 5.5% Convertible Debentures due 2038—incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated June 5, 2008.
4.10	Pass Through Trust Agreement, dated as of November 14, 2006, between JetBlue Airways Corporation and Wilmington Trust Company, as Pass Through Trustee, made with respect to the formation of JetBlue Airways (Spare Parts) G-1 Pass Through Trust, and the issuance of Three-Month LIBOR plus 0.230% JetBlue Airways (Spare Parts) G-1 Pass Through Certificate—incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K dated November 14, 2006.
4.10(a)	Pass Through Trust Agreement, dated as of November 14, 2006, between JetBlue Airways Corporation and Wilmington Trust Company, as Pass Through Trustee, made with respect to the formation of JetBlue Airways (Spare Parts) B-1 Pass Through Trust, and the issuance of Three-Month LIBOR plus 2.875% JetBlue Airways (Spare Parts) B-1 Pass Through Certificate—incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K dated November 14, 2006.
4.10(b)	Revolving Credit Agreement, dated as of November 14, 2006, between Wilmington Trust Company, as Subordination Agent, as agent and trustee for the JetBlue Airways (Spare Parts) G-1 Pass Through Trust, as Borrower, and Landesbank Hessen-Thüringen Girozentrale, as Primary Liquidity Provider—incorporated by reference to Exhibit 4.3 to our Current Report on Form 8-K dated November 14, 2006.
4.10(c)	ISDA Master Agreement, dated as of November 14, 2006, between Morgan Stanley Capital Services Inc., as Above Cap Liquidity Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways (Spare Parts) G-1 Pass Through Trust—incorporated by reference to Exhibit 4.4 to our Current Report on Form 8-K dated November 14, 2006.
4.10(d)	Schedule to the ISDA Master Agreement, dated as of November 14, 2006, between Morgan Stanley Capital Services Inc., as Above Cap Liquidity Provider, and Wilmington Trust Company, as Subordination Agent for the JetBlue Airways (Spare parts) G-1 Pass Through Trust—incorporated by reference to Exhibit 4.5 to our Current Report on Form 8-K dated November 14, 2006.

4.10(e)	Class G-1 Above Cap Liquidity Facility Confirmation, dated November 14, 2006, between Morgan Stanley Capital Services Inc., as Above Cap Liquidity Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.6 to our Current Report on Form 8-K dated November 14, 2006.
4.10(f)	Insurance and Indemnity Agreement, dated as of November 14, 2006, among MBIA Insurance Corporation, as Policy Provider, JetBlue Airways Corporation and Wilmington Trust Company, as Subordination Agent and Trustee—incorporated by reference to Exhibit 4.7 to our Current Report on Form 8-K dated November 14, 2006.
4.10(g)	Guarantee, dated as of November 14, 2006, by Morgan Stanley, relating to the Above-Cap Liquidity Facility—incorporated by reference to Exhibit 4.8 to our Current Report on Form 8-K dated November 14, 2006.
4.10(h)	MBIA Insurance Corporation Financial Guaranty Insurance Policy, dated November 14, 2006, bearing Policy Number 487110 issued to Wilmington Trust Company, as Subordination Agent for the Class G-1 Certificates—incorporated by reference to Exhibit 4.9 to our Current Report on Form 8-K dated November 14, 2006.
4.10(i)	Intercreditor Agreement, dated as of November 14, 2006, among Wilmington Trust Company, as Pass Through Trustee, Landesbank Hessen-Thüringen Girozentrale, as Primary Liquidity Provider, Morgan Stanley Capital Services, Inc., as Above-Cap Liquidity Provider, MBIA Insurance Corporation, as Policy Provider, and Wilmington Trust Company, as Subordination Agent—incorporated by reference to Exhibit 4.10 to our Current Report on Form 8-K dated November 14, 2006.
4.10(j)	Note Purchase Agreement, dated as of November 14, 2006, among JetBlue Airways Corporation, Wilmington Trust Company, in its separate capacities as Pass Through Trustee, as Subordination Agent and as Mortgagee—incorporated by reference to Exhibit 4.11 to our Current Report on Form 8-K dated November 14, 2006.
4.10(k)	Trust Indenture and Mortgage, dated November 14, 2006, between JetBlue Airways Corporation, as Owner, and Wilmington Trust Company, as Mortgagee—incorporated by reference to Exhibit 4.12 to our Current Report on Form 8-K dated November 14, 2006.
4.10(l)	Collateral Maintenance Agreement, dated as of November 14, 2006, among, JetBlue Airways Corporation, MBIA Insurance Corporation, as Initial Policy Provider, Wilmington Trust Company, as Mortgagee, and Additional Policy Provider(s), if any, which may from time to time hereafter become parties—incorporated by reference to Exhibit 4.13 to our Current Report on Form 8-K dated November 14, 2006.
4.10(m)	Reference Agency Agreement, dated November 14, 2006, among JetBlue Airways Corporation, Wilmington Trust Company as Subordination Agent and Mortgagee and Reference Agent—incorporated by reference to Exhibit 4.14 to our Current Report on Form 8-K dated November 14, 2006.
4.10(n)	Form of JetBlue Airways (Spare Parts) G-1 Pass Through Certificate (included in Exhibit 4.10)—incorporated by reference to Exhibit 4.15 to our Current Report on Form 8-K dated November 14, 2006.
4.10(o)	Form of JetBlue Airways (Spare Parts) B-1 Pass Through Certificate (included in Exhibit 4.10(a))—incorporated by reference to Exhibit 4.16 to our Current Report on Form 8-K dated November 14, 2006.
4.10(p)	Form of JetBlue Airways (Spare Parts) G-1 Equipment Note—incorporated by reference to Exhibit 4.17 to our Current Report on Form 8-K dated November 14, 2006.
4.10(q)	Form of JetBlue Airways (Spare Parts) B-1 Equipment Note—incorporated by reference to Exhibit 4.18 to our Current Report on Form 8-K dated November 14, 2006.
4.11	Stock Purchase Agreement, dated as of December 13, 2007, between JetBlue Airways Corporation and Deutsche Lufthansa AG—incorporated by reference to Exhibit 4.11 to our Current Report on Form 8-K dated December 13, 2007.
4.11(a)	Amendment No. 1, dated as of January 22, 2008, to the Stock Purchase Agreement, dated as of December 13, 2007, between JetBlue Airways Corporation and Deutsche Lufthansa AG—incorporated by reference to Exhibit 4.11(a) to our Current Report on Form 8-K dated January 23, 2008.
4.12	Registration Rights Agreement, dated as of January 22, 2008, by and between JetBlue Airways Corporation and Deutsche Lufthansa AG—incorporated by reference to Exhibit 4.12 to our Current Report on Form 8-K dated January 23, 2008.
4.13	Supplement Agreement, dated as of May 27, 2008, between JetBlue Airways Corporation and Deutsche Lufthansa AG – incorporated by reference to Exhibit 4.12 to our Current Report on Form 8-K dated May 28, 2008.
4.14	Second Supplemental Indenture dated as of June 4, 2008 between JetBlue Airways Corporation and Wilmington Trust Company, as Trustee—incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed on June 5, 2008.
4.15	Third Supplemental Indenture dated as of June 4, 2008 between JetBlue Airways Corporation and Wilmington Trust Company, as Trustee—incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K filed on June 5, 2008.
4.16	Form of Global Debenture—5.50% Convertible Debenture due 2038 (Series A) (included as part of Exhibit 4.1)—incorporated by reference to Exhibit 4.3 to Current Report on Form 8-K filed on June 5, 2008.
4.17	Form of Global Debenture—5.50% Convertible Debenture due 2038 (Series B) (included as part of Exhibit 4.2)—incorporated by reference to Exhibit 4.4 to Current Report on Form 8-K filed on June 5, 2008.
4.18	Fourth Supplemental Indenture dated as of June 9, 2009 between JetBlue Airways Corporation and Wilmington Trust Company, as Trustee—incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed on June 9, 2009.
4.19	Fifth Supplemental Indenture dated as of June 9, 2009 between JetBlue Airways Corporation and Wilmington Trust Company, as Trustee—incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K filed on June 9, 2009.
4.20	Form of Global Debenture—6.75% Convertible Debenture due 2039 (Series A)—incorporated by reference to Exhibit 4.3 to Current Report on Form 8-K filed on June 9, 2009.
4.21	Form of Global Debenture—6.75% Convertible Debenture due 2039 (Series B)—incorporated by reference to Exhibit 4.3 to Current Report on Form 8-K filed on June 9, 2009.
4.22	Registration Rights Agreement, dated as of April 5, 2012, among JetBlue Airways Corporation, Deutsche Lufthansa AG and Lufthansa Malta Blues LP - incorporated by reference to Exhibit 4.22 to our Current Report on Form 8-K filed on April 5, 2012.

10.3**	V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, including Side Letters No. 1 through No. 3 and No. 5 through No. 9—incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1, as amended (File No. 333-82576).
10.3(a)**	Side Letter No. 10 to V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, dated April 25, 2002—incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
10.3(b)**	Side Letter No. 11 to V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, dated February 10, 2003—incorporated by reference to Exhibit 10.8 to our Annual Report on Form 10-K for the year ended December 31, 2002.
10.3(c)**	Side Letter No. 12 to V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, dated March 24, 2003—incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.
10.3(d)**	Side Letter No. 13 to V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, dated April 23, 2003—incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K dated June 30, 2003.
10.3(e)**	Side Letter No. 14 to V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, dated October 3, 2003—incorporated by reference to Exhibit 10.15 to our Annual Report on Form 10-K for the year ended December 31, 2003.
10.3(f)**	Side Letter No. 15 to V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, dated November 10, 2003—incorporated by reference to Exhibit 10.16 to our Annual Report on Form 10-K for the year ended December 31, 2003.
10.3(g)**	Side Letter No. 16 to V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, dated February 20, 2004—incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.
10.3(h)**	Side Letter No. 17 to V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, dated June 11, 2004—incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
10.3(i)**	Side Letter No. 18 to V2500 General Terms of Sale between IAE International Aero Engines AG and NewAir Corporation, dated November 19, 2004—incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K dated November 19, 2004.
10.3(j)**	Side Letter No. 19 to V2500 General Terms of Sale between IAE International Aero Engines AG and New Air Corporation, dated July 21, 2005—incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.3(k)**	Side Letter No. 20 to V2500 General Terms of Sale between IAE International Aero Engines AG and New Air Corporation, dated July 6, 2006—incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
10.3(l)**	Side Letter No. 21 to V2500 General Terms of Sale between IAE International Aero Engines AG and New Air Corporation, dated January 30, 2007—incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
10.3(m)**	Side Letter No. 22 to V2500 General Terms of Sale between IAE International Aero Engines AG and New Air Corporation, dated March 27, 2007—incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
10.3(n)**	Side Letter No. 23 to V2500 General Terms of Sale between IAE International Aero Engines AG and New Air Corporation, dated December 18, 2007—incorporated by reference to Exhibit 10.3(n) to our Annual Report on Form 10-K, as amended, for the year ended December 31, 2007.
10.3(o)**	Side Letter No. 24 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated April 2, 2008—incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.
10.3(p)**	Side Letter No. 25 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated May 27, 2008—incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.
10.3(q)**	Side Letter No. 26 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated January 27, 2009—incorporated by reference to Exhibit 10.3(q) to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.
10.3(r)**	Side Letter No. 27 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated June 5, 2009–incorporated by reference to Exhibit 10.3(r) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
10.3(s)**	Side letter No. 28 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated August 31, 2010—incorporated by reference to Exhibit 10.3(s) to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.
10.3(t)**	Side letter No. 29 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated March 14, 2011—incorporated by reference to Exhibit 10.3(t) to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.
10.3(u)**	Side letter No. 30 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated August 17, 2011—incorporated by reference to Exhibit 10.3(u) to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.
10.3(v)**	Side letter No. 31 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated September 27, 2011—incorporated by reference to Exhibit 10.3(v) to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.

10.3(w)**	Side letter No. 32 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated November 8, 2011 - incorporated by reference to Exhibit 10.3(w) to our Annual Report on Form 10-K for the year ended December 31, 2011.
10.3(x)**	Side letter No. 33 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated December 1, 2011 - incorporated by reference to Exhibit 10.3(x) to our Annual Report on Form 10-K for the year ended December 31, 2011.
10.3(y)**	Side letter No. 34 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated February 21, 2012 - incorporated by reference to Exhibit 10.3(y) to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.
10.3(z)**	Side letter No. 35 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated March 15, 2012 - incorporated by reference to Exhibit 10.3(z) to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.
10.3(aa)**	Side letter No. 36 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated May 1, 2012 - incorporated by reference to Exhibit 10.3(aa) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
10.3(ab)**	Side letter No. 37 to V2500 General Terms of Sale between IAE International Aero Engines and New Air Corporation, dated November 9, 2012 - incorporated by reference to Exhibit 10.3(ab) to our Annual Report on Form 10-K for the year ended December 31, 2012.
10.4**	Amendment and Restated Agreement between JetBlue Airways Corporation and LiveTV, LLC, dated as of December 17, 2001, including Amendments No. 1, No. 2 and 3—incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1, as amended (File No. 333-82576).
10.5**	GDL Patent License Agreement between Harris Corporation and LiveTV, LLC, dated as of September 2, 2002—incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for quarter ended September 30, 2002.
10.15	Form of Director/Officer Indemnification Agreement—incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1, as amended (File No. 333-82576) and referenced as Exhibit 10.19 in our Current Report on Form 8-K dated February 12, 2008.
10.17**	EMBRAER-190 Purchase Agreement DCT-025/2003, dated June 9, 2003, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation— incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K dated June 30, 2003.
10.17(a)**	Amendment No. 1 to Purchase Agreement DCT-025/2003, dated as of July 8, 2005, between Embraer-Empresa Brasileria de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.17(b)**	Amendment No. 2 to Purchase Agreement DCT-025/2003, dated as of January 5, 2006, between Embraer-Empresa Brasileria de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.22(b) to our Annual Report on Form 10-K for the year ended December 31, 2005.
10.17(c)**	Amendment No. 3 to Purchase Agreement DCT-025/2003, dated as of December 4, 2006, between Embraer-Empresa Brasileria de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.21(c) to our Annual Report on Form 10-K for the year ended December 31, 2006.
10.17(d)**	Amendment No. 4 to Purchase Agreement DCT-025/2003, dated as of October 17, 2007, between Embraer-Empresa Brasileria de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.17(d) to our Annual Report on Form 10-K for the year ended December 31, 2007.
10.17(e)**	Amendment No. 5 to Purchase Agreement DCT-025/2003, dated as of July 18, 2008, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
10.17(f)**	Amendment No. 6 to Purchase Agreement DCT-025/2003, dated as of February 17, 2009, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.17(f) to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.
10.17(g)**	Amendment No. 7 to Purchase Agreement DCT-025/2003, dated as of December 14, 2009, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.17(g) to our Annual Report on Form 10-K for the year ended December 31, 2009.
10.17(h)**	Amendment No. 8 to Purchase Agreement DCT-025/2003, dated as of March 11, 2010, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.17(h) to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.
10.17(i)**	Amendment No. 9 to Purchase Agreement DCT-025/2003, dated as of May 24, 2010, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.17(i) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.
10.17(j)**	Amendment No. 10 to Purchase Agreement DCT-025/2003, dated as of September 10, 2010, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.17(j) to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.
10.17(k)**	Amendment No. 11 to Purchase Agreement DCT-025/2003, dated as of October 20, 2011, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation - incorporated by reference to Exhibit 10.17(k) to our Annual Report on Form 10-K for the year ended December 31, 2011.
10.17(l)**	Amendment No. 12 to Purchase Agreement DCT-025/2003, dated as of October 25, 2011, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation - incorporated by reference to Exhibit 10.17(l) to our Annual Report on Form 10-K for the year ended December 31, 2011.

10.17(m)**	Amendment No. 13 to Purchase Agreement DCT-025/2003, dated as of July 20, 2012, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation - incorporated by reference to Exhibit 10.17(m) to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.
10.17(n)**	Amendment No. 14 to Purchase Agreement DCT-025/2003, dated as of December 3, 2012, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation - incorporated by reference to Exhibit 10.17(n) to our Annual Report on Form 10-K for the year ended December 31, 2012.
10.17(o)**	Amendment No. 15 to Purchase Agreement DCT-025/2003, dated as of December 19, 2012, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation - incorporated by reference to Exhibit 10.17(m) to our Annual Report on Form 10-K for the year ended December 31, 2012.
10.17(p)**	Amendment No. 16 to Purchase Agreement DCT-025/2003, dated as of January 31, 2013 between Embraer S.A. (formerly known as Embraer - Empresa Brasileira de Aeronáutica S.A.) and JetBlue Airways Corporation - incorporated by reference to Exhibit 10.17(p) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
10.17(q)**	Amendment 17 to Purchase Agreement DCT-025/2003, dated as of May 14, 2013 between Embraer S.A. (formerly known as Embraer - Empresa Brasileira de Aeronáutica S.A.) and JetBlue Airways Corporation -incorporated by reference to Exhibit 10.17(q) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
10.17(r)**	Amendment 18 to Purchase Agreement DCT-025/2003, dated as of June 25, 2013 between Embraer S.A. (formerly known as Embraer - Empresa Brasileira de Aeronáutica S.A.) and JetBlue Airways Corporation - incorporated by reference to Exhibit 10.17(r) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
10.17(s)***	Amendment No. 19 to Purchase Agreement DCT-025/2003, dated as of October 1, 2013 between Embraer S.A. (formerly known as Embraer - Empresa Brasileira de Aeronautica S.A.) and JetBlue Airways Corporation.
10.17(t)***	Amendment No. 20 to Purchase Agreement DCT-025/2003, dated as of October 24, 2013 between Embraer S.A. (formerly known as Embraer - Empresa Brasileira de Aeronáutica S.A.) and JetBlue Airways Corporation.
10.18**	Letter Agreement DCT-026/2003, dated June 9, 2003, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K dated June 30, 2003.
10.18(a)**	Amendment No. 1, dated as of July 8, 2005, to Letter Agreement DCT-026/2003, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.
10.18(b)**	Amendment No. 2, dated as of January 5, 2006, to Letter Agreement DCT-026/2003, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.22(b) to our Annual Report on Form 10-K for the year ended December 31, 2006.
10.18(c)**	Amendment No. 3, dated as of December 4, 2006, to Letter Agreement DCT-026/2003, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.22(c) to our Annual Report on Form 10-K for the year ended December 31, 2006.
10.18(d)**	Amendment No. 4, dated as of October 17, 2007, to Letter Agreement DCT-026/2003, between Embraer-Empresa Brasileria de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.18(d) to our Annual Report on Form 10-K for the year ended December 31, 2007.
10.18(e)**	Amendment No. 5 to Letter Agreement DCT-026/2003, dated as of March 6, 2008, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
10.18(f)**	Amendment No. 6 to Letter Agreement DCT-026/2003, dated as of July 18, 2008, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
10.18(g)**	Amendment No. 7 to Letter Agreement DCT-026/2003, dated as of February 17, 2009, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.18(g) to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.
10.18(h)**	Amendment No. 8 to Letter Agreement DCT-026/2003, dated as of December 14, 2009, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.18(h) to the Annual Report on Form 10-K for the year ended December 31, 2009.
10.18(i)**	Amendment No. 9 to Letter Agreement DCT-026/2003, dated as of March 11, 2010, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.18(i) to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.
10.18(j)***	Amendment No. 10 to Letter Agreement DCT - 026/2003, dated as of November 18, 2010, between Embraer-Empresa Brasileira de Aeronautica S.A. and JetBlue Airways Corporation.
10.18(k)***	Amendment No. 11 to Letter Agreement DCT-026/2003, dated as of October 24, 2013 between Embraer - Empresa Brasileira de Aeronáutica S.A. and JetBlue Airways Corporation.
10.20	Agreement of Lease (Port Authority Lease No. AYD-350), dated November 22, 2005, between The Port Authority of New York and New Jersey and JetBlue Airways Corporation—incorporated by reference to Exhibit 10.30 to our Annual Report on Form 10-K for the year ended December 31, 2005.
10.20(a)	Supplement No. 3 to Agreement of Lease, dated July 1, 2012 between The Port Authority of New York and New Jersey and JetBlue Airways Corporation-incorporated by reference to Exhibit 10.20(a) to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.
10.21*	Amended and Restated 2002 Stock Incentive Plan, dated November 7, 2007, and form of award agreement—incorporated by reference to Exhibit 10.21 to the Annual Report for Form 10-K for the year ended December 31, 2008.
10.22*	JetBlue Airways Corporation Executive Change in Control Severance Plan, dated as of June 28, 2007—incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, dated June 28, 2007.

10.23*	Employment Agreement, dated February 11, 2008, between JetBlue Airways Corporation and David Barger—incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008.
10.23(a)*	Amendment to Employment Agreement, dated July 8, 2009, between JetBlue Airways Corporation and David Barger—incorporated by reference to Exhibit 10.23(a) to our Annual Report on Form 10-K for the year ended December 31, 2009.
10.23(b)*	Amendment no. 2 to Employment Agreement, dated December 21, 2010, between JetBlue Airways Corporation and David Barger—incorporated by reference to Exhibit 10.23(b) to our Current Report on Form 8-K filed on December 22, 2010.
10.23(c)*	Amendment no. 3 to Employment Agreement, dated December [13], 2013, between JetBlue Airways Corporation and David Barger.
10.25	Share Lending Agreement, dated as of May 29, 2008 between JetBlue Airways Corporation and Morgan Stanley Capital Services, Inc.—incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 30, 2008.
10.26	Pledge and Escrow Agreement (Series A Debentures) dated as of June 4, 2008 among JetBlue Airways Corporation, Wilmington Trust Company, as Trustee, and Wilmington Trust Company, as Escrow Agent—incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 5, 2008.
10.27	Pledge and Escrow Agreement (Series B Debentures) dated as of June 4, 2008 among JetBlue Airways Corporation, Wilmington Trust Company, as Trustee, and Wilmington Trust Company, as Escrow Agent—incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on June 5, 2008.
10.29	Option Letter Agreement, dated as of June 3, 2009, between JetBlue Airways Corporation and Deutsche Lufthansa AG—incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 4, 2009.
10.30**	Sublease by and between JetBlue Airways Corporation and Metropolitan Life Insurance Company—incorporated by reference to Exhibit 10.30 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010.
10.31(a)*	JetBlue Airways Corporation 2011 Incentive Compensation Plan—incorporated by reference to Exhibit 10.31(a) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011.
10.31(b)*	JetBlue Airways Corporation 2011 Incentive Compensation Plan forms of award agreement—incorporated by reference to Exhibit 10.31(b) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011.
10.31(c)*	JetBlue Airways Corporation 2011 Incentive Compensation Plan form of Performance Share Unit Award Agreement-incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 12, 2013.
10.31 (d)*	JetBlue Airways Corporation 2011 Incentive Compensation Plan forms of amended award agreement.
10.33**	Airbus A320 Family Purchase Agreement, dated October 19, 2011, between Airbus S.A.S. and JetBlue Airways Corporation, including Letter Agreements 1-8, each dated as of same date - incorporated by reference to Exhibit 10.33 to our Annual Report on Form 10-K for the year ended December 31, 2011.
10.33(a)**	Letter Agreement 9 to Airbus A320 Family Purchase Agreement, dated December 19, 2012, between Airbus S.A.S. and JetBlue Airways Corporation - incorporated by reference to Exhibit 10.33(a) to our Annual Report on Form 10-K for the year ended December 31, 2012
10.33(b)***	Amendment No. 1 to Airbus A320 Family Purchase Agreement, dated as of October 25, 2013, between Airbus S.A.S. and JetBlue Airways Corporation, including Amended and Restated Letter Agreements 1, 2, 3 and 6, each dated as of the same date.
10.35*	JetBlue Airways Corporation 2011 Crewmember Stock Purchase Plan - incorporated by reference to Exhibit 10.35 to our Annual Report on Form 10-K for the year ended December 31, 2011.
10.36	Credit and Guarantee Agreement dated as of April 23, 2013 among JetBlue Airways Corporation, as Borrower, The Subsidiaries of the Borrower Party Hereto, as Guarantors, The Lenders Party Hereto, and Citibank, N.A., as Administrative Agent-incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
10.37	Slot and Gate Security Agreement dated as of April 23, 2013 between JetBlue Airways Corporation, as Grantor, and Citibank, N.A., as Administrative Agent – incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
10.38**	Engine Services Agreement between JetBlue Airways Corporation and GE Engine Services, LLC, dated as of May 1, 2013 – incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013.
10.39*	JetBlue Airways Corporation Retirement Plan, amended and restated effective as of January 1, 2014
12.1	Computation of Ratio of Earnings to Fixed Charges.
21.1	List of Subsidiaries.
23	Consent of Ernst & Young LLP.

31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
32	Section 1350 Certifications.
99.2	Letter of Approval from the City of Long Beach Department of Public Works, dated May 22, 2001, approving City Council Resolution C-27843 regarding Flight Slot Allocation at Long Beach Municipal Airport—incorporated by reference to Exhibit 99.2 to the Registration Statement on Form S-1, as amended (File No. 333-82576).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Compensatory plans in which the directors and executive officers of JetBlue participate.

** Pursuant to a Confidential Treatment Request under Rule 24b-2 filed with and approved by the SEC, portions of this exhibit have been omitted.

*** 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 Request filed with the Commission.

(1) Documents substantially identical in all material respects to the document filed as Exhibit 4.4 to our Current Report on Form 8-K dated March 24, 2004 (which exhibit relates to formation of JetBlue Airways Pass Through Trust, Series 2004-1G-1-O and the issuance of Three-Month LIBOR plus 0.375% JetBlue Airways Pass Through Trust, Series 2004-1G-1-O, Pass Through Certificates) have been entered into with respect to formation of each of JetBlue Airways Pass Through Trusts, Series 2004-1G-2-O and Series 2004-1C-O and the issuance of each of Three-Month LIBOR plus 0.420% JetBlue Airways Pass Through Trust, Series 2004-1G-2-O and Three-Month LIBOR plus 4.250% JetBlue Airways Pass Through Trust, Series 2004-1C-O. Pursuant to Instruction 2 of Item 601 of Regulation S-K, Exhibit 99.1, incorporated by reference to our Current Report on Form 8-K dated March 24, 2004, sets forth the terms by which such substantially identical documents differ from Exhibit 4.7(c).

(2) Documents substantially identical in all material respects to the document filed as Exhibit 4.14 our Current Report on Form 8-K dated March 24, 2004 (which exhibit relates to an above-cap liquidity facility provided on behalf of the JetBlue Airways Corporation Pass Through Trust 2004-1G-1-O) have been entered into with respect to the above-cap liquidity facilities provided on behalf of the JetBlue Airways Corporation Pass Through Trust 2004-1G-2-O and the JetBlue Airways Corporation Pass Through Trust 2004-1C-O. Pursuant to Instruction 2 of Item 601 of Regulation S-K, Exhibit 99.2, incorporated by reference to our Current Report on Form 8-K dated March 24, 2004, sets forth the terms by which such substantially identical documents differ from Exhibit 4.7(m).

(3) Documents substantially identical in all material respects to the document filed as Exhibit 4.4 to our Current Report on Form 8-K dated November 9, 2004 (which exhibit relates to formation of JetBlue Airways Pass Through Trust, Series 2004-2G-1-O and the issuance of Three-Month LIBOR plus 0.375% JetBlue Airways Pass Through Trust, Series 2004-2G-1-O, Pass Through Certificates) have been entered into with respect to formation of each of the JetBlue Airways Pass Through Trusts, Series 2004-2G-2-O and Series 2004-2C-O and the issuance of each of Three-Month LIBOR plus 0.450% JetBlue Airways Pass Through Trust, Series 2004-2G-2-O and Three-Month LIBOR plus 3.100% JetBlue Airways Pass Through Trust, Series 2004-2C-O. Pursuant to Instruction 2 of Item 601 of Regulation S-K, Exhibit 99.1, incorporated by reference to our Current Report on Form 8-K dated November 9, 2004, sets forth the terms by which such substantially identical documents differ from Exhibit 4.8(c).

(4) Documents substantially identical in all material respects to the document filed as Exhibit 4.14 to our Current Report on Form 8-K dated November 9, 2004 (which exhibit relates to an above-cap liquidity facility provided on behalf of the JetBlue Airways Corporation Pass Through Trust 2004-2G-1-O) have been entered into with respect to the above-cap liquidity facilities provided on behalf of the JetBlue Airways Corporation Pass Through Trust 2004-2G-2-O and the JetBlue Airways Corporation Pass Through Trust 2004-2C-O. Pursuant to Instruction 2 of Item 601 of Regulation S-K, Exhibit 99.2, incorporated by reference to our Current Report on Form 8-K dated November 9, 2004, sets forth the terms by which such substantially identical documents differ from Exhibit 4.8(m).

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
JetBlue Airways Corporation

We have audited the consolidated financial statements of JetBlue Airways Corporation as of December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, and have issued our report thereon dated February 18, 2014 (included elsewhere in this Annual Report on Form 10-K). Our audits also included the financial statement schedule listed in Item 15(2) of this Annual Report on Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

New York, New York

February 18, 2014

JetBlue Airways Corporation

Schedule II—Valuation and Qualifying Accounts

(in thousands)

Description	Balance at beginning of period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at end of period
Year Ended December 31, 2013					
Allowances deducted from asset accounts:					
Allowance for doubtful accounts	$ 6,593	$ 3,618	$ —	$ 4,416(1)	$ 5,795
Allowance for obsolete inventory parts	5,046	1,309	—	—(3)	6,355
Valuation allowance for deferred tax assets	20,268	—	—	119(2)	20,149
Year Ended December 31, 2012					
Allowances deducted from asset accounts:					
Allowance for doubtful accounts	$ 7,586	$ 5,472	$ —	$ 6,465(1)	$ 6,593
Allowance for obsolete inventory parts	3,886	1,250	—	90(3)	5,046
Valuation allowance for deferred tax assets	20,872	—	—	604(2)	20,268
Year Ended December 31, 2011					
Allowances deducted from asset accounts:					
Allowance for doubtful accounts	$ 6,172	$ 7,017	$ —	$ 5,603(1)	$ 7,586
Allowance for obsolete inventory parts	3,636	1,026	—	776(3)	3,886
Valuation allowance for deferred tax assets	20,672	254	—	54(2)	20,872

(1) Uncollectible accounts written off, net of recoveries.

(2) Attributable to recognition and write-off of deferred tax assets.

(3) Inventory scrapped.

EXHIBIT 12.1 Computation of Ratio of Earnings to Fixed Charges

	Year Ended December 31,				
(in millions, except ratios)	**2013**	**2012**	**2011**	**2010**	**2009**
Earnings:					
Income before income taxes	$ 279	$ 209	$ 145	$ 161	$ 104
Less: Capitalized interest	(13)	(8)	(5)	(4)	(7)
Add:					
Fixed charges	255	270	273	272	298
Amortization of capitalized interest	3	2	2	2	2
Adjusted earnings	**$ 524**	**$ 473**	**$ 415**	**$ 431**	**$ 397**
Fixed charges:					
Interest expense	$ 154	$ 167	$ 171	$ 172	$ 189
Amortization of debt costs	8	9	8	8	9
Rent expense representative of interest	93	94	94	92	100
TOTAL FIXED CHARGES	**$ 255**	**$ 270**	**$ 273**	**$ 272**	**$ 298**
RATIO OF EARNINGS TO FIXED CHARGES	**2.05**	**1.75**	**1.52**	**1.59**	**1.33**

EXHIBIT 21.1 List of Subsidiaries as of December 31, 2013

BlueBermuda Insurance, LTD (Bermuda corporation)

LiveTV, LLC (Delaware limited liability company)

LTV Global, Inc. (Delaware corporation)

LiveTV International, Inc. (Delaware corporation)

LiveTV Satellite Communications, LLC. (Delaware limited liability company)

EXHIBIT 23 Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-86444) pertaining to the JetBlue Airways Corporation 2002 Stock Incentive Plan,

(2) Registration Statement (Form S-8 No. 333-129238) pertaining to the JetBlue Airways Corporation Crewmember Stock Purchase Plan,

(3) Registration Statement (Form S-8 No. 333-161565) pertaining to the JetBlue Airways Corporation 2002 Stock Incentive Plan and the JetBlue Airways Corporation Crewmember Stock Purchase Plan,

(4) Registration Statement (Form S-8 No. 333-174947) pertaining to the JetBlue Airways Corporation 2011 Incentive Compensation Plan and the JetBlue Airways Corporation 2011 Crewmember Stock Purchase Plan,

(5) Registration Statement (Form S-3 No. 333-181058) of JetBlue Airways Corporation, and

(6) Registration Statement (Form S-3 No. 333-184730) of JetBlue Airways Corporation;

of our reports dated February 18, 2014, with respect to the consolidated financial statements of JetBlue Airways Corporation, the effectiveness of internal control over financial reporting of JetBlue Airways Corporation and the financial statement schedule of JetBlue Airways Corporation listed in Item 15(2) included in this Annual Report (Form 10-K) of JetBlue Airways Corporation for the year ended December 31, 2013.

/s/ Ernst & Young LLP

New York, New York

February 18, 2014

EXHIBIT 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer

I, David Barger, certify that:

1. I have reviewed this Annual Report on Form 10-K of JetBlue Airways Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2014

By: **/s/ DAVID BARGER**
Chief Executive Officer

EXHIBIT 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer

I, Mark D. Powers, certify that:

1. I have reviewed this Annual Report on Form 10-K of JetBlue Airways Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 18, 2014

By: **/s/ MARK D. POWERS**
Chief Financial Officer

EXHIBIT 32 Section 1350 Certifications

In connection with the Annual Report of JetBlue Airways Corporation on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on February 18, 2014 (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of JetBlue Airways Corporation.

Date: February 18, 2014

By: **/s/ DAVID BARGER**
Chief Executive Officer

Date: February 18, 2014

By: **/s/ MARK D. POWERS**
Chief Financial Officer

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FORM 10-K

SOUTHWEST AIRLINES CO - LUV

Filed: February 04, 2014 (period: December 31, 2013)

Annual report with a comprehensive overview of the company

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from ________ to ________

Commission File No. 1-7259

Southwest Airlines Co.

(Exact name of registrant as specified in its charter)

TEXAS	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 $ 9,088,020,821 computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 28, 2013, 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 January 30, 2014: 701,991,465 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Company’s Annual Meeting of Shareholders to be held May 14, 2014, are incorporated into Part III of this Annual Report on Form 10-K.

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PART I

Item 1. *Business*

Company Overview

Southwest Airlines Co. (the "Company") operates Southwest Airlines ("Southwest") and AirTran Airways ("AirTran"), major passenger airlines that provide scheduled air transportation in the United States and near-international markets. For the 41st consecutive year, the Company was profitable, earning $754 million in net income.

Southwest commenced service on June 18, 1971, with three Boeing 737 aircraft serving three Texas cities: Dallas, Houston, and San Antonio. Including the operations of both Southwest and AirTran, the Company ended 2013 serving 96 destinations in 41 states, the District of Columbia, the Commonwealth of Puerto Rico, and five near-international countries including Mexico (Cancun, Mexico City, and Cabo San Lucas), Jamaica (Montego Bay), The Bahamas (Nassau), Aruba (Oranjestad), and Dominican Republic (Punta Cana). At December 31, 2013, Southwest's and AirTran's combined active fleet consisted of 680 aircraft, including 614 Boeing 737s and 66 Boeing 717s. The Company reached a major milestone in 2013 by completing the connection of the Southwest and AirTran networks. Customers can now fly between any of the combined 96 Southwest and AirTran destinations on a single itinerary.

In 2013, Southwest added service to two new states (Maine and Kansas) and ten new U.S. cities: Branson, Missouri; Charlotte, North Carolina; Flint, Michigan; Rochester, New York; Portland, Maine; Wichita, Kansas; Grand Rapids, Michigan; Memphis, Tennessee; Pensacola, Florida; and Richmond, Virginia. The addition of the new Southwest service establishes a Southwest presence in all domestic cities in Southwest's and AirTran's combined network. In 2013, Southwest also commenced service to San Juan, Puerto Rico, Southwest's first scheduled service outside of the continental United States. As part of its network optimization efforts, the Company has announced its plans to cease Southwest operations in Branson, Missouri; Key West, Florida; and Jackson, Mississippi beginning in June 2014. Based on the most recent data available from the U.S. Department of Transportation, as of September 30, 2013, Southwest was the largest domestic air carrier in the United States, as measured by the number of domestic originating passengers boarded.

During fourth quarter 2013 the Company took steps to supplement its existing service at New York LaGuardia Airport by acquiring 12 takeoff and landing slots (for six roundtrip flights) at LaGuardia (a "slot" is the right of an air carrier, pursuant to regulations of the Federal Aviation Administration ("FAA"), to operate a takeoff or landing at a specific time at certain airports). The acquired slots were divested by AMR Corporation, the parent company of American Airlines, Inc., as part of its merger with US Airways Group, Inc. Also in connection with the divestiture, the Company gained ownership through the purchase of ten takeoff and landing slots (for five roundtrip flights) at LaGuardia that it previously operated under a lease from American. The Company plans to supplement its existing Southwest service utilizing these newly acquired slots at LaGuardia beginning in May 2014. In January 2014, the Company was notified of its winning bid to acquire 54 takeoff and landing slots (for 27 roundtrip flights) at Washington Reagan National Airport, which must be divested in connection with the merger between American and US Airways. The acquisition of these slots, which is subject to final approval of the Department of Justice and customary written agreements, will supplement the Company's existing service at Washington Reagan.

While AirTran continues to service certain domestic cities and all of the Company's international markets, the Company has announced plans to convert AirTran's remaining domestic and international service into Southwest service by the end of 2014.

Southwest principally provides point-to-point, rather than hub-and-spoke, service. This has enabled it to maximize the use of key assets, including aircraft, gates, and Employees, and has also facilitated its ability to provide its markets with frequent, conveniently timed flights and low fares. Point-to-point service is discussed in more detail below under "Company Operations - Route Structure." AirTran has historically provided hub-and-spoke, rather than point-to-point, service, with approximately half of AirTran's flights historically originating or terminating in Atlanta, Georgia. As part of its integration efforts, the Company has begun optimizing its operations in many AirTran cities, primarily by transitioning Atlanta to a point-to-point operation, which is enabling efficiencies related to the scheduling of aircraft, flight crews, and ground staff.

Industry

The airline industry has historically been an extremely volatile industry subject to numerous challenges. Among other things, it has been cyclical, energy intensive, labor intensive, capital intensive, technology intensive, highly regulated, heavily taxed, and extremely competitive. The airline industry has also been particularly susceptible to detrimental events such as acts of terrorism (for example, 9/11), poor weather, and natural disasters. In addition, in recent years the industry has been significantly affected by an uncertain economy, high and volatile fuel prices, and government sequestration and shutdown. These factors have contributed to unpredictable demand for air travel and related cost and pricing challenges. Reflecting the numerous industry challenges, from 2001 through 2012 total financial losses for the U.S. airline industry exceeded $50 billion. As a result, many U.S. airlines have ceased operations or reorganized through bankruptcy.

Although the U.S. economy has experienced a moderate recovery since emerging from a recession in 2009 and the U.S. airline industry has showed measurable improvement during 2013, slow economic growth and lingering economic uncertainty have led to continued industry restraint with respect to overall capacity (number of available seats). Although some U.S. air carriers, including Southwest, experienced modest year-over-year increases in capacity during 2013, overall domestic airline industry capacity in 2013 remained below pre-recession levels. Leaner flight schedules over the past several years, along with industry consolidation, have contributed to improvements in industry load factors (percentage of seats filled by fare-paying passengers) and yields (revenue production per passenger mile).

Company Operations

Route Structure

General

Southwest principally provides point-to-point service, rather than the "hub-and-spoke" service provided by most major U.S. airlines. The hub-and-spoke system concentrates most of an airline's operations at a limited number of central hub cities and serves most other destinations in the system by providing one-stop or connecting service through a hub. By not concentrating operations through one or more central transfer points, Southwest's point-to-point route structure has allowed for more direct non-stop routing than hub-and-spoke service. For 2013, approximately 72 percent of Southwest's Customers flew non-stop, and Southwest's average aircraft trip stage length was 693 miles, with an average duration of approximately 1.9 hours. For 2012, approximately 72 percent of Southwest's Customers flew non-stop, and Southwest's average aircraft trip stage length was 678 miles, with an average duration of approximately 1.9 hours.

Southwest's point-to-point service has also enabled it to provide its markets with frequent, conveniently timed flights and low fares. For example, Southwest currently offers 25 weekday roundtrips from Dallas Love Field to Houston Hobby, 11 weekday roundtrips from Phoenix to Las Vegas, 12 weekday roundtrips from Burbank to Oakland, and 12 weekday roundtrips from Los Angeles International to Oakland. Southwest complements these high-frequency shorthaul routes with longhaul non-stop service between markets such as Los Angeles and Nashville, Las Vegas and Orlando, San Diego and Baltimore, and Houston and New York LaGuardia. As of December 31, 2013, Southwest served 524 non-stop city pairs.

Unlike Southwest, AirTran has historically operated largely through a hub-and-spoke network system, with approximately half of its flights historically originating or terminating at Hartsfield-Jackson Atlanta International Airport. As part of its integration efforts, the Company has begun optimizing its operations in many AirTran cities, primarily by transitioning Atlanta to a point-to-point operation, which is enabling efficiencies related to the scheduling of aircraft, flight crews, and ground staff.

International Service

Southwest does not currently provide international service; however, in April 2013, the Company began converting AirTran service to San Juan, Puerto Rico, into Southwest service, Southwest's first scheduled service outside of the continental United States. In connection with launching this service, Southwest obtained the necessary FAA approvals to conduct operations, under certain circumstances, outside of the continental United States.

In addition to service to San Juan, Puerto Rico, AirTran also currently provides service to seven destinations in five near-international countries including Mexico (Cancun, Mexico City, and Cabo San Lucas), Jamaica (Montego Bay), The Bahamas (Nassau), Aruba (Oranjestad), and Dominican Republic (Punta Cana). The Company expects to convert AirTran's service to those seven international markets into Southwest service by the end of 2014.

In January 2014, the Company began selling its first international itineraries to be flown by Southwest aircraft and announced plans to begin Southwest service to Jamaica (Montego Bay), The Bahamas (Nassau), and Aruba (Oranjestad) beginning July 1, 2014. The Company expects to launch Southwest international service to Mexico (Cancun, Mexico City, and Cabo San Lucas) and Dominican Republic (Punta Cana) by the end of 2014.

As part of the Company's near-international service efforts, the Company has agreed with the City of Houston ("City") to expand the City's existing William P. Hobby airport facility. Pursuant to the agreement, the Company and the City have entered into an Airport Use and Lease Agreement to control the execution of this expansion and its financial terms. This project provides for 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. Construction began during third quarter 2013 and is estimated to be completed during the second half of 2015. Additional information regarding this project is provided below under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 4 to the Consolidated Financial Statements.

In December 2013, the Company entered into an agreement with Broward County, Florida, which owns and operates Fort Lauderdale-Hollywood International Airport, to oversee and manage the design and construction of the airport's Terminal 1 Modernization Project. In addition to significant improvements to the existing Terminal 1, the project includes the design and construction of a new five-gate Concourse A with an international processing facility. Construction is expected to begin in 2014. Additional information regarding this project is provided below under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 4 to the Consolidated Financial Statements.

The Company's 2013 operating revenues attributable to foreign operations (all of which were attributable to AirTran) were approximately $212 million. The remainder of the Company's 2013 operating revenues, approximately $17.5 billion, were attributable to domestic operations. The Company's 2012 operating revenues attributable to foreign operations (all of which were attributable to AirTran) were approximately $159 million. The remainder of the Company's 2012 operating revenues, approximately $16.9 billion, were attributable to domestic operations. The Company's tangible assets primarily consist of flight equipment, the majority of which are interchangeable and are deployed systemwide, with no individual aircraft dedicated to any specific route or region; therefore, the Company's assets are not allocated to a geographic area. For a discussion of the risks related to the Company's foreign operations, see "Risk Factors - The Company's operations may be adversely affected by its expansion into non-U.S. jurisdictions and the related increase in laws to which it is subject."

Cost Structure

General

A key component of the Company's business strategy has historically been its low-cost structure, which was designed to allow Southwest to profitably charge low fares. Adjusted for stage length, Southwest has lower unit costs, on average, than the vast majority of major domestic carriers. The Company's low-cost structure has historically been facilitated by Southwest's use of a single aircraft type, the Boeing 737, an operationally efficient point-to-point route structure, and highly productive Employees. Southwest's use of a single aircraft type has allowed for simplified scheduling, maintenance, flight operations, and training activities. Southwest's point-to-point route structure includes service to and from many secondary or downtown airports such as Dallas Love Field, Houston Hobby, Chicago Midway, Baltimore-Washington International, Burbank, Manchester, Oakland, San Jose, Providence, and Ft. Lauderdale-Hollywood. These conveniently located airports are typically less congested than other airlines' hub airports, which has enabled Southwest to achieve high asset utilization because aircraft can be scheduled to minimize the amount of time they are on the ground. This, in turn, has reduced the number of aircraft and gate facilities that would otherwise be required and allows for high Employee productivity (headcount per aircraft).

The Company believes that its fleet modernization initiatives, as well as the continued addition of the larger Boeing 737-800 to the Southwest fleet, will have a favorable impact on the Company's unit costs. These strategic initiatives are discussed in more detail below under "Operating Strategies and Initiatives - Fleet Modernization" and "Operating Strategies and Initiatives - Continued Incorporation of the Larger Boeing 737-800 into the Southwest Fleet."

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

In 2013, the Company again experienced significant Fuel and oil expense as fuel prices, although lower than levels reached in 2012, remained at high levels. In addition, for the ninth consecutive year, Fuel and oil expense represented the Company's largest or second largest cost and was the Company's largest cost for the third consecutive year. The table below shows the Company's average cost of jet fuel and oil over the past eleven years and during each quarter of 2013.

Year	Cost (Millions)	Average Cost Per Gallon	Percentage of Operating Expenses
2003	$ 920	$ 0.80	16.5%
2004	$ 1,106	$ 0.92	18.1%
2005	$ 1,470	$ 1.13	21.4%
2006	$ 2,284	$ 1.64	28.0%
2007	$ 2,690	$ 1.80	29.7%
2008	$ 3,713	$ 2.44	35.1%
2009	$ 3,044	$ 2.12	30.2%
2010	$ 3,620	$ 2.51	32.6%
2011	$ 5,644	$ 3.19	37.7%
2012	$ 6,120	$ 3.30	37.2%
2013	$ 5,763	$ 3.16	35.1%
First Quarter 2013	$ 1,457	$ 3.36	36.3%
Second Quarter 2013	$ 1,489	$ 3.11	35.4%
Third Quarter 2013	$ 1,450	$ 3.10	34.9%
Fourth Quarter 2013	$ 1,367	$ 3.08	33.8%

The Company enters into fuel derivative contracts to manage its risk associated with significant increases in fuel prices; however, because energy prices can fluctuate significantly in a relatively short amount of time, the Company must also continually monitor and adjust its fuel hedge portfolio and strategies to address not only fuel price increases, but also fuel price volatility and hedge collateral requirements. Although jet fuel prices were less volatile in 2013 than in some previous years, they remain at high levels and continue to be subject to extreme volatility based on a variety of factors. In addition, the cost of hedging has increased in recent years with current sustained high jet fuel prices and the potential for volatility in the fuel market. The Company's fuel hedging activities are discussed in more detail below under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 10 to the Consolidated Financial Statements.

Fare Structure

Southwest

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

- "Wanna Get Away" fares are generally the lowest fares and are subject to advance purchase requirements. They are nonrefundable but, subject to compliance with Southwest's No Show policy, funds may be applied to future travel on Southwest. As discussed below under "Operating Strategies and Initiatives - Ancillary Services and Fees," during 2013, Southwest implemented a No Show policy associated with Wanna Get Away tickets that are not canceled or changed at least ten minutes prior to a flight's scheduled departure.

- "Anytime" fares are refundable and changeable, and funds may also be applied toward future travel on Southwest. Anytime fares also include a higher frequent flyer point multiplier under Southwest's Rapid Rewards ® frequent flyer program than do Wanna Get Away fares.
- "Business Select" fares are refundable and changeable, and funds may be applied toward future travel on Southwest. Business Select fares also include additional perks such as priority boarding, a higher frequent flyer point multiplier than other Southwest fares (including twice as many points per dollar spent as compared to Wanna Get Away fares), priority security and ticket counter access in select airports, and one complimentary adult beverage coupon for the day of travel (for Customers of legal drinking age).

AirTran

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

Websites

Southwest.com and AirTran.com

The Company's Internet website, southwest.com®, is the only avenue for Southwest Customers to purchase and manage travel online. Any part of a Customer's trip can be planned directly from the southwest.com home page. Southwest.com is designed to help make the Customer's experience personal and intuitive with features such as recognizing the Customer's location to provide relevant deals, remembering recent searches to make it easy to get to trips of interest, and shopping cart functionality allowing Customers to purchase air, hotel, and car all at once. Southwest.com highlights points of differentiation between Southwest and other air carriers, as well as the fact that southwest.com is the only place where Customers can purchase Southwest fares online. In addition, southwest.com and swabiz.com (the Company's business travel reservation web page) are available in a translated Spanish version, which provides Customers who prefer to transact in Spanish the same level of Customer Service provided by the English versions of the websites. Additionally, as discussed further below under "Other Initiatives - Mobile Website and Mobile Boarding Passes," Southwest offers Customers a mobile website and apps to provide Customers the ability to transact with Southwest anytime they have access to their mobile device.

The Internet is also an integral part of AirTran's distribution network. In addition to being user-friendly and simple, AirTran's website is designed to sell tickets efficiently. AirTran.com allows Customers to easily book and manage their travel, including the ability to retrieve and change future flight reservations, make seat selections, and check in online. As part of the Company's network connectivity efforts, Customers can now book AirTran flights on southwest.com, including itineraries that include both an AirTran and Southwest flight.

During 2013, southwest.com and airtran.com together accounted for approximately 80 percent of all of the Company's bookings. In addition, for the year ended December 31, 2013, approximately 84 percent of the Company's Passenger revenues came through its websites (including revenues from SWABIZ®).

Operating Strategies and Initiatives

During 2013, the Company continued to focus on five strategic initiatives: (i) the integration of Southwest's and AirTran's network and operations, (ii) fleet modernization, (iii) the continued incorporation of the larger Boeing 737-800 aircraft into the Southwest fleet, (iv) international capabilities and new reservation system, and (v) the continued growth of Southwest's Rapid Rewards frequent flyer program. In addition to the Company's five strategic initiatives, the Company has continued to design, implement, and manage other initiatives to increase revenues, improve cost controls, and attract and retain Customers.

Strategic Initiatives

Integration of Southwest's and AirTran's Network and Operations

The Company remains on track with its plan to fully integrate Southwest's and AirTran's network and operations by the end of 2014. During 2013, the Company continued the process of integrating AirTran into its operations and accomplished the following key integration milestones:

- The Company fully deployed connecting capabilities between the Southwest and AirTran networks allowing Customers of both Southwest and AirTran to book connecting itineraries between the two carriers. Customers can now fly between any of the combined 96 Southwest and AirTran destinations on a single itinerary.
- The Company continued to transfer AirTran Employees to Southwest. As of December 31, 2013, approximately 65 percent of AirTran Employees had been converted to Southwest Employees. The transfer of all remaining AirTran Employees, including flight crews and dispatchers whose transition is aligned with aircraft conversion, is scheduled for 2014.
- The Company continued to further optimize its route network by, among other things, transitioning AirTran's operations at Hartsfield-Jackson Atlanta International Airport to a point-to-point operation, which is expected to enable efficiencies related to the scheduling of aircraft, flight crews, and ground staff.
- The Company continued to convert AirTran 737-700 aircraft to the Southwest livery. As of December 31, 2013, 17 out of a total of 52 AirTran 737-700 aircraft had completed the conversion process and re-entered service as Southwest aircraft. The Company expects to convert the remaining 35 AirTran 737-700 aircraft during 2014 in conjunction with the expected conversion of AirTran's seven international markets.
- The Company continued its schedule optimization efforts by further coordinating Southwest and AirTran flight schedules.
- The Company significantly grew the Southwest network by converting AirTran service to Southwest service in several new markets. The Company has established a Southwest presence in all domestic cities in Southwest's and AirTran's combined network.
- The Company continued its progress towards integrating Southwest's and AirTran's unionized workforce. AirTran's Flight Attendants, represented by the Association of Flight Attendants-CWA ("AFA"), voted to ratify a new collective-bargaining agreement with the Company. The collective-bargaining agreement became amendable in May 2013. This new agreement will apply to the AirTran Flight Attendants until they transition to Southwest. All AirTran Flight Attendants are expected to be moved to Southwest by the end of 2014.

Fleet Modernization

As discussed below, the Company has multiple efforts underway to replace its older aircraft with newer aircraft that are less maintenance intensive and more fuel efficient and that also have a greater range. The Company expects its longterm fleet modernization plan to provide substantial flexibility to manage its fleet needs in a variety of economic conditions. The Company's future aircraft delivery schedule is set forth in more detail under "Properties - Aircraft."

The Boeing 737 MAX. The Company is scheduled to be the launch customer for the new Boeing 737 MAX aircraft, which is designed to be more fuel efficient and environmentally friendly than the Company's current Boeing aircraft. The Company has placed firm orders for 170 of the Boeing 737 MAX 8 aircraft and expects to begin to take delivery in 2017. Additionally, in 2013 the Company placed a firm order for 30 of the Boeing 737 MAX 7 aircraft and expects to begin to take delivery in 2019. The Company also has options to purchase an additional 191 Boeing 737 MAX aircraft during the period from 2021 through 2027. The Company believes the 737 MAX will (i) have the lowest operating unit costs in the single-aisle segment and (ii) benefit the Company with an engine/airframe combination that is uniquely designed to optimize operating performance of the Company's fleet.

The Boeing Next-Generation 737. The Company has also expanded its orders for the Boeing Next-Generation 737 aircraft. From 2012 through 2013, the Company purchased 45 Boeing Next-Generation 737-800 aircraft and leased, from third parties, seven Boeing 737-800 aircraft and two Boeing 737-700 aircraft. Including the 737 MAX firm orders described above, the Company has overall total firm orders with Boeing of 308 aircraft for 2014 through 2024. Additionally, for 2014 and 2015, combined, the Company has agreed to purchase, as of January 22, 2014, 15 pre-owned 737-700 aircraft from third parties and has agreed to lease two 737-700 aircraft from a third party. The orders and leases are intended to predominately serve as replacement aircraft in the Company's fleet as it retires older 737-300 and 737-500 aircraft and transitions the 717-200 aircraft out of the Company's fleet. The Company also has options with Boeing to purchase an additional 36 Boeing 737 Next-Generation aircraft during the period from 2016 through 2018.

Southwest Cabin Refresh. During 2013 the Company completed the retrofit of Southwest's 737-700 fleet with an updated cabin interior. *Evolve: The New Southwest Experience* is intended to enhance Customer comfort, personal space, and the overall travel experience, while improving fleet efficiency and being environmentally responsible. The cabin refresh features recyclable carpet, a brighter color-scheme, and more durable, eco-friendly, and comfortable seats that weigh less than the prior seats. By maximizing the space inside the plane, *Evolve* allows for the added benefit of six additional seats on each retrofitted aircraft, along with more climate-friendly and cost-effective materials. The Company also retrofitted 78 of its 737-300 aircraft with *Evolve* in 2013. In addition to the 737-700 and 737-300 retrofits, the 737-800 aircraft entering the Company's fleet also feature the *Evolve* interior. The 17 AirTran 737-700 aircraft that had been converted to Southwest livery as of December 31, 2013, have received the new *Evolve* interior, and the remaining 35 AirTran 737-700 aircraft are scheduled to receive the new *Evolve* interior at the time of conversion to the Southwest fleet.

Transition of Boeing 717 Aircraft. Pursuant to an agreement with Delta Air Lines, Inc. and Boeing Capital Corp., during 2013 the Company began leasing or subleasing AirTran's 88 Boeing 717-200 aircraft to Delta. Deliveries to Delta began in September 2013 and are expected to continue at the rate of approximately three aircraft per month. As of December 31, 2013, 22 of AirTran's Boeing 717-200 aircraft had been removed from service and 13 had been delivered to Delta. From a fleet management perspective, this transition allows the Company to minimize the impact of this transaction on operations, as the Boeing 717 capacity lost is expected to be replaced through the capacity gained as a result of (i) the Company's extension of the retirement dates for a portion of its 737-300 and 737-500 aircraft and (ii) deliveries from Boeing of new 737 aircraft or deliveries of used 737 aircraft from other sources. Transitioning the Boeing 717 fleet to Delta avoids added complexity to the Company's operations, as the Company has historically operated an all-Boeing 737 fleet. Replacement of the Boeing 717 aircraft capacity with Boeing 737 capacity provides revenue opportunities with more seats per aircraft, while costing approximately the same amount to fly on a per-trip basis as the smaller Boeing 717 aircraft.

Continued Incorporation of the Larger Boeing 737-800 into the Southwest Fleet

To further support its fleet modernization efforts, during 2013, the Company continued to incorporate the Boeing 737-800 into the Southwest fleet. The 737-800's all coach seating configuration of 175 offers significantly more Customer seating capacity than Southwest's other aircraft. In addition to the 737-800's added seating capacity, its configuration includes The Boeing Company's Sky Interior, which features a quieter cabin, improved operational security features, and LED reading and ceiling lighting. In addition, the domestic airline industry has experienced a decline in shorthaul flying since 2000, and the 737-800 allows the Company to adjust its route network to allow for more longhaul flying. The Company expects the 737-800 will continue to enable it to (i) more economically serve longhaul routes; (ii) improve scheduling flexibility and more economically serve high-demand, slot-controlled, and gate-restricted airports by adding seats to such markets without increasing the number of flights; and (iii) boost fuel efficiency to reduce overall unit costs. Additionally, the Company expects the 737-800 will enable Southwest to profitably expand to new destinations, including extended routes over water, and potentially fly to more distant markets such as Hawaii, Alaska, Canada, Mexico, the Caribbean, and other near-international locations. The Company has taken delivery of 52 Boeing 737-800 aircraft from 2012 through 2013 and currently expects to take delivery of an additional 33 and 19 Boeing 737-800s during 2014 and 2015, respectively. The Company's fleet composition and delivery schedule is discussed in more detail below under "Properties - Aircraft."

International Capabilities and New Reservation System

In January 2014, the Company launched an international reservation system and began selling its inaugural international daily nonstop service to be flown by Southwest aircraft beginning July 1, 2014, to Jamaica (Montego Bay), The Bahamas (Nassau), and Aruba (Oranjestad). In this first phase of the Company's international conversion plan, AirTran will continue service between Atlanta and Nassau and between Chicago Midway and Montego Bay, as well as flights to/from Cancun, Mexico City, and Cabo San Lucas, Mexico, and Punta Cana, Dominican Republic. The Company expects to complete the launch of Southwest service to Mexico (Cancun, Mexico City, and Cabo San Lucas) and Dominican Republic (Punta Cana), AirTran's remaining four international destinations, by the end of 2014. The Company worked with Amadeus IT Group to implement Amadeus' Altea reservations solution to support the Company's international service.

The Company also intends to replace Southwest's existing domestic reservation system with a comprehensive system that would provide Southwest with the ability to serve both domestic and international markets. The Company is currently in the planning stages of this multi-year project, and intends to select the vendor in the first half of 2014.

Continued Growth of Southwest's Rapid Rewards Frequent Flyer Program

In March 2011, Southwest launched its current Rapid Rewards frequent flyer program, under which 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 the most recent 24 months.

Under the program, members continue to accumulate points until the time they decide to redeem them. As a result, the program provides members significant flexibility and options for earning and redeeming rewards. For example, members can earn more points (and/or achieve tiered status such as A-List and Companion Pass faster) by purchasing higher fare tickets. Members also have significant flexibility in redeeming points, such as the opportunity to book in advance to take advantage of a lower fare (including many fare sales) ticket by redeeming fewer points or by being able to redeem more points and book at the last minute if seats are still available for sale. Rapid Rewards Members can also earn points through qualifying purchases with Rapid Rewards Partners (which include, for example, car rental agencies, hotels, restaurants, and retail locations), as well as by using Southwest's co-branded Chase® Visa credit card. In addition, holders of Southwest's co-branded Chase Visa credit card are able to redeem their points for items other than travel on Southwest, such as international flights on other airlines, cruises, hotel stays, rental cars, gift cards, event tickets, and more. In addition to earning points for revenue flights and qualifying purchases with Rapid Rewards Partners, Rapid Rewards Members also have the ability to purchase points.

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

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

AirTran's A+ Rewards frequent flyer program currently offers a number of ways to earn free travel, including bonus earnings for Business Class travel. A+ Rewards members currently can earn a credit for each one-way trip flown or 1.5 credits for one-way Business Class travel. A+ Rewards credits currently can also be earned for purchases made with an AirTran Airways A+ Visa card or an AirTran A+ Rewards Chase Visa credit card, qualifying car rentals from Hertz, for purchases from other A+ Rewards partners, and in conjunction with marketing promotions that AirTran may run from time to time. A+ Rewards members currently may purchase A+ Rewards credits, extend the expiration of A+ credits, or give A+ credits to another member to help earn a free flight faster.

The Company has enabled Customers to transfer their loyalty rewards between the Southwest and AirTran frequent flyer programs. As a result, members have the benefit of the entire combined network for redemption.

For the Company's 2013 consolidated results, Customers of Southwest and AirTran redeemed approximately 5.4 million flight awards, accounting for approximately 9.5 percent of revenue passenger miles flown. For the Company's 2012 consolidated results, Customers of Southwest and AirTran redeemed approximately 4.5 million flight awards, accounting for approximately 9.0 percent of revenue passenger miles flown. For the Company's 2011 consolidated results, which include AirTran results from May 2, 2011, through December 31, 2011, Customers of Southwest and AirTran redeemed approximately 3.7 million flight awards, accounting for approximately 8.6 percent of revenue passenger miles flown. The Company's accounting policies with respect to its frequent flyer programs are discussed in more detail in Note 1 to the Consolidated Financial Statements.

Other Initiatives

Network Optimization and Revenue Management

The Company uses profitability management tools to manage capacity and route expansion though optimization of its flight schedule to, among other things, better match demand in certain markets. Using its profitability management tools, the Company continually adjusts the Southwest and AirTran networks through the addition of new markets and routes, the adjustment of frequencies in existing markets, and the exiting of certain unsustainable markets and redeployment of aircraft to other markets. For example, prior to 2013, in response to high fuel prices, the Company discontinued service in 15 AirTran destinations. As part of its network optimization efforts, the Company ceased service to Bermuda during 2013. The Company improved its operational network efficiency during 2013 by tightening its scheduled aircraft flying hours per day and turn times to better utilize available aircraft time during the peak flying hours of each day. These efforts contributed to higher yields, strong load factors, and improved revenues. As part of its continuing network optimization efforts, the Company has announced its plans to cease Southwest operations in Branson, Missouri; Key West, Florida; and Jackson, Mississippi beginning in June 2014. The Company believes the optimization and alignment of the Southwest and AirTran schedules and networks can continue to yield significant synergies and other benefits. Over the next several years, the Company also plans to develop new systems to support international service and improve revenue management capabilities.

Cost Containment

Over the last several years, the Company has undertaken a number of cost-containment projects for the purpose of preserving Southwest's low-cost advantage and low-fare brand. These have included the fleet modernization and network optimization strategies discussed above. Among other things, fleet modernization has contributed to lower maintenance and repair expenses, and network optimization is enabling Employee scheduling efficiencies.

In addition, these cost-containment projects have included various fuel conservation and carbon emission reduction initiatives such as the following:

- installation of blended winglets, which reduce drag and increase fuel efficiency, on all Boeing 737-700 and 737-800 aircraft in Southwest's fleet and on a majority of Southwest's 737-300 aircraft;
- commitment to upgrade the Company's 737-800 fleet during the 2014-2015 timeframe with newly designed, split scimitar winglets;

- periodic engine washes;
- use of electric ground power for aircraft air and power at the gate and for ground support equipment at select locations;
- deployment of auto-throttle and vertical navigation to maintain optimum cruising speeds;
- implementation of new engine start procedures to support the introduction of new single engine taxi procedures;
- adjustment of the timing of auxiliary power unit starts on originating flights to reduce auxiliary power unit usage;
- fuel planning initiatives to safely reduce loading of excess fuel;
- *Evolve* cabin refresh as discussed in "Operating Strategies and Initiatives - Fleet Modernization;"
- reduced aircraft engine idle speed while on the ground, which also increases engine life; and
- galley refresh with dry goods weight reduction.

The Company has also taken significant steps towards Required Navigation Performance (“RNP”) operations which are intended to modernize the U.S. Air Traffic Control System by addressing limitations on air transportation capacity and making more efficient use of airspace. RNP combines the capabilities of advanced aircraft avionics, GPS (Global Positioning System) satellite navigation (instead of less precise ground-based navigation), and new flight procedures to (i) enable aircraft to carry navigation capabilities rather than relying on airports; (ii) improve operational capabilities by opening up many new and more direct airport approach paths to produce more efficient flight patterns; and (iii) conserve fuel, improve safety, and reduce carbon emissions. Southwest began conducting GPS approach procedures during the first quarter of 2010, completed RNP training of nearly 6,000 pilots in November 2010, and commenced RNP procedures in revenue service in January 2011. By the end of 2013, Southwest had conducted close to 14,000 RNP approaches, including over 4,000 in 2013. Southwest must rely on RNP approaches published by the FAA, and the rate of introduction of RNP approaches has been slower than expected, with fuel efficient RNP approaches currently available at only 36 airports. In addition, even at airports with approved RNP approaches, the clearance required from air traffic controllers to perform RNP approaches is sometimes not granted. Southwest continues to work with the FAA to develop more RNP approaches and to modify air traffic control rules to support greater utilization of RNP. As a result of the FAA’s recent lack of emphasis on continuing to implement this technology and the Company’s continued retirement of its older Classic (737-300/500) aircraft, the Company has decided not to equip its Classic aircraft with RNP capabilities.

Aggressive Promotion of the Company’s Points of Differentiation from its Competitors

During 2013, the Company continued to benefit from, and aggressively market, Southwest’s points of differentiation from its competitors. For example, Southwest continues to be the only major U.S. airline that does not impose additional fees for first and second checked bags. Through both its national and local marketing campaigns, Southwest has continued to aggressively promote this point of differentiation from its competitors with its “Bags Fly Free®” message. The Company believes its decision not to charge for first and second checked bags on Southwest, as reinforced by the Company’s related marketing campaign, has driven an increase in Southwest’s market share and a resulting net increase in revenues.

Southwest is also the only major U.S. airline that does not impose a fee on any of its fares for a Customer change in flight plans. The Company has continued to incorporate this key point of differentiation in its marketing campaigns. The campaigns highlight the importance to Southwest of Customer Service by showing that Southwest understands plans can change and therefore does not charge a change fee. While a Customer may pay a difference in airfare, the Customer will not be charged a change fee on top of any difference in airfare.

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

The Company also continues to promote all of the many other reasons to fly Southwest such as its low fares, network size, Customer Service, free live television offerings (discussed below under “Inflight WiFi and Entertainment”), and its Rapid Rewards frequent flyer program.

Business Traveler Amenities

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

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

Fly By® Priority Lanes. Southwest provides Fly By Priority Lane access for its Business Select Customers and Rapid Rewards A-List Members at many of its airports. Fly By Priority Lanes are priority access lanes located at select ticket counters and security checkpoints. The lanes allow Business Select Customers and Rapid Rewards A-List Members direct access to the front of the line at the ticket counter and/or security checkpoint. As of December 31, 2013, Fly By Priority Lane access was available at 68 airports.

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

In addition, as discussed below under "Inflight WiFi and Entertainment," Southwest has continued to install equipment on its fleet to provide access to WiFi connectivity and live television utilizing the Customer's mobile device.

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

Ancillary Services and Fees

During 2013, the Company continued to experience revenue benefits from service offerings such as Southwest's EarlyBird Check-in ® and Pets Are Welcome on Southwest (P.A.W.S.) products. EarlyBird Check-in provides Customers with automatic checkin so Customers are checked in 12 hours before general boarding positions become available, improving Customers' seat selection options. Customers can purchase EarlyBird Check-in for an additional $12.50 each way (priority boarding privileges are already included in the purchase of a Business Select fare and are a benefit of being an A-List frequent flyer - see "Southwest's Rapid Rewards Frequent Flyer Program" above). Southwest's P.A.W.S. offering allows Customers to bring a small cat or dog into the aircraft cabin for a $ 95 one-way fare. In 2013, as part of the Company's network connectivity efforts, it began enabling Customers to book a small cat or dog into the aircraft cabin on domestic shared itineraries with AirTran. Southwest also charges an additional $50 per one-way trip for unaccompanied minor travel to address the administrative costs and the extra care necessary to safely transport these Customers. The Company also expects to continue to benefit from ancillary revenue opportunities created by Southwest's Rapid Rewards frequent flyer program.

During January 2013, Southwest began selling open premium boarding positions systemwide at the gate for a $ 40 charge per flight. Southwest's sale of open premium boarding positions at the gate provides another early boarding choice for its Customers in addition to Southwest's "Business Select" product and EarlyBird Check-in. Also in 2013, as part of the Company's network connectivity efforts, it began enabling Customers booking shared itineraries through AirTran channels to purchase these open premium boarding positions at the gate on Southwest-operated flights.

During second quarter 2013, Southwest announced its implementation of a No Show policy that applies to nonrefundable fares that are not canceled or changed by a Customer at least ten minutes prior to a flight's scheduled departure. If a Customer has booked a nonrefundable fare anywhere in his/her itinerary and that portion of the flight is not used and not canceled or changed by the Customer at least ten minutes prior to scheduled departure, all unused funds on the full itinerary will be forfeited, and the remaining reservation will be canceled. This policy does not apply to military fares, senior fares, or travel during certain irregular operations, including severe weather conditions. The No Show policy will not impact Customers who simply cancel a Wanna Get Away or DING! ® fare at least ten minutes prior to scheduled departure; in this case, Customers may reuse their funds toward future travel on Southwest, without a change fee, as they have always done. Customers who are traveling on a fully refundable itinerary that does not contain a Wanna Get Away or DING! fare will continue to have the option of either requesting a refund or holding funds for future travel. Southwest expects that the No Show policy will promote Customer behavior that will enable Southwest to re-sell the open seat prior to departure.

AirTran currently charges fees for checked baggage, carriage of pets, liquor sales, advance seat assignments, call center services, priority seat selection, special services such as the transportation of unaccompanied minors, and extension or transfer of A+ Miles Rewards (in addition to fees for the purchase of A+ Miles Rewards). The Company intends, upon full integration of AirTran, to have a consistent product offering.

Inflight WiFi and Entertainment

Southwest offers inflight satellite-based WiFi service on all of its 737-700 and 737-800 aircraft, representing over 75 percent of Southwest's fleet. Southwest's arrangement with its WiFi provider enables the Company to control the pricing of the WiFi service, which is currently $8 a day per device, including stops and connections. As discussed below in "Economic and Operational Regulation - Operational, Safety, and Health Regulation," Southwest's Customers are now able to use small portable electronic devices to utilize the airline's onboard WiFi from gate-to-gate when travelling on a Southwest WiFi-equipped airplane. Southwest is currently the only carrier to offer gate-to-gate connectivity.

AirTran currently offers GoGo's inflight internet connectivity on every Air Tran flight. Gogo establishes the charges for the service, which are based on flight length.

In 2013, Southwest continued to grow the onboard entertainment options on WiFi-equipped aircraft for viewing on Customers' personal wireless devices. In July 2013, the Company joined with DISH Network to give Customers on WiFi-equipped aircraft free access to Southwest's live and on-demand television product. In January 2014, the Company and DISH Network agreed to extend this promotion through the end of 2014. The television product currently consists of 17 live channels and up to 75 on-demand recorded episodes from popular television series.

Southwest also added movies-on-demand, which are currently priced at $ 5 per movie and, in December 2013, became the first airline to offer a Messaging-only option for $2 a day per device, including all stops and connections. Messaging is currently only available for Apple's iMessage service, but is expected to expand in early 2014 to other messaging platforms.

Customers do not have to purchase WiFi to access television offerings, movies-on-demand, or the Messaging-only service.

Proactive Customer Communications

The Company's Automated Outbound Messaging ("AOM") service enables it to (i) proactively deliver customized automated voice, text, and e-mail messages to Southwest Customers when there has been a change in their flight status as a result of a cancellation or flight delay (of 30 minutes or more), as well as potential disruptions to Southwest's scheduled service; and (ii) give Southwest Customers the option to connect to a Customer Representative or rebook online in the case of cancelled flights. Southwest Customers who book their travel on southwest.com have the option to receive these notifications via telephone (landline or mobile), SMS texting, or email. In addition to providing flight information to Southwest Customers using their preferred contact method, if applicable, the Company directs Southwest Customers to rebook their flights online via southwest.com/rebook. The AOM strategy is designed to increase proactive Customer outreach and accommodations, reduce inbound calls, improve contact center management, save costs, and provide a better overall experience.

Mobile Website and Mobile Boarding Passes

In 2013, Southwest introduced a new completely redesigned Southwest mobile website and app for iPhone and Android. Southwest added new features and functionality, and also updated the design and navigation to provide a more contextual and personalized online experience than the prior mobile website. With the redesigned mobile experience, Southwest began the rollout of its mobile boarding pass pilot launched during November 2013. The rollout began with single Passengers on nonstop and direct flights originating from Austin, Texas, and Southwest expects to continue the rollout of mobile boarding pass to other cities across its network throughout 2014.

Management Information Systems

The Company has continued its commitment to technology improvements to support its ongoing operations and initiatives. The Company has continued to invest in significant technology necessary to support several of its initiatives, including the implementation of connecting capabilities between the Southwest and AirTran reservation systems, Southwest's Rapid Rewards frequent flyer program, enhanced southwest.com website, WiFi implementation, live television connectivity, and its introduction of the Boeing 737-800 aircraft into the Southwest fleet. In addition, the Company has added new reservation system technology to support Southwest's international itineraries and, in January 2014, began selling its first international itineraries to be flown by Southwest aircraft.

The Company intends to continue to devote significant technology resources towards, among other things, (i) continued improvement of its revenue management technical capabilities, (ii) replacement of Southwest's existing domestic reservation system with a comprehensive system that would provide Southwest with the ability to serve both domestic and international markets, and (iii) a new suite of operational tools that the Company expects will improve operational management.

Regulation

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

Economic and Operational Regulation

Consumer Protection Regulation by the U.S. Department of Transportation

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

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

The DOT's consumer protection and enforcement activities relate to areas such as unfair and deceptive practices and unfair competition by air carriers, deceptive airline advertising (*e.g.,* fare, ontime performance, schedule, and codesharing), and violations of rules concerning denied boarding compensation, ticket refunds, and baggage liability requirements. The DOT is also charged with prohibiting discrimination by airlines against consumers on the basis of race, religion, national origin, or sex.

Under the above-described authority, the DOT has adopted so-called "Passenger Protection Rules," which address a wide variety of matters including tarmac delays, chronically delayed flights, denied boarding compensation, and advertising of airfares, among others. Under the Passenger Protection Rules, U.S. passenger airlines are required to adopt contingency plans that include the following: (i) the assurance that no domestic flight will remain on the airport tarmac for more than three hours unless the pilot-in-command determines there is a safety-related or security-related impediment to deplaning passengers or air traffic control advises the pilot-in-command that returning to the gate or permitting passengers to disembark elsewhere would significantly disrupt airport operations; (ii) the assurance that air carriers will provide adequate food and potable drinking water no later than two hours after the aircraft leaves the gate (in the case of departure) or touches down (in the case of arrival) if the aircraft remains on the tarmac, unless the pilot-in-command determines that safety or security considerations preclude such service; and (iii) the assurance of operable lavatories, as well as adequate medical attention, if needed. Air carriers are required to publish their contingency plans on their websites.

The Passenger Protection Rules also subject airlines to potential DOT enforcement action for unfair and deceptive practices in the event of chronically delayed flights (*i.e.,* flights that operate at least 10 times a month and arrive more than 30 minutes late more than 50 percent of the time during that month). In addition, airlines are required to (i) display ontime performance on their websites; (ii) adopt customer service plans, publish those plans on their website, and audit their own compliance with their plans; (iii) designate an employee to monitor the performance of their flights; (iv) provide information to passengers on how to file complaints; and (v) respond in a timely and substantive fashion to consumer complaints. Airlines that violate the Passenger Protection Rules are subject to potential fines of up to $ 27,500 per passenger, the maximum allowed for violating any aviation consumer rule.

The Passenger Protection Rules also require airlines to (i) pay up to $ 1,300 in denied boarding compensation to passengers bumped from flights; (ii) refund any checked bag fee for permanently lost luggage; (iii) prominently disclose all potential fees for optional services on their websites; and (iv) refund passenger fees paid for ancillary services if a flight cancels or oversells and a passenger is unable to take advantage of such services.

The Passenger Protection Rules also require that (i) advertised airfares include all government-mandated taxes and fees; (ii) passengers be allowed to hold a reservation for up to 24 hours without making a payment; (iii) passengers be allowed to cancel a paid reservation without penalty for 24 hours after the reservation is made, as long as the reservation is made at least seven days in advance of travel; (iv) fares may not increase after purchase; (v) baggage fees must be disclosed to the passenger at the time of booking; (vi) the same baggage allowances and fees must apply throughout a passenger's trip; (vii) baggage fees must be disclosed on e-ticket confirmations; and (viii) passengers must be promptly notified in the event of delays of more than 30 minutes or if there is a cancellation or diversion of their flight.

The DOT has announced its intention to further expand the Passenger Protection Rules, with particular focus on the public disclosure of airline-imposed ancillary fees for the sale of optional products and services. The DOT is reportedly considering, among other things, whether to require airlines to disclose and make such optional products and services available for purchase through all sales channels, including "global distributions systems," that an airline uses to sell its flights rather than only through proprietary airline websites. The DOT's proposed expansion of the Passenger Protection Rules is expected to be released in the first half of 2014. The Company is not able to predict the impact of such a requirement on its services, although the Company is likely to be affected to a lesser degree than most other airlines, which generally offer more ancillary products and services. The DOT has expressed its intent to aggressively investigate alleged violations of the Passenger Protection Rules.

The DOT has also proposed new rules that would require airlines to report more information to the DOT on the amount and types of ancillary fees collected from passengers, as well as the number of checked bags and mishandled wheelchairs. The proposal would revise current reporting requirements to increase data collection on the amount airlines receive from different, specific types of fees. The proposed rule would require airlines to report 18 categories of fee revenue. The DOT is expected to issue a final rule in this proceeding in 2014.

Aviation Taxes

The statutory authority for the federal government to collect most types of aviation taxes, which are used, in part, to finance the nation's airport and air traffic control systems, and the authority of the FAA to expend those funds must be periodically reauthorized by the U.S. Congress. In 2012, Congress adopted the FAA Modernization and Reform Act of 2012, which extends most commercial aviation taxes through September 30, 2015. In addition to FAA-related taxes, there are additional federal taxes related to the Department of Homeland Security. These taxes do not need to be reauthorized periodically. However, in an effort to reduce the federal deficit and generate more government revenue, Congress approved legislation in December 2013 that will generate more net federal revenue by (i) increasing the Transportation Security Fee paid by passengers from $ 2.50 per passenger segment to $5.60 per one-way passenger trip, effective July 2014; and (ii) eliminating a duplicative security fee paid by airlines directly, called the Aviation Security Infrastructure Fee, effective October 2014. In 2014, Congress may consider comprehensive tax reform legislation, which could result in a lower corporate tax rate and the elimination of certain tax deductions and preferences, as well as separate legislation that could increase one or more of the passenger-paid fees used to support the operations of U.S. Customs and Border Protection ("CBP"). Grants to airports and/or airport bond financing may also be affected through future deficit reduction legislation, which could result in higher fees, rates, and charges at many of the airports the Company serves.

The Wright Amendment

Section 29 of the International Air Transportation Competition Act of 1979, as amended (commonly known as the "Wright Amendment"), prohibited the carriage of non-stop and through passengers on commercial flights between Dallas Love Field and all states outside of Texas, with the exception of the following states (the "Wright Amendment States"): Alabama, Arkansas, Kansas, Louisiana, Mississippi, Missouri, New Mexico, and Oklahoma. Originally, the

Wright Amendment permitted an airline to offer flights between Dallas Love Field and the Wright Amendment States only to the extent the airline did not offer or provide any through service or ticketing with another air carrier at Dallas Love Field and did not market service to or from Dallas Love Field and any point outside of a Wright Amendment State. In other words, a Customer could not purchase a single ticket between Dallas Love Field and any destination other than a Wright Amendment State. These restrictions did not apply to flights operated with aircraft having 56 or fewer passenger seats. The Wright Amendment also did not restrict Southwest's intrastate Texas flights or its air service to or from points other than Dallas Love Field.

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

Operational, Safety, and Health Regulation

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

To address compliance with its regulations, the FAA requires airlines to obtain an air carrier operating certificate and other certificates, approvals, and authorities. Pursuant to FAA regulations, the Company has received a single air carrier operating certificate, in addition to other necessary certificates, approvals, and authorities from the FAA, that allows the Company to operate aircraft and perform maintenance operations for both Southwest and AirTran aircraft, subject to some restrictions. These certificates, approvals, and authorities are subject to suspension or revocation for cause.

In December 2011, the FAA issued a rule to amend the FAA's flight, duty, and rest regulations. Among other things, the new rule, which went into effect in January 2014, requires a ten hour minimum rest period prior to a pilot's flight duty period; mandates that a pilot must have an opportunity for eight hours of uninterrupted sleep within the rest period; and imposes new pilot "flight time" and "duty time" limitations based upon report times, the number of scheduled flight segments, and other operational factors. The new rule may reduce the Company's staffing flexibility, which could impact the Company's operational performance, costs, and Customer Experience.

In October 2013, the FAA issued guidance that allows airlines to expand passenger use of portable electronic devices (PEDs) during all phases of flight. After conducting appropriate testing and developing necessary operational procedures, the Company received confirmation from the FAA that the Company's PED program meets the requirements of, and is consistent with, the guidance established by the FAA. As a result, the Company's Customers are now able to use small PEDs and connect to onboard wireless communications systems, in certain circumstances, from gate to gate. This includes the use of onboard WiFi when travelling on a Southwest WiFi-equipped airplane. Customers travelling on AirTran flights are unable to use GoGo WiFi below 10,000 feet due to GoGo transmission restrictions. Customers may use small PEDs such as smartphones, e-readers, tablets, or MP3 players to read a book, play a built-in game, or listen to their personal music during all phases of flight. However, once the main cabin door is closed, cell phones must be turned off or placed in the device's airplane/game mode for the duration of the flight. The new FAA policy considers laptops and any device larger than a tablet (generally more than two pounds) as posing a hazard due to the physical size and weight of the device. Such devices must be stowed in an approved stowage location during taxi, takeoff, and landing.

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

Security Regulation

Pursuant to the Aviation and Transportation Security Act ("ATSA"), the Transportation Security Administration (the "TSA"), a division of the U.S. Department of Homeland Security, is responsible for certain civil aviation security matters. ATSA and subsequent TSA regulations and procedures implementing ATSA address, among other things, (i) flight deck security; (ii) the use of federal air marshals onboard flights; (iii) airport perimeter access security; (iv) airline crew security training; (v) security screening of passengers, baggage, cargo, mail, employees, and vendors; (vi) training and qualifications of security screening personnel; (vii) provision of passenger data to U.S. Customs and Border Protection; and (viii) background checks. Under ATSA, substantially all security officers at airports are federal employees, and significant other elements of airline and airport security are overseen and performed by federal employees, including federal security managers, federal law enforcement officers, and federal air marshals. TSA personnel and TSA-mandated security procedures can affect the Company's operations, costs, and Customer experience. For example, in 2006, the TSA implemented security measures regulating the types of liquid items that can be carried onboard aircraft. In 2009, the TSA introduced its Secure Flight program. Secure Flight requires airlines to collect a passenger's full name (as it appears on a government-issued ID), date of birth, gender, and Redress Number (if applicable). Airlines must transmit this information to Secure Flight, which uses the information to perform matching against terrorist watch lists. After matching passenger information against the watch lists, Secure Flight transmits the matching results back to airlines. This serves to identify individuals for enhanced security screening and to prevent individuals on watch lists from boarding an aircraft. It also helps prevent the misidentification of passengers who have names similar to individuals on watch lists. The TSA has also implemented enhanced security procedures as part of its enhanced, multi-layer approach to airport security by employing advanced imaging technology (full body scans), as well as new physical pat down procedures, at security checkpoints. Such enhanced security procedures have raised privacy concerns by some air travelers. In response to a congressional mandate, beginning in June 2013, airport scanners were outfitted with software designed to enhance passenger privacy by eliminating passenger-specific images and instead using only a generic image of a passenger.

Beginning in November 2013, Southwest, in conjunction with the TSA and CBP, is participating in TSA PreCheck™, a pre-screening initiative that allows a select group of low risk passengers the ability to move through security checkpoints with greater efficiency and ease when traveling. Eligible passengers may use dedicated screening lanes at certain airports that Southwest serves for screening benefits, which include leaving on shoes, light outerwear and belts, as well as leaving laptops and compliant liquids in carryon bags.

Southwest also participates in the TSA Known Crewmember® program, which is a risk-based screening system that enables TSA security officers to positively verify the identity and employment status of flight-crew members. The program expedites flight crew member access to sterile areas of airports.

The Company has made significant investments to address the effect of security regulations, including investments in facilities, equipment, and technology to process Customers, checked baggage, and cargo efficiently and restore the airport experience; however, the Company is not able to predict the impact, if any, that various security measures or the lack of TSA resources at certain airports will have on Passenger revenues and the Company's costs, either in the shortterm or the longterm.

Environmental Regulation

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

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

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

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

International Regulation

All international service is subject to certain federal requirements and approvals, as well as the regulatory requirements of the appropriate authorities of the foreign countries involved. Southwest and AirTran have obtained the necessary economic authority from the DOT, as well as FAA approvals, to conduct operations, under certain circumstances, outside of the continental United States. To the extent the Company seeks to serve additional international routes in the future, it will be required to obtain necessary authority from the DOT and approvals from the FAA, as well as any applicable foreign government or other authority.

Moreover, CBP is the federal enforcement agency of the U.S. Department of Homeland Security charged with facilitating international trade, collecting import duties, and enforcing U.S. regulations with respect to trade, customs, and immigration. As the Company expands its international flight offerings, CBP will become an increasingly important federal presence. For instance, arriving international flights may only land at CBP-designated airports, and CBP officers must be present and in sufficient quantities to effectively process and inspect arriving international passengers and cargo. Thus, CBP personnel and CBP-mandated procedures can affect the Company's operations, costs, and Customer experience. The Company will make significant investments in facilities, equipment, and technologies at certain airports in order to improve the Customer experience and to assist CBP with the inspection and processing duties; however, the Company is not able to predict the impact, if any, that various CBP measures or the lack of CBP resources will have on Company revenues and costs, either in the short term or the long term.

Insurance

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

Through the 2003 Emergency Wartime Supplemental Appropriations Act (the "Wartime Act"), the federal government has provided war-risk insurance coverage to commercial carriers, including for losses from terrorism, for passengers, third parties (ground damage), and the aircraft hull. The government-provided supplemental coverage from the Wartime Act is currently set to expire on September 30, 2014. It is uncertain whether further extensions will be granted. The withdrawal of government support of airline war-risk insurance would require the Company to obtain war-risk insurance coverage commercially. Such commercial insurance could have material differences in coverage than currently provided by the U.S. government and may not be adequate to protect the Company's risk of loss from future acts of terrorism.

Competition

Competition within the airline industry is intense and highly unpredictable, and Southwest and AirTran currently compete with other airlines on a majority of the Company's scheduled routes. Key competitive factors within the airline industry include (i) pricing and cost structure; (ii) routes, frequent flyer programs, and schedules; and (iii) customer service, comfort, and amenities. Southwest and AirTran also compete for customers with other forms of transportation, as well as alternatives to travel. In recent years, the majority of domestic airline service has been provided by Southwest and the other largest major U.S. airlines, including American Airlines, Delta Air Lines, United Airlines, and US Airways. In 2013, the parent company of American Airlines emerged from bankruptcy and merged with US Airways Group, Inc. The newly merged entity is the parent company of the following operating carriers: American Airlines, American Eagle Airlines (expected to be branded as Envoy beginning in early 2014), US Airways, US Airways Shuttle, and US Airways Express. The DOT defines the major U.S. airlines as those airlines with annual revenues of at least $1 billion; there are currently 14 passenger airlines offering scheduled service, including Southwest, meeting this standard.

Pricing and Cost Structure

Pricing is a significant competitive factor in the airline industry, and the increased availability of fare information on the Internet allows travelers to easily compare fares and identify competitor promotions and discounts. Pricing can be driven by a variety of factors. For example, airlines often discount fares to drive traffic in new markets or to stimulate traffic when necessary to improve load factors and/or cash flow. In addition, multiple airlines have been able to reduce fares because they have been able to lower their operating costs as a result of reorganization within and outside of bankruptcy. Further, some of the Company's competitors have continued to grow and modernize their fleets and expand their networks, potentially enabling them to better control costs per available seat mile (the average cost to fly an aircraft seat (empty or full) one mile), which in turn may enable them to lower their fares. These factors can reduce the pricing power of the Company and the airline industry as a whole.

The Company believes its low-cost operating structure continues to provide it with an advantage over many of its airline competitors by enabling Southwest and AirTran to continue to charge low fares. The Company also believes it has gained a competitive advantage by differentiating Southwest from all of its major competitors by not charging additional fees for items such as first and second checked bags, flight changes, seat selection, fuel surcharges, snacks, curb-side checkin, and telephone reservations.

Routes, Frequent Flyer Programs, and Schedules

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

Customer Service, Comfort, and Amenities

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

Other Forms of Competition

The airline industry is subject to varying degrees of competition from surface transportation by automobiles, buses, and trains. Inconveniences and delays associated with air travel security measures can increase surface competition. In addition, surface competition can be significant during economic downturns when consumers cut back on discretionary spending and fewer choose to fly. Because of the relatively high percentage of shorthaul travel provided by Southwest, it is particularly exposed to competition from surface transportation in these instances. The airline industry is also subject to competition from alternatives to travel such as videoconferencing and the Internet, which can increase in the event of travel inconveniences and economic downturns. The Company is subject to the risk that air travel inconveniences and economic downturns may, in some cases, result in permanent changes to consumer behavior in favor of surface transportation and electronic communications.

Seasonality

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

Employees

At December 31, 2013, the Company had 44,831 active fulltime equivalent Employees, consisting of 19,003 flight, 2,689 maintenance, 15,464 ground, Customer, and fleet service, and 7,675 management, finance, marketing, and clerical personnel (associated with non-operational departments). Approximately 83 percent of these Employees were represented by labor unions. The Railway Labor Act establishes the right of airline employees to organize and bargain collectively. Under the Railway Labor Act, collective-bargaining agreements between an airline and a labor union generally do not expire, but instead become amendable as of an agreed date. By the amendable date, if either party wishes to modify the terms of the agreement, it must notify the other party in the manner required by the Railway

Labor Act and/or described in the agreement. After receipt of the notice, the parties must meet for direct negotiations. If no agreement is reached, either party may request the National Mediation Board to appoint a federal mediator. If no agreement is reached in mediation, the National Mediation Board may determine an impasse exists and offer binding arbitration to the parties. If either party rejects binding arbitration, a 30-day "cooling off" period begins. At the end of this 30-day period, the parties may engage in "self-help," unless a Presidential Emergency Board is established to investigate and report on the dispute. The appointment of a Presidential Emergency Board maintains the "status quo" for an additional 60 days. If the parties do not reach agreement during this period, the parties may then engage in "self-help." "Self-help" includes, among other things, a strike by the union or the airline's imposition of any or all of its proposed amendments and the hiring of new employees to replace any striking workers. Following the AirTran acquisition, the various Company labor groups were covered by 18 different collective-bargaining agreements ("CBAs"). As noted in the table below, AirTran Employees in certain labor groups have transitioned to Southwest Employees under a single contract. The following table sets forth the Company's Employee groups and the status of the respective CBAs:

Employee Group	Representatives	Status of Agreement
Southwest Pilots	Southwest Airlines Pilots' Association ("SWAPA")	Currently in negotiations
Southwest Flight Attendants	Transportation Workers of America, AFL-CIO, Local 556 ("TWU 556")	Currently in negotiations
Southwest Ramp, Operations, Provisioning, Freight Agents	Transportation Workers of America, AFL-CIO, Local 555 ("TWU 555")	Currently in negotiations
Southwest Customer Service Agents, Customer Representatives	International Association of Machinists and Aerospace Workers, AFL-CIO ("IAM 142")	Currently in negotiations
Southwest Material Specialists (formerly known as Stock Clerks)	International Brotherhood of Teamsters, Local 19 ("IBT 19")	Currently in negotiations
Southwest Mechanics	Aircraft Mechanics Fraternal Association ("AMFA")	Currently in negotiations
Southwest Aircraft Appearance Technicians	AMFA	Amendable February 2017
Southwest Facilities Maintenance Technicians	AMFA	Currently in negotiations
Southwest Dispatchers	Transportation Workers of America, AFL-CIO, Local 550 ("TWU 550")	Amendable November 2014
Southwest Flight Simulator Technicians	International Brotherhood of Teamsters ("IBT")	Currently in negotiations
Southwest Flight Crew Training Instructors	Transportation Workers of America, AFL-CIO, Local 557 ("TWU 557")	Amendable December 2015
AirTran Pilots	Air Line Pilots Association ("ALPA")	Amendable December 2015. Per seniority list integration agreement, transition to Southwest to be completed no later than January 2015.
AirTran Flight Attendants	Association of Flight Attendants-CWA ("AFA")	The parties have negotiated an interim collective bargaining agreement to be effective until affected AirTran Employees are transitioned to Southwest.
AirTran Mechanics and Inspectors	International Brotherhood of Teamsters, Local 528 ("IBT 528")	Transitioned under the Southwest Mechanics Agreement (represented by AMFA) effective October 2012, as agreed upon as part of the applicable seniority integration and transition agreement.
AirTran Technical Trainers/Ground Instructors	IBT 528	Transitioned under the Southwest Mechanics Agreement (represented by AMFA) effective October 2012, as agreed upon as part of the applicable seniority integration and transition agreement.
AirTran Stores/Stock Clerks	IBT 528	Transitioned under the Southwest Material Specialists Agreement (represented by IBT 19) effective January 2013, as agreed upon as part of the applicable seniority integration and transition agreement.
AirTran Ground Service Mechanics/Employees	IBT 528	Transitioned under the Southwest Mechanics Agreement (represented by AMFA) effective October 2012, as agreed upon as part of the applicable seniority integration and transition agreement.
AirTran Dispatchers	Transportation Workers Union of America, Local 540 ("TWU 540")	Amendable March 2014. The parties have agreed that effective March 2014, the AirTran Dispatchers will be transitioned to the Southwest Dispatchers Agreement (represented by TWU 550).
AirTran Fleet & Passenger Service Employees (customer service, ramp, reservations)	IAM 142	The parties have negotiated an interim collective bargaining agreement to be effective until affected AirTran Employees are transitioned to Southwest. As of December 31, 2013, (i) all AirTran ramp and freight agents had transitioned to the Southwest TWU 555 CBA; (ii) all AirTran customer service agents had transitioned to the Southwest IAM 142 CBA; and (iii) the majority of AirTran reservations agents had transitioned to the Southwest IAM 142 CBA.

Pending completion of operational integration of AirTran with the Company, it will be necessary to maintain a "fence" between Southwest and AirTran Employee groups subject to CBAs, during which time the Company and AirTran will continue to keep these Employee groups separate, each applying the terms of its own existing CBAs, unless other terms have been negotiated.

Seniority list integration methodologies have been resolved for all Southwest and AirTran workgroups.

Additional Information About the Company

The Company was incorporated in Texas in 1967. The following documents are available free of charge through the Company's website, www.southwest.com: the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports that are filed with or furnished to the Securities and Exchange Commission ("SEC") pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934. These materials are made available through the Company's website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition to its reports filed or furnished with the SEC, the Company publicly discloses material information from time to time in its press releases, at annual meetings of Shareholders, in publicly accessible conferences and investor presentations, and through its website (principally in its Press Room and Investor Relations pages).

DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

This Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on, and include statements about, the Company's estimates, expectations, beliefs, intentions, and strategies for the future, and the assumptions underlying these forward-looking statements. Specific forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, words such as "anticipates," "believes," "estimates," "expects," "intends," "may," "will," "should," and similar expressions. Although management believes these forward-looking statements are reasonable as and when made, forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed in or indicated by the Company's forward-looking statements or from historical experience or the Company's present expectations. Known material risk factors that could cause these differences are set forth below under "Risk Factors." Additional risks or uncertainties (i) that are not currently known to the Company, (ii) that the Company currently deems to be immaterial, or (iii) that could apply to any company, could also materially adversely affect the Company's business, financial condition, or future results.

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

Item 1A. *Risk Factors*

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

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

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

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

Jet fuel and oil consumed for 2013 and 2012 represented approximately 35 percent and 37 percent of the Company’s operating expenses, respectively, and constituted the largest expense incurred by the Company in both years. As a result, the price of fuel has impacted, and could continue to impact, the timing and nature of the Company’s growth plans and many of the Company’s strategic initiatives.

The Company purchases jet fuel at prevailing market prices, but often seeks to protect against significant increases in fuel costs by entering into over-the-counter financial fuel derivative contracts. In addition, the Company enters into some of these fuel derivative contracts in an effort to reduce volatility in its operating expenses. Although the Company may periodically enter into jet fuel derivatives for short-term timeframes, because jet fuel is not widely traded on an organized futures exchange, there are limited opportunities to hedge directly in jet fuel for time horizons longer than approximately six to 12 months into the future. However, the Company has found that financial derivative instruments in other commodities, such as West Texas Intermediate (WTI) crude oil, Brent crude oil, and refined products, such as heating oil and unleaded gasoline, can be useful in decreasing its exposure to jet fuel price volatility. As discussed in detail in Note 10 to the Consolidated Financial Statements, derivatives that are designated as hedges and deemed “effective” (*i.e.,* that meet certain requirements under applicable accounting standards) are granted hedge accounting treatment, which can reduce volatility in the Company’s operating expenses. Nevertheless, because energy prices can fluctuate significantly in a relatively short amount of time and due to the fact that the Company uses a variety of different derivative instruments and at different price points, the Company is subject to the risk that the fuel derivatives it uses will not provide adequate protection against significant increases in fuel prices.

In addition, the Company is subject to the risk that its fuel derivatives will not be effective or that they will no longer qualify for hedge accounting under applicable accounting standards. In some situations, an entire commodity type used in hedging may cease to qualify for special hedge accounting treatment. As an example, during third quarter 2013, the Company's routine statistical analysis performed to determine which commodities qualify for special hedge accounting treatment on a prospective basis dictated that WTI crude oil based derivatives no longer qualify for hedge accounting. This is primarily due to the fact that the correlation between WTI crude oil prices and jet fuel prices during recent periods has not been as strong as in the past, and therefore the Company can no longer demonstrate that derivatives based on WTI crude oil prices will result in effective hedges on a prospective basis. As a result, the changes in fair value of all of the Company's derivatives based in WTI have been recorded to Other (gains) losses, and all future changes in the fair value of such instruments will continue to be recorded directly to earnings in future periods. Adjustments in the Company’s overall fuel hedging strategy, as well as the ability of the commodities used in fuel hedging (principally crude oil, heating oil, and unleaded gasoline) to qualify for special hedge accounting, are likely to continue to affect the Company’s results of operations. In addition, there can be no assurance that the Company will be able to cost-effectively hedge against increases in fuel prices. The Company’s fuel hedging arrangements and the impact of hedge accounting on the Company’s results of operations are discussed in more detail under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 10 to the Consolidated Financial Statements.

The Company has used financial derivative instruments for both shortterm and longterm time frames, and primarily uses a mixture of purchased call options, collar structures (which include both a purchased call option and a sold put option), call spreads (which include a purchased call option and a sold call option), and fixed price swap agreements in its portfolio. Although the use of collar structures and swap agreements can reduce the overall cost of hedging, these instruments carry more risk than purchased call options in that the Company could end up in a liability position when the collar structure or swap agreement settles. With the use of purchased call options and call spreads, the Company cannot be in a liability position at settlement, but may be exposed to price changes beyond a certain market price.

The Company’s low-cost structure has historically been one of its primary competitive advantages, and many factors have affected and could continue to affect the Company’s ability to control its costs.

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

The Company has limited control over fuel and labor costs, as well as other costs such as regulatory compliance costs. Jet fuel and oil constituted approximately 35 percent of the Company's operating expenses during 2013, and the cost of fuel is subject to the external factors discussed in the second Risk Factor above. Salaries, wages, and benefits constituted approximately 31 percent of the Company's operating expenses during 2013. The Company's ability to control labor costs is limited by the terms of its CBAs, and increased labor costs have negatively impacted the Company's low-cost competitive position. As discussed further under "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Company's unionized workforce, which makes up the majority of its Employees, have had pay scale increases as a result of increased seniority and contractual rate increases. Furthermore, as indicated above under "Business-Employees," approximately 99 percent of Southwest's unionized Employees, including those represented by nine of Southwest's eleven unions, are in unions currently in negotiations for labor agreements or have labor agreements that become amendable in 2014, which could continue to put pressure on the Company's labor costs. In addition, the Company anticipates that the combination of the various Southwest and AirTran labor contracts and frontline workforces will increase AirTran labor costs over their historical levels. As discussed above under "Business-Regulation," the airline industry is heavily regulated, and the Company's regulatory compliance costs are subject to potentially significant increases from time to time based on actions by the regulatory agencies. Additionally, when other airlines reduce their capacity, airport costs are then allocated among a fewer number of total flights, which can result in increased landing fees and other costs for the Company. The Company is also reliant upon third party vendors and service providers, and its low-cost advantage is also dependent in part on its ability to obtain and maintain commercially reasonable terms with those parties.

As discussed above under "Business-Insurance," the Company carries insurance of types customary in the airline industry and is also provided supplemental, first-party, war-risk insurance coverage by the federal government. If the supplemental coverage is not extended, the Company will be required to obtain war-risk insurance coverage commercially. Such commercial insurance could have material differences in coverage than is currently provided by the U.S. government and may not be adequate to protect the Company's risk of loss from future acts of terrorism. In addition, an accident or other incident involving Southwest or AirTran aircraft could result in costs in excess of its related insurance coverage, which costs could be substantial. Any aircraft accident or other incident, even if fully insured, could also have a material adverse effect on the public's perception of the Company.

The Company cannot guarantee it will be able to maintain or improve upon its current level of low-cost advantage. For example, in recent years the Company's maintenance costs have been pressured with the aging of its fleet, which has required the Company to spend more to maintain a portion of its fleet and to implement a related fleet modernization and replacement plan. Further, some of the Company's competitors have achieved substantially lower employee pay scales through bankruptcy than the Company. Additionally, in response to volatile fuel prices and economic uncertainty, some of the Company's competitors have taken additional efficiency and cost reduction measures, such as capacity cuts and headcount reductions, which have reduced the Company's cost advantage. Further, other competitors have continued to grow their fleets and expand their networks, potentially enabling them to better control costs per available seat mile. In addition, some competitors have announced plans to add a significant number of new aircraft to their fleets, which could potentially decrease their operating costs through better fuel efficiencies, and lower maintenance costs. Some of the Company's competitors have taken advantage of reorganization in bankruptcy, and even the threat of bankruptcy, to decrease operating costs through renegotiated labor, supply, and financing agreements. In addition, some airlines have consolidated and reported significant expected cost synergies.

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

The Company is increasingly dependent on the use of complex technology and systems to run its ongoing operations. In addition, technology is critical to the success of the Company's strategic initiatives. In recent years the Company has been committed to technology improvements to support its ongoing operations and initiatives. For example, the Company has invested in significant technology changes to support initiatives such as the implementation of connecting capabilities between the Southwest and AirTran reservations systems, Southwest's Rapid Rewards frequent flyer program, introduction of the Boeing 737-800 to its fleet, enhanced southwest.com website, WiFi implementation, and live television connectivity. In addition, the Company has added new reservation system technology to support Southwest's international itineraries and, in January 2014, began selling its first international itineraries to be flown by Southwest aircraft. The Company intends to continue to devote significant technology resources towards, among other things, (i) continued improvement of its revenue management technical capabilities, (ii) replacement of Southwest's existing domestic reservation system with a comprehensive system that would provide Southwest with the ability to serve both domestic and international markets, and (iii) a new suite of operational tools that the Company expects will improve operational management.

Integration of complex systems and technology presents significant challenges in terms of costs, human resources, and development of effective internal controls. Integration also presents the risk of operational or security inadequacy or interruption, which could materially affect the Company’s ability to effectively operate its business. The Company is also reliant upon third party performance for timely and effective completion of many of its technology initiatives.

In the ordinary course of business, the Company’s systems will continue to require modification and refinements to address growth and changing business requirements, including requirements related to international operations. In addition, the Company’s systems may require modification to enable the Company to comply with changing regulatory requirements. For example, new software was developed for Pilot scheduling in response to the DOT’s and FAA’s new flight, duty, and rest regulations that went into effect in January 2014. Modifications and refinements to the Company’s systems have been and are expected to continue to be expensive to implement and may divert management’s attention from other key initiatives. In addition, the Company’s operations could be adversely affected, or it could face imposition of regulatory penalties, if it is unable to timely or effectively modify its systems as necessary.

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

The Company’s business is labor intensive; therefore, the Company would be adversely affected if it were unable to maintain satisfactory relations with its Employees or its Employees’ Representatives or if the Company were unable to employ sufficient numbers of qualified Employees to maintain its operations.

The airline business is labor intensive. Salaries, wages, and benefits represented approximately 31 percent of the Company’s operating expenses for the year ended December 31, 2013. In addition, as of December 31, 2013, approximately 83 percent of the Company’s Employees (including AirTran Employees) were represented for collective bargaining purposes by labor unions, making the Company particularly exposed in the event of labor-related job actions. Employment-related issues that may impact the Company’s results of operations, some of which are negotiated items, include hiring/retention rates, pay rates, outsourcing costs, work rules, and health care costs. The Company has historically maintained positive relationships with its Employees and its Employees’ Representatives. However, as indicated above under “Business-Employees,” approximately 99 percent of Southwest’s unionized Employees, including those represented by nine of Southwest’s eleven unions, are in unions currently in negotiations for labor agreements or have labor agreements that become amendable in 2014, which could continue to put pressure on the Company’s labor costs. Increasing labor costs, whether or not combined with curtailed growth, could negatively impact the Company’s competitive position.

The Company’s success also depends on its ability to attract and retain skilled personnel. Competition for skilled personnel may intensify if overall industry capacity increases and/or if high levels of current personnel reach retirement age. The Company may be required to increase existing levels of compensation to retain or supplement its skilled workforce. The inability to recruit and retain skilled personnel or the unexpected loss of key skilled personnel could adversely affect the Company's operations.

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

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

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

The Company is dependent on Boeing as its sole supplier for aircraft and many of its aircraft parts and is dependent on other suppliers for certain other aircraft parts. Although the Company is able to purchase some aircraft from parties other than Boeing, most of its purchases are directly from Boeing. Therefore, if the Company were unable to acquire additional aircraft from Boeing, or if Boeing were unable or unwilling to make timely deliveries of aircraft or to provide adequate support for its products, the Company's operations would be materially adversely affected. In addition, the Company would be materially adversely affected in the event of a mechanical or regulatory issue associated with the Boeing 737 or Boeing 717 aircraft type, whether as a result of downtime for part or all of the Company's fleet or because of a negative perception by the flying public. The Company believes, however, that its years of experience with the Boeing 737 aircraft type, as well as the efficiencies Southwest has historically achieved by operating with a single aircraft type, currently outweigh the risks associated with its single aircraft supplier strategy. To enable Southwest to sustain the benefits associated with operating a single aircraft type, in July 2012 the Company entered into an agreement with Delta Air Lines, Inc. and Boeing Capital Corp. to lease or sublease all 88 of AirTran's Boeing 717-200 aircraft to Delta. Deliveries to Delta began in September 2013 at the rate of approximately three aircraft per month. As of December 31, 2013, 22 of AirTran's Boeing 717-200 aircraft had been removed from service and 13 had been delivered to Delta. The Company is also dependent on sole suppliers for aircraft engines and certain other aircraft parts and would therefore also be materially adversely affected in the event of the unavailability of, or a mechanical or regulatory issue associated with, engines and other parts.

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

The Company must receive information related to its Customers in order to run its business, and the Company's online operations depend upon the secure transmission of information over public networks, including information permitting cashless payments. This information is subject to the risk of intrusion, tampering, and theft. Although the Company maintains systems to prevent this from occurring, these systems require ongoing monitoring and updating as technologies change, and security could be compromised, confidential information could be misappropriated, or system disruptions could occur. The Company must also provide certain confidential, proprietary, and personal information to third parties in the ordinary course of its business. While the Company seeks to obtain assurances that these third parties will protect this information, there is a risk the confidentiality of data held by third parties could be breached. A compromise of the Company's security systems could adversely affect the Company's reputation and disrupt its operations and could also result in litigation against the Company or the imposition of penalties. In addition, it could be costly to remediate. Although the Company has not experienced cyber incidents that are individually, or in the aggregate, material, the Company has experienced cyber attacks in the past, which have thus far been mitigated by preventive and detective measures put in place by the Company.

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

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

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

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

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

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

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

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

- increases in airport rates and charges;
- limitations on airport gate capacity or use of other airport facilities;
- limitations on route authorities;
- actions and decisions that create difficulties in obtaining access at slot-controlled airports;
- actions and decisions that create difficulties in obtaining operating permits and approvals;

- changes to environmental regulations;
- new or increased taxes;
- changes to laws that affect the services that can be offered by airlines in particular markets and at particular airports;
- restrictions on competitive practices;
- changes in laws that increase costs for safety, security, compliance, or other Customer Service standards, such as the new FAA regulations with respect to Pilot flight/duty time limitations and rest requirements discussed above under "Business -Regulation";
- changes in laws that may limit the Company's ability to enter into fuel derivative contracts to hedge against increases in fuel prices;
- changes in laws that may limit or regulate the Company's ability to promote the Company's business or fares, such as the DOT's full-fare advertising rule discussed above under "Business -Regulation"; and
- the adoption of more restrictive locally-imposed noise regulations.

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

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

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

- adverse weather and natural disasters;
- outbreaks of disease;
- changes in consumer preferences, perceptions, spending patterns, or demographic trends (including, without limitation, changes in government travel patterns due to government shutdowns or sequestration);
- actual or potential disruptions in the air traffic control system (including, without limitation, as a result of potential FAA budget cuts due to government shutdowns or sequestration);
- changes in the competitive environment due to industry consolidation, industry bankruptcies, and other factors;
- air traffic congestion and other air traffic control issues; and
- actual or threatened war, terrorist attacks, and political instability.

The airline industry is intensely competitive.

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

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

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

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

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

Any of the foregoing factors could adversely affect the Company's ability to maintain relationships with Customers, suppliers, Employees, and other constituencies or the Company's ability to achieve the anticipated benefits of the acquisition on a timely basis, or at all, or could reduce the Company's earnings or otherwise adversely affect the business and financial results of the Company. In addition, integration requirements have caused, and may continue to cause, the Company to delay other strategic initiatives. There can be no assurances that the Company will be successful or that it will realize the expected operating efficiencies, cost savings, revenue enhancements, and other benefits currently anticipated from the acquisition.

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

Upon completion of the Company's acquisition of AirTran, the size of the Company's business increased significantly beyond the then current size of either the Company's or AirTran's businesses. The Company's future success depends, in part, upon its ability to manage this expanded business, which may pose substantial challenges for management, including challenges related to the management and monitoring of new operations, including new international operations, and associated increased costs and complexity.

As the Company expands its international flight offerings, the U.S. Customs and Border Protection ("CBP") will become an increasingly important federal presence. CBP personnel and CBP-mandated procedures can affect the Company's operations, costs, and Customer experience. The Company will make significant investments in facilities, equipment, and technologies at certain airports in order to improve the Customer experience and to assist CBP with the inspection and processing duties; however, the Company is not able to predict the impact, if any, that various CBP measures or the lack of CBP resources will have on Company revenues and costs, either in the short term or the long term.

International flying will require Southwest to modify certain processes, as the entire airport experience is dramatically different in certain international locations with respect to, among other things, common-use ticket counters and gate areas, open-air terminals, and cultural preferences.

The Company's expansion, initially through AirTran, of its operations into non-U.S. jurisdictions also expands the scope of the laws to which the Company is subject, both domestically and internationally. In addition, operations in non-U.S. jurisdictions are in many cases subject to the laws of those jurisdictions rather than U.S. laws. Laws in some jurisdictions differ in significant respects from those in the United States, and these differences can affect the Company's ability to react to changes in its business, and its rights or ability to enforce rights may be different than would be expected under U.S. law. Further, enforcement of laws in some jurisdictions can be inconsistent and unpredictable, which can affect both the Company's ability to enforce its rights and to undertake activities that it believes are beneficial to its business. As a result, the Company's ability to generate revenue and its expenses in non-U.S. jurisdictions may differ from what would be expected if U.S. law governed these operations. Although the Company has policies and procedures in place that are designed to promote compliance with the laws of the jurisdictions in which it operates, a violation by the Company's Employees, contractors, or agents or other intermediaries, could nonetheless occur. Any violation (or alleged or perceived violation), even if prohibited by the Company's policies, could have an adverse effect on the Company's reputation and/or its results of operations.

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

The successful integration of AirTran and achievement of the anticipated benefits of the acquisition depend significantly on integrating AirTran's Employees into the Company and on maintaining productive Employee relations. Failure to do so presents the potential for (i) delays in achieving expected synergies and other benefits of integration or (ii) labor disputes that could adversely affect the Company's operations and costs. In addition, disputes regarding the integration of AirTran Employees could negatively affect the Company's historically positive Employee culture.

Pending operational integration of AirTran with the Company, it will be necessary to maintain a "fence" between Southwest and AirTran Employee groups subject to CBAs, during which time the Company and AirTran will continue to keep the Employee groups separate, each applying the terms of its own existing CBAs, unless other terms have been negotiated.

The Company has incurred, and expects to continue to incur, substantial expenses related to the acquisition and integration of AirTran's business.

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

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

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

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

A complaint alleging violations of federal antitrust laws and seeking certification as a class action was filed against Delta Air Lines, Inc. and AirTran in the United States District Court for the Northern District of Georgia in Atlanta on May 22, 2009. The complaint alleged, among other things, that AirTran attempted to monopolize air travel in violation of Section 2 of the Sherman Act, and conspired with Delta in imposing $15-per-bag fees for the first item of checked luggage in violation of Section 1 of the Sherman Act. The initial complaint sought treble damages on behalf of a putative class of persons or entities in the United States who directly paid Delta and/or AirTran such fees on domestic flights beginning December 5, 2008. After the filing of the May 2009 complaint, various other nearly identical complaints also seeking certification as class actions were filed in federal district courts in Atlanta, Georgia; Orlando, Florida; and Las Vegas, Nevada. All of the cases were consolidated before a single federal district court judge in Atlanta. A Consolidated Amended Complaint was filed in the consolidated action on February 1, 2010, which broadened the allegations to add claims that Delta and AirTran conspired to reduce capacity on competitive routes and to raise prices in violation of Section 1 of the Sherman Act. In addition to treble damages for the amount of first baggage fees paid to AirTran and to Delta, the Consolidated Amended Complaint seeks injunctive relief against a broad range of alleged anticompetitive activities, as well as attorneys' fees. On August 2, 2010, the Court dismissed plaintiffs' claims that AirTran and Delta had violated Section 2 of the Sherman Act; the Court let stand the claims of a conspiracy with respect to the imposition of a first bag fee and the airlines' capacity and pricing decisions. On June 30, 2010, the plaintiffs filed a motion to certify a class, which AirTran and Delta have opposed. The parties have submitted briefs on class certification, and AirTran filed a motion to exclude the class certification reports of plaintiffs' expert. The Court has not yet ruled on the class certification motion or the related motion to exclude plaintiffs' expert. The parties engaged in extensive discovery, which was extended due to discovery disputes between plaintiffs and Delta, but discovery has now closed. On June 18, 2012, the parties filed a Stipulation and Order that plaintiffs have abandoned their claim that AirTran and Delta conspired to reduce capacity. On August 31, 2012, AirTran and Delta moved for summary judgment on all of plaintiffs' remaining claims, but discovery disputes between plaintiffs and Delta have delayed further briefing on summary judgment. On November 15, 2013, the Court entered an order referring the case to mediation, and the mediation is scheduled to begin on February 4, 2014. On December 2, 2013, plaintiffs moved for discovery sanctions against Delta, and the Court has suspended further briefing on the motions for class certification, to exclude plaintiffs' expert on class certification, and for summary judgment until the sanctions motion is resolved. While AirTran has denied all allegations of wrongdoing, including those in the Consolidated Amended Complaint, and intends to defend vigorously any and all such allegations, results of legal proceedings such as this one cannot be predicted with certainty. Regardless of its merit, this litigation and any potential future claims against the Company or AirTran may be both time consuming and disruptive to the Company's operations and cause significant expense and diversion of management attention. Should AirTran and the Company fail to prevail in this or other matters, the Company may be faced with significant monetary damages or injunctive relief that could materially adversely affect its business and might materially affect its financial condition and operating results.

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

In accordance with applicable acquisition accounting rules, the Company recorded goodwill on its Consolidated Balance Sheet to the extent the AirTran acquisition purchase price exceeded the net fair value of AirTran's tangible and intangible assets and liabilities as of the acquisition date. Goodwill is not amortized, but is tested for impairment at least annually. Future impairment of Goodwill could be recorded in the Company's results of operations as a result of changes in assumptions, estimates, or circumstances, some of which are beyond the Company's control. Factors which could result in an impairment, holding other assumptions constant, could include, but are not limited to: (i) reduced passenger demand as a result of domestic or global economic conditions; (ii) 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. The Company can provide no assurance that a significant impairment charge will not occur in one or more future periods. Any such charges may materially negatively affect the Company's financial results. See Note 1 to the Consolidated Financial Statements for further information.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Aircraft

Southwest and AirTran operated a total of 680 Boeing aircraft in-service as of December 31, 2013, of which 160 and four were under operating and capital leases, respectively.

The following table details information on the 680 active aircraft in the Company's combined fleet as of December 31, 2013:

Type	Seats	Average Age (Yrs)	Number of Aircraft	Number Owned (1)	Number Leased
717-200	117	12	66	8	58
737-300	143	20	122	76	46
737-500	122	22	15	9	6
737-700	143	9	425	378	47
737-800	175	1	52	45	7
Totals			680	516	164

(1) As discussed further in Note 7 to the Consolidated Financial Statements, 141 of Southwest's and 30 of AirTran's aircraft were pledged as collateral as of December 31, 2013.

In total, at January 22, 2014, Southwest and AirTran firm orders, options, and purchase rights for the purchase of Boeing 737-700, 737-800, and 737 MAX aircraft were as follows:

737 FUTURE DELIVERY SCHEDULE

	The Boeing Company 737 NG				The Boeing Company 737 MAX			
	-700 Firm Orders	-800 Firm Orders	Options	Additional - 700 A/C	-7 Firm Orders	-8 Firm Orders	Options	Total
2014	—	33	—	12	—	—	—	45
2015	—	19	—	5	—	—	—	24
2016	31	—	12	—	—	—	—	43
2017	15	—	12	—	—	14	—	41
2018	10	—	12	—	—	13	—	35
2019	—	—	—	—	15	10	—	25
2020	—	—	—	—	14	22	—	36
2021	—	—	—	—	1	33	18	52
2022	—	—	—	—	—	30	19	49
2023	—	—	—	—	—	24	23	47
2024	—	—	—	—	—	24	23	47
2025	—	—	—	—	—	—	36	36
2026	—	—	—	—	—	—	36	36
2027	—	—	—	—	—	—	36	36
Total	56 (1)	52	36	17	30	170 (2)	191	552

(1) The Company has flexibility to substitute 737-800s in lieu of 737-700 firm orders.
(2) The Company has flexibility to substitute MAX 7 in lieu of MAX 8 firm orders beginning in 2019.

Ground Facilities and Services

Each of Southwest and AirTran either leases or pays a usage fee for terminal passenger service facilities at each of the airports it serves, to which various leasehold improvements have been made. Southwest leases the land and structures on a longterm basis for its aircraft maintenance centers (located at Dallas Love Field, Houston Hobby, Phoenix Sky Harbor, and Chicago Midway), its flight training center at Dallas Love Field (which houses nine 737 simulators), and its main corporate headquarters building, also located at Dallas Love Field. AirTran leases the land and structures on a longterm basis for its aircraft maintenance centers located at Hartsfield-Jackson Atlanta International Airport and Orlando International Airport. AirTran also leases a warehouse and engine repair facility in Atlanta. During 2013 the Company completed construction of a new, owned, energy-efficient, modern building designed to house certain operational and training functions, including its 24-hour operations. This additional headquarters building is located across the street from the Company's current headquarters building on land owned by the Company. Construction was completed in late 2013.

As part of the Company's expected future international service, the Company has agreed with the City of Houston ("City") to expand the existing Houston Hobby airport facility. Pursuant to the agreement, the Company and the City have entered into an Airport Use and Lease Agreement to control the execution of this expansion and the financial terms thereof. This project provides for 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. Construction began during third quarter 2013 and is estimated to be completed during the second half of 2015. Additional information regarding this project is provided below under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 4 to the Consolidated Financial Statements.

In December 2013, the Company entered into an agreement with Broward County, Florida, which owns and operates Fort Lauderdale-Hollywood International Airport to oversee and manage the design and construction of the airport's Terminal 1 Modernization Project. In addition to significant improvements to the existing Terminal 1, the project includes the design and construction of a new five-gate Concourse A with an international processing facility. Construction is expected to begin in 2014. Additional information regarding this project is provided below under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 4 to the Consolidated Financial Statements.

During 2008, the City of Dallas approved the Love Field Modernization Program (“LFMP”), a project to reconstruct Dallas Love Field with modern, convenient air travel facilities. Pursuant to a Program Development Agreement with the City of Dallas and the Love Field Airport Modernization Corporation a Texas non-profit “local government corporation” established by the City of Dallas to act on the City of Dallas’ behalf to facilitate the development of the LFMP), the Company is managing this project. Major construction commenced during 2010. New ticketing and checkin areas opened during fourth quarter 2012, and 11 new gates and new concessions opened in April 2013. Another new gate opened in July 2013, and full completion of the project is scheduled for second half 2014. The project consists of the complete replacement of gate facilities with a new 20-gate facility, including infrastructure, systems and equipment, aircraft parking apron, fueling system, roadways and terminal curbside, baggage handling systems, passenger loading bridges and support systems, and other supporting infrastructure. The LFMP is discussed in more detail below under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in Note 4 to the Consolidated Financial Statements.

As of December 31, 2013, the Company operated seven Customer Support and Services call centers. The centers located in Atlanta, San Antonio, Chicago, Albuquerque, and Oklahoma City occupy leased space. The Company owns its Houston and Phoenix centers. The Company opened its new expanded Customer Support and Services center in San Antonio in June 2012, replacing an older facility and creating more than 300 local jobs. In 2013 the Company consolidated its former Atlanta, Savannah, and Carrollton, Georgia call centers into a new Atlanta call center, located in leased space.

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

Item 3. *Legal Proceedings*

A complaint alleging violations of federal antitrust laws and seeking certification as a class action was filed against Delta Air Lines, Inc. and AirTran in the United States District Court for the Northern District of Georgia in Atlanta on May 22, 2009. The complaint alleged, among other things, that AirTran attempted to monopolize air travel in violation of Section 2 of the Sherman Act, and conspired with Delta in imposing $15-per-bag fees for the first item of checked luggage in violation of Section 1 of the Sherman Act. The initial complaint sought treble damages on behalf of a putative class of persons or entities in the United States who directly paid Delta and/or AirTran such fees on domestic flights beginning December 5, 2008. After the filing of the May 2009 complaint, various other nearly identical complaints also seeking certification as class actions were filed in federal district courts in Atlanta, Georgia; Orlando, Florida; and Las Vegas, Nevada. All of the cases were consolidated before a single federal district court judge in Atlanta. A Consolidated Amended Complaint was filed in the consolidated action on February 1, 2010, which broadened the allegations to add claims that Delta and AirTran conspired to reduce capacity on competitive routes and to raise prices in violation of Section 1 of the Sherman Act. In addition to treble damages for the amount of first baggage fees paid to AirTran and to Delta, the Consolidated Amended Complaint seeks injunctive relief against a broad range of alleged anticompetitive activities, as well as attorneys' fees. On August 2, 2010, the Court dismissed plaintiffs' claims that AirTran and Delta had violated Section 2 of the Sherman Act; the Court let stand the claims of a conspiracy with respect to the imposition of a first bag fee and the airlines' capacity and pricing decisions. On June 30, 2010, the plaintiffs filed a motion to certify a class, which AirTran and Delta have opposed. The parties have submitted briefs on class certification, and AirTran filed a motion to exclude the class certification reports of plaintiffs’ expert. The Court has not yet ruled on the class certification motion or the related motion to exclude plaintiffs’ expert. The parties engaged in extensive discovery, which was extended due to discovery disputes between plaintiffs and Delta, but discovery has now closed. On June 18, 2012, the parties filed a Stipulation and Order that plaintiffs have abandoned their claim that AirTran and Delta conspired to reduce capacity. On August 31, 2012, AirTran and Delta moved for summary judgment on all of plaintiffs' remaining claims, but discovery disputes between plaintiffs and Delta have delayed further briefing on summary judgment. On November 15, 2013, the Court entered an order referring the case to mediation, and the mediation is scheduled to begin on February 4, 2014. On December 2, 2013, plaintiffs moved for discovery sanctions against Delta, and the Court has suspended further briefing on the motions for class certification, to exclude plaintiffs' expert on class certification, and for summary judgment until the sanctions motion is resolved. AirTran denies all allegations of wrongdoing, including those in the Consolidated Amended Complaint, and intends to defend vigorously any and all such allegations.

The Company is from time to time subject to various legal proceedings and claims arising in the ordinary course of business, including, but not limited to, examinations by the Internal Revenue Service.

The Company's management does not expect that the outcome in any of its currently ongoing legal proceedings or the outcome of any proposed adjustments presented to date by the Internal Revenue Service, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations, or cash flow.

Item 4. *Mine Safety Disclosures*

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following information regarding the Company's executive officers is as of February 1, 2014.

Name	Position	Age
Gary C. Kelly	Chairman of the Board, President, & Chief Executive Officer	58
Robert E. Jordan	Executive Vice President & Chief Commercial Officer	53
Jeff Lamb	Executive Vice President & Chief People & Administrative Officer	51
Ron Ricks	Executive Vice President & Chief Legal & Regulatory Officer	64
Michael G. Van de Ven	Executive Vice President & Chief Operating Officer	52
Tammy Romo	Senior Vice President Finance & Chief Financial Officer	51

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

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

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

Jeff Lamb has served as the Company's Executive Vice President & Chief People & Administrative Officer since September 2011. Mr. Lamb also served as Senior Vice President Administration & Chief People Officer from October 2007 to September 2011, Vice President People & Leadership Development from February 2006 to October 2007, and as Senior Director People Development from December 2004 until February 2006.

Ron Ricks has served as the Company's Executive Vice President & Chief Legal & Regulatory Officer since September 2011. Mr. Ricks also served as Corporate Secretary from May 2008 to January 2013, Executive Vice President Corporate Services from May 2008 to September 2011, Executive Vice President Law, Airports, & Public

Affairs from September 2006 to May 2008, and Senior Vice President Law, Airports, & Public Affairs from August 2004 until September 2006. Mr. Ricks joined the Company in 1986 as its Vice President Governmental Affairs.

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

Tammy Romo has served as the Company's Senior Vice President Finance & Chief Financial Officer since September 2012. Ms. Romo also served as Senior Vice President of Planning from February 2010 to September 2012, Vice President of Financial Planning from September 2008 to February 2010, Vice President Controller from February 2006 to August 2008, Vice President Treasurer from September 2004 to February 2006, Senior Director of Investor Relations from March 2002 to September 2004, Director of Investor Relations from December 1994 to March 2002, Manager of Investor Relations from September 1994 to December 1994, and Manager of Financial Reporting from September 1991 to September 1994.

PART II

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

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

Period	Dividend	High	Low
2013			
1st Quarter	$ 0.01000	$ 13.58	$ 10.36
2nd Quarter	0.04000	14.56	12.45
3rd Quarter	0.04000	14.82	12.58
4th Quarter	0.04000	19.00	14.48
2012			
1st Quarter	$ 0.00450	$ 10.05	$ 8.03
2nd Quarter	0.01000	9.42	7.76
3rd Quarter	0.01000	9.82	8.45
4th Quarter	0.01000	10.61	8.68

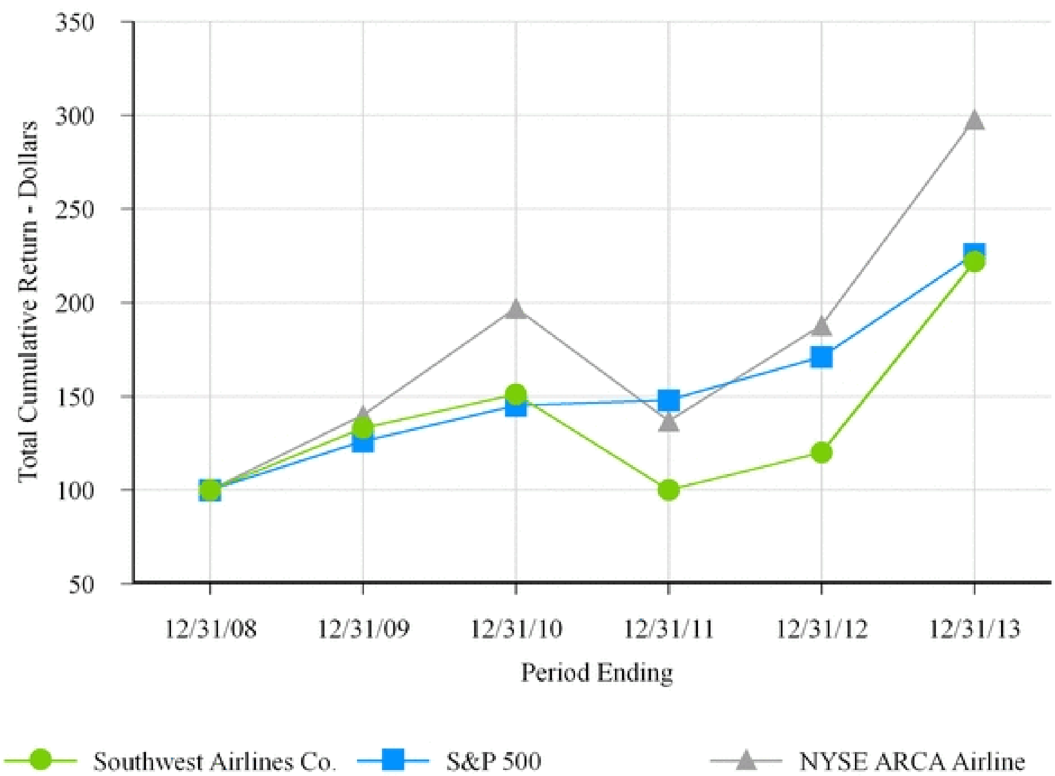
The Company currently intends to continue declaring dividends on a quarterly basis for the foreseeable future; however, the Company's Board of Directors may elect to alter the timing, amount, and payment of dividends on the basis of operational results, financial condition, cash requirements, future prospects, and other factors deemed relevant by the Board. As of January 30, 2014, there were approximately 13,850 holders of record of the Company's common stock.

Stock Performance Graph

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

The following graph compares the cumulative total shareholder return on the Company's common stock over the five-year period ended December 31, 2013, with the cumulative total return during such period of the Standard and Poor's 500 Stock Index and the NYSE ARCA Airline Index. The comparison assumes $100 was invested on December 31, 2008, in the Company's common stock and in each of the foregoing indices and assumes reinvestment of dividends. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN AMONG SOUTHWEST AIRLINES CO., S&P 500 INDEX, AND NYSE ARCA AIRLINE INDEX



	12/31/2008		12/31/2009		12/31/2010		12/31/2011		12/31/2012		12/31/2013	
Southwest Airlines Co.	$	100	$	133	$	151	$	100	$	120	$	222
S&P 500	$	100	$	126	$	145	$	148	$	171	$	226
NYSE ARCA Airline	$	100	$	140	$	197	$	137	$	188	$	298

Issuer Repurchases

Issuer Purchases of Equity Securities (1)

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum dollar value of shares that may yet be purchased under the plans or programs
October 1, 2013 through October 31, 2013	—	$ —	—	$ 374,515,838
November 1, 2013 through November 30, 2013	—	$ —	—	$ 374,515,838
December 1, 2013 through December 31, 2013	—	$ — (2)	—	$ 334,859,846 (2)
Total	—		—	

(1) In January 2008, the Company's Board of Directors authorized the repurchase of up to $500 million of the Company's common stock. Through February 15, 2008, the Company had repurchased 4.4 million shares for a total of approximately $54 million, at which time repurchases under the program were suspended. On August 5, 2011, the Company's Board of Directors authorized the Company to resume a share repurchase program and approved the Company's repurchase, on a discretionary basis, of a total of up to $500 million of the Company's common stock following such authorization. On May 16, 2012, the Company's Board of Directors increased the previous share repurchase authorization by an additional $500 million to a total of $1.0 billion. On May 15, 2013, the Company's Board of Directors further increased the previous share repurchase authorization by an additional $500 million to a total of $1.5 billion. Repurchases are made in accordance with applicable securities laws in open market, private, or in accelerated repurchase transactions from time to time, depending on market conditions, and may be discontinued at any time.

(2) Under an accelerated share repurchase program entered into by the Company with a third party financial institution in third quarter 2013 ("ASR Program"), the Company paid $150 million and received an initial delivery of 11,459,129 shares during third quarter 2013. Final settlement of this ASR Program occurred in December 2013 and was determined based generally on a discount to the volume-weighted average price per share of the Company's common stock during a calculation period completed in December 2013. At settlement, the Company had the option to deliver shares of its common stock or to make a cash payment to the third party financial institution, and elected to make a cash payment of approximately $40 million. In total, the average purchase price per share for the 11,459,129 shares repurchased under the ASR Program, upon completion of the ASR Program in December 2013, was $16.55.

Item 6. *Selected Financial Data*

The following financial information, for the five years ended December 31, 2013, has been derived from the Company's Consolidated Financial Statements. This information should be viewed in conjunction with the Consolidated Financial Statements and related notes thereto included elsewhere herein. This financial information includes the operations of AirTran since the May 2, 2011, acquisition date. Any financial information presented prior to that date includes only the operations of Southwest unless otherwise indicated. The Company provides the operating data below because these statistics are commonly used in the airline industry and, therefore, allow readers to compare the Company's performance against its results for prior periods, as well as against the performance of the Company's peers.

	Year ended December 31,				
	2013	2012	2011	2010	2009
Financial Data (in millions, except per share amounts):					
Operating revenues	$ 17,699	$ 17,088	$ 15,658	$ 12,104	$ 10,350
Operating expenses	16,421	16,465	14,965	11,116	10,088
Operating income	1,278	623	693	988	262
Other expenses (income) net	69	(62)	370	243	98
Income before taxes	1,209	685	323	745	164
Provision for income taxes	455	264	145	286	65
Net income	$ 754	$ 421	$ 178	$ 459	$ 99
Net income per share, basic	$ 1.06	$ 0.56	$ 0.23	$ 0.62	$ 0.13
Net income per share, diluted	$ 1.05	$ 0.56	$ 0.23	$ 0.61	$ 0.13
Cash dividends per common share	$ 0.1300	$ 0.0345	$ 0.0180	$ 0.0180	$ 0.0180
Total assets at period-end	$ 19,345	$ 18,596	$ 18,068	$ 15,463	$ 14,269
Long-term obligations at period-end	$ 2,191	$ 2,883	$ 3,107	$ 2,875	$ 3,325
Stockholders' equity at period-end	$ 7,336	$ 6,992	$ 6,877	$ 6,237	$ 5,454
Operating Data:					
Revenue passengers carried	108,075,976	109,346,509	103,973,759	88,191,322	86,310,229
Enplaned passengers	133,155,030	133,978,100	127,551,012	106,227,521	101,338,228
Revenue passenger miles (RPMs) (000s) (1)	104,348,216	102,874,979	97,582,530	78,046,967	74,456,710
Available seat miles (ASMs) (000s) (2)	130,344,072	128,137,110	120,578,736	98,437,092	98,001,550
Load factor (3)	80.1%	80.3%	80.9%	79.3%	76.0%
Average length of passenger haul (miles)	966	941	939	885	863
Average aircraft stage length (miles)	703	693	679	648	639
Trips flown	1,312,785	1,361,558	1,317,977	1,114,451	1,125,111
Average passenger fare	$ 154.72	$ 147.17	$ 141.90	$ 130.27	$ 114.61
Passenger revenue yield per RPM (cents) (4)	16.02	15.64	15.12	14.72	13.29
Operating revenue per ASM (cents) (5)	13.58	13.34	12.99	12.30	10.56
Passenger revenue per ASM (cents) (6)	12.83	12.56	12.24	11.67	10.09
Operating expenses per ASM (cents) (7)	12.60	12.85	12.41	11.29	10.29
Operating expenses per ASM, excluding fuel (cents)	8.18	8.07	7.73	7.61	7.18
Operating expenses per ASM, excluding fuel and profitsharing (cents)	8.01	7.98	7.65	7.45	7.15
Fuel costs per gallon, including fuel tax	$ 3.16	$ 3.30	$ 3.19	$ 2.51	$ 2.12
Fuel costs per gallon, including fuel tax, economic	$ 3.12	$ 3.28	$ 3.19	$ 2.39	$ 1.97
Fuel consumed, in gallons (millions)	1,818	1,847	1,764	1,437	1,428
Active fulltime equivalent Employees	44,831	45,861	45,392	34,901	34,726
Aircraft in service at period-end (8)	680	694	698	548	537

(1) A revenue passenger mile is one paying passenger flown one mile. Also referred to as "traffic," which is a measure of demand for a given period.
(2) An available seat mile is one seat (empty or full) flown one mile. Also referred to as "capacity," which is a measure of the space available to carry passengers in a given period.
(3) Revenue passenger miles divided by available seat miles.
(4) Calculated as passenger revenue divided by revenue passenger miles. Also referred to as "yield," this is the average cost paid by a paying passenger to fly one mile, which is a measure of revenue production and fares.
(5) Calculated as operating revenue divided by available seat miles. Also referred to as "operating unit revenues," this is a measure of operating revenue production based on the total available seat miles flown during a particular period.
(6) Calculated as passenger revenue divided by available seat miles. Also referred to as "passenger unit revenues," this is a measure of passenger revenue production based on the total available seat miles flown during a particular period.
(7) Calculated as operating expenses divided by available seat miles. Also referred to as "unit costs" or "cost per available seat mile," this is the average cost to fly an aircraft seat (empty or full) one mile, which is a measure of cost efficiencies.
(8) Includes leased aircraft and excludes aircraft that are not available for service or are in storage, held for sale, or held for return to the lessor.

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

	Year ended December 31, 2013	Year ended December 31, 2012	Percent Change
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: Charge for Acquisition and integration costs, net	(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: Charge for Acquisition and integration costs, net	$ 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: Charge for Acquisition and integration costs, net (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	$ (4.42)	$ (4.78)	
Deduct: Impact of special items	$ (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.

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

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011
Operating Income, as reported	$ 1,278	$ 623	$ 693
Add: Net impact from fuel contracts	84	32	—
Add: Acquisition and integration costs	86	183	132
Add: Asset impairment, net (1)	—	—	14
Operating Income, non-GAAP	$ 1,448	$ 838	$ 839
Net adjustment for aircraft leases (2)	143	117	129
Adjustment for fuel hedge accounting	(60)	(36)	(107)
Adjusted Operating Income, non-GAAP	$ 1,531	$ 919	$ 861
Average invested capital (3)	$ 11,664	$ 12,575	$ 12,439
Equity adjustment for hedge accounting	50	145	184
Adjusted average invested capital	$ 11,714	$ 12,720	$ 12,623
ROIC, pre-tax	13.1%	7.2%	6.8%

(1) Net of profitsharing impact
(2) 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).
(3) Average invested capital represents a five quarter average of debt, net present value of aircraft leases, and equity.

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

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 41st consecutive year, the Company was profitable, recording GAAP and non-GAAP results for 2013 and 2012 as follows:

(in millions, except per share amounts)	Year ended December 31, 2013	Year ended December 31, 2012	Percent Change
GAAP			
Operating income	$ 1,278	$ 623	105.1
Net income	$ 754	$ 421	79.1
Net income per share, diluted	$ 1.05	$ 0.56	87.5
Non-GAAP			
Operating income	$ 1,448	$ 838	72.8
Net income	$ 805	$ 417	93.0
Net income per share, diluted	$ 1.12	$ 0.56	100.0

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

The Company's GAAP results for both the year ended December 31, 2013 and 2012 were impacted by the non-cash adjustments recorded as a result of the Company's portfolio of derivative contracts utilized to hedge jet fuel price volatility, as well as acquisition and integration costs associated with the Company's 2011 acquisition of AirTran. See Note 10 to the Consolidated Financial Statements for further information on fuel hedging and Note 2 for further information on the acquisition of AirTran. Excluding the impact of these items, the Company's non-GAAP net income for the year ended December 31, 2013, increased 93.0 percent compared to the same prior year period and represented the highest full-year non-GAAP net income in the Company's history. During 2013 the Company also recorded the highest quarterly non-GAAP net income in its history for the second, third, and fourth quarters. The significant year-over-year increase in non-GAAP net income was primarily due to a combination of higher Passenger revenues and lower fuel costs, both of which were aided by the Company's continued focus on the implementation of its five strategic initiatives. As discussed in Note 2 to the Consolidated Financial Statements, for GAAP reporting, the accompanying results of operations and cash flows contain AirTran's results beginning as of the May 2, 2011, date of the acquisition, while results of operations and cash flows prior to the acquisition date are only the results of Southwest.

The Company's strategic initiatives are intended to increase revenues, reduce unit costs, and to aid the Company with its goal of achieving an annual pre-tax return on invested capital ("ROIC") of 15 percent. The Company has made substantial progress towards this 15 percent ROIC goal, significantly surpassing its prior year performance. Given the strategic initiatives that have been completed and those which remain underway, the Company believes it is well positioned for 2014, given the current economic environment and current jet fuel prices. The Company's strategic initiatives include:

- The integration of AirTran. The acquisition of AirTran in 2011 increased the Company's fleet size and expanded the Company's network into key U.S. markets such as Atlanta and Washington Reagan, as well as near-international locations such as the Caribbean and Mexico. As a result of the acquisition, the Company estimates it achieved approximately $400 million in net, pre-tax synergies during 2013 (excluding acquisition and integration expenses). Additionally, the Company reached a major milestone during 2013 by completing the connection of the Southwest and AirTran networks. Customers can now fly between any of the combined 96 Southwest and AirTran destinations on a single itinerary. Significant changes have also been made to AirTran's route network, including ending service to several airports which proved to not be sustainable under the Southwest business model and the re-deployment of aircraft into new markets. The Company also continued the process of converting AirTran aircraft to the Southwest livery in 2013. As of December 31, 2013, 17 AirTran 737-700 aircraft had completed the conversion process and re-entered service as Southwest aircraft. The Company transitioned Atlanta into a point-to-point operation, similar to other large Southwest cities, which is expected to enable efficiencies related to the scheduling of aircraft, flight crews, and ground staff. In addition, the Company completed its plan to bring Southwest service to all domestic AirTran airport facilities in 2013. The Company remains on track with its plans to fully integrate AirTran into its operations by the end of 2014.

- 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 CO_2 emissions by an additional 13 percent over today's most fuel-efficient single-aisle airplanes. 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 2013, the Company completed its multi-year *Evolve* program, which included, in total, the retrofitting of 372 Southwest 737-700 and 78 Southwest 737-300 aircraft. *Evolve: The New Southwest Experience* is an updated cabin interior intended to enhance the Customer's overall travel experience, while improving fleet efficiency with the added benefit of six additional seats on each aircraft. In addition, during 2013, the Company transitioned 22 AirTran 717-200 aircraft out of active service, in preparation for transition, as part of lease/sublease agreements with Delta. As of December 31, 2013, a total of 13 717-200 aircraft had been delivered to Delta. The Company also retired 11 older 737-300s and 737-500s from its fleet during 2013. The Company intends to continue to replace these less efficient aircraft through its current order book with Boeing and through the purchase and lease of additional pre-owned 737-700 aircraft from third parties.

- 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 18 Boeing 737-800s during 2013. As of December 31, 2013, the Company's active fleet included 52 737-800s. The Boeing 737-800 (i) is better suited for 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. In January 2014, the Company began selling its first international itineraries to be flown by Southwest aircraft and announced plans to begin Southwest service to Jamaica (Montego Bay), The Bahamas (Nassau), and Aruba (Oranjestad) beginning July 1, 2014. The Company expects to launch Southwest international service to Mexico (Cancun, Mexico City, and Cabo San Lucas) and Dominican Republic (Punta Cana) by the end of 2014. The Company worked with Amadeus IT Group to implement Amadeus' Altea reservations solution to support the Company's international service. The contract also provides the option for Southwest to migrate its domestic business to Amadeus in the future.

- Southwest's Rapid Rewards frequent flyer program. In March 2011, Southwest launched its current Rapid Rewards frequent flyer program, 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.

In addition, the Company implemented other initiatives designed to increase revenues during 2013 and future periods. During first quarter 2013, Southwest began selling open premium boarding positions systemwide at the gate for a $40 charge per flight, increased the amount Customers pay for its EarlyBird Check-in product from $10 per one-way ticket to $12.50 per one-way ticket, and increased the fees charged for certain checked excess baggage. On AirTran flights, the charge for a Customer's first checked bag increased to $25, and a second checked bag now costs $35. On Southwest flights, a Customer may still check up to two bags, up to 50 pounds each, free of charge, but the charge for a third or subsequent checked bag, or for any bag in excess of 50 pounds, increased to $75 each. On September 13, 2013, Southwest implemented a No Show policy that applies to nonrefundable fares that are not canceled or changed by a Customer at least ten minutes prior to a flight's scheduled departure. If a Customer has booked a nonrefundable fare anywhere in his/her itinerary and that portion of the flight is not used and not canceled or changed by the Customer at least ten minutes prior to scheduled departure, all unused funds on the full itinerary will be forfeited, and the remaining reservation will be canceled. See Note 1 to the Consolidated Financial Statements.

During 2013, the Company became the first and only carrier to offer gate-to-gate WiFi connectivity, which means Customers can now utilize satellite WiFi throughout their entire trip with no interruptions. In addition, Southwest has supplemented its WiFi capability with the option for Customers to view movies-on-demand, as well as a free package of live television channels, all of which can be watched from the Customer's own personal portable electronic device. Also during 2013, the Company became the first airline to offer a Messaging-only option. Messaging is currently only available for Apple's iMessage service, but is expected to expand in early 2014 to other messaging platforms.

As part of the Company's expected near-international service, the Company has agreed to manage the construction of international facilities at Houston's William P. Hobby Airport and Fort Lauderdale-Hollywood International Airport. The Company entered into a Memorandum of Agreement ("MOA") with the City of Houston ("City"), effective June 2012, to expand the existing Houston Hobby airport facility, including the building of five gates and an international processing facility. Construction began during third quarter 2013 and is estimated to be completed during the second half of 2015. In addition, the Company entered into an agreement with Broward County, Florida during fourth quarter 2013 that includes construction of the Terminal 1 Modernization Project and a new five gate Concourse A with an international processing facility. Construction is anticipated to begin in 2014 and to be completed in early 2017.

During fourth quarter 2013, the Company took steps to supplement its existing service at New York LaGuardia Airport by acquiring 12 takeoff and landing slots (for six roundtrip flights) at LaGuardia. The acquired slots were divested by AMR Corporation, the parent company of American Airlines, Inc., as part of its merger with US Airways Group, Inc. Also in connection with the divestiture, the Company gained ownership through the purchase of ten takeoff and landing slots (for five roundtrip flights) at LaGuardia that it previously operated under a lease from American. The Company plans to supplement its existing service utilizing the newly acquired slots at LaGuardia beginning in May 2014. In January 2014, the Company was notified of its winning bid to acquire 54 takeoff and landing slots (for 27 roundtrip flights) at Washington Reagan National Airport, which also must be divested in connection with the merger between American and US Airways. The acquisition of these slots, which is subject to final approval of the Department of Justice and customary written agreements, will supplement the Company's existing service at Washington Reagan. Although the transaction is not yet final, the Company expects to fund the purchase utilizing cash on hand. Also, during 2013 the Company launched Southwest service to San Juan, Puerto Rico, Southwest's first destination outside the continental United States. In addition, the Company announced its decision to close three cities in its network. On June 7, 2014, Southwest plans to cease operations at Branson Airport, Key West International Airport, and Jackson-Evers International Airport.

The Company continues to return significant value to its Shareholders. During 2013, the Company returned $540 million to its Shareholders through the Company's buyback of shares on the open market and two separate accelerated share repurchase programs ("ASR Programs"). See Part II, Item 5 for further information on the Company's share repurchase authorizations. In addition, the Company returned a total of $ 71 million to Shareholders through dividends paid during 2013. Beginning with the Company's second quarter dividend declaration, the cash payment per share has been $.04, which equates to an approximate $100 million return to Shareholders on an annualized basis.

At the current time, the Company plans to continue its route network and schedule optimization efforts. As of January 22, 2013, the Company was scheduled to receive 33 new 737-800 aircraft from Boeing and 12 pre-owned 737-700s it has agreed to purchase or lease from third parties during 2014. The Company also expects to retire some of its older 737-300 and 737-500 aircraft, as well as transition a number of 717-200 aircraft out of active service as part of the Company's lease/sublease agreements with Delta. See Note 8 to the Consolidated Financial Statements. In total, the Company currently expects 2014 ASMs to be in line with 2013 as it continues to optimize its network and execute on its strategic plan.

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 to 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 to 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 to 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. Based on bookings and revenue trends thus far, the Company currently expects a year-over-year increase in unit revenues for first quarter 2014.

Freight revenues for 2013 increased by $4 million, or 2.5 percent, compared to 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 to 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 purchase 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. The Company currently expects this trend to continue as the integration process moves forward. Consequently, the Company currently expects Freight and Other revenues, combined, in first quarter 2014 to decrease compared to first quarter 2013.

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:

	Year ended December 31,		Per ASM	Percent
(in cents, except for percentages)	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 to 2012, while capacity increased 1.7 percent compared to 2012. Operating expenses per ASM for 2013 decreased 1.9 percent compared to 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 to 2012, primarily due to higher Salaries, wages, and benefits expense. Based on current cost trends, the Company expects its first quarter 2014 unit costs, excluding fuel, special items, and profitsharing to increase in the four to five percent range, compared to first quarter 2013. Approximately two points of this estimated year-over-year increase is attributable to January 2014's winter storms. 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 to 2012. Salaries, wages, and benefits expense per ASM for 2013 increased 4.6 percent compared to 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. Based on current cost trends, the Company expects first quarter 2014 Salaries, wages, and benefits expense per ASM, excluding profitsharing, to increase compared to fourth quarter 2013.

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	6,200	Southwest Airlines Pilots' Association ("SWAPA")	August 2012
Southwest Flight Attendants	10,100	Transportation Workers of America, AFL-CIO, Local 556 ("TWU 556")	May 2013
Southwest Ramp, Operations, Provisioning, Freight Agents	9,500	Transportation Workers of America, AFL-CIO, Local 555 ("TWU 555")	June 2011
Southwest Customer Service Agents, Customer Representatives	6,000	International Association of Machinists and Aerospace Workers, AFL-CIO ("IAM 142")	October 2012
Southwest Materials Specialists (formerly known as Stock Clerks)	200	International Brotherhood of Teamsters, Local 19 ("IBT 19")	August 2013
Southwest Mechanics	2,200	Aircraft Mechanics Fraternal Association ("AMFA")	August 2012
Southwest Flight Simulator Technicians	30	International Brotherhood of Teamsters ("IBT")	October 2013
Southwest Facilities Maintenance Technicians	40	AMFA	N/A

Fuel and oil expense for 2013 decreased by $357 million, or 5.8 percent, compared to 2012. On a per ASM basis, Fuel and oil expense for 2013 decreased 7.5 percent compared to 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 to $3.28 during 2012, a decrease of 4.9 percent. In addition, fuel gallons consumed decreased 1.6 percent compared to 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 are 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. See Note 10 to the Consolidated Financial Statements.

As of January 17, 2014, on an economic basis, the Company had derivative contracts in place related to expected future fuel consumption as follows:

Period	Average percent of estimated fuel consumption covered by fuel derivative contracts at varying WTI/Brent crude-equivalent price levels
2014	Approx. 20%
2015	Approx. 40%
2016	Approx. 35%
2017	Approx. 50%

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, 2013, and the expected future periods in which these items are expected to settle and/or be recognized in earnings (in millions):

Year	Fair value of fuel derivative contracts at December 31, 2013	Amount of gains (losses) deferred in AOCI at December 31, 2013 (net of tax)
2014	$ 54	$ 28
2015	77	(34)
2016	77	(1)
2017	(28)	(5)
Total	$ 180	$ (12)

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 2014, and full year 2014 jet fuel prices at different crude oil assumptions as of January 17, 2014 , 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 2014 (2)	Full Year 2014 (2)
$85	$2.60 - $2.65	$2.45 - $2.50
$95	$2.80 - $2.85	$2.70 - $2.75
Current Market (1)	$3.05 - $3.10	$2.95 - $3.00
$115	$3.15 - $3.20	$3.20 - $3.25
$125	$3.30 - $3.35	$3.40 - $3.45
Estimated Premium Costs (3)	$15 - $20 million	$60 - $70 million

(1) Brent crude oil average market prices as of January 17, 2014, were approximately $106 and $104 per barrel for first quarter 2014 and full year 2014, respectively.
(2) The Company currently has approximately 10 percent of its first quarter 2014 estimated fuel consumption covered by fuel derivative contracts at varying crude oil-equivalent prices; and approximately 30 percent at Gulf Coast jet fuel-equivalent prices. For full year 2014, the Company currently has approximately 15 percent of its estimated fuel consumption covered by fuel derivative contracts at varying crude oil-equivalent prices; and approximately 5 percent at Gulf Coast jet fuel-equivalent prices. The economic fuel price per gallon sensitivities provided above assume the relationship between Brent crude oil and refined products based on market prices as of January 17, 2014.
(3) Premium costs are recognized as a component of Other (gains) losses net.

Maintenance materials and repairs expense for 2013 decreased by $52 million, or 4.6 percent, compared to 2012. On a per ASM basis, Maintenance materials and repairs expense for 2013 decreased 5.7 percent compared to 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. See Note 8 to the Consolidated Financial Statements for further information. The Company currently expects Maintenance materials and repairs expense per ASM for first quarter 2014 to decrease compared to first quarter 2013.

Aircraft rentals expense for 2013 increased by $6 million, or 1.7 percent, compared to 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 to 2012. The Company currently expects Aircraft rentals expense per ASM for first quarter 2014 to be comparable to fourth quarter 2013.

Landing fees and other rentals expense for 2013 increased by $60 million, or 5.8 percent, compared to 2012. On a per ASM basis, Landing fees and other rentals expense for 2013 increased 4.9 percent compared to 2012. Both the dollar and per ASM increases were due to higher fixed and variable rental rates charged by several airports over the last 12 months 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. The Company currently expects Landing fees and other rentals expense per ASM for first quarter 2014 to increase compared to first quarter 2013.

Depreciation and amortization expense for 2013 increased by $23 million, or 2.7 percent, compared to 2012, primarily due to depreciation associated with large software projects that have been placed into service over the past 12 months. Aircraft depreciation was relatively flat year-over-year, as 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 to 2012. The Company currently expects Depreciation and amortization expense per ASM for first quarter 2014 to increase compared to fourth quarter 2013.

Acquisition and integration expense for 2013 decreased by $97 million, or 53.0 percent, compared to 2012. The decrease was primarily due to charges recorded in 2012 related to the Company's 717-200 lease and sublease agreements. During 2013, the Company recorded $86 million in Acquisition and integration expense, which primarily consisted of costs related to a lease contract termination, Employee training, technology integration projects, and facility integration expenses. See Note 2 to the Consolidated Financial Statements.

Other operating expense for 2013 increased by $87 million, or 4.3 percent, compared to 2012. On a per ASM basis, Other operating expense for 2013 increased 1.2 percent compared to 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. The Company currently expects Other operating expenses per ASM for first quarter 2014 to increase compared to first quarter 2013.

Through the 2003 Emergency Wartime Supplemental Appropriations Act (the “Wartime Act”), the federal government has provided war-risk insurance coverage to commercial carriers, including for losses from terrorism, for passengers, third parties (ground damage), and the aircraft hull. The government-provided supplemental coverage from the Wartime Act is currently set to expire on September 30, 2014. It is uncertain whether further extensions will be granted. The withdrawal of government support of airline war-risk insurance would require the Company to obtain war-risk insurance coverage commercially. Such commercial insurance could have material differences in coverage than currently provided by the U.S. government and may not be adequate to protect the Company's risk of loss from future acts of terrorism.

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 to 2012, primarily due to the repayment of the Company's $385 million 6.5% notes in March 2012. The Company currently expects Interest expense for first quarter 2014 to increase slightly as compared to fourth quarter 2013.

Capitalized interest for 2013 increased by $3 million, or 14.3 percent, compared to 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 to 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 to 38.5 percent for 2012. On a non-GAAP basis, the Company currently projects a full year 2014 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 2014 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, 2012	Year ended December 31, 2011	Percent Change
Fuel and oil expense, unhedged	$ 5,963	$ 5,580	
Add: Fuel hedge losses included in Fuel and oil expense	157	64	
Fuel and oil expense, as reported	$ 6,120	$ 5,644	
Deduct: Net impact from fuel contracts	(32)	—	
Fuel and oil expense, non-GAAP	$ 6,088	$ 5,644	7.9 %
Total operating expenses, as reported	$ 16,465	$ 14,965	
Add (Deduct): Reclassification between Fuel and oil and Other (gains) losses, net, associated with current period settled contracts	(42)	35	
Add (Deduct): Contracts settling in the current period, but for which gains and/or (losses) have been recognized in a prior period*	10	(35)	
Deduct: Acquisition and integration costs, net (a)	(183)	(132)	
Deduct: Asset impairment, net of profitsharing	—	(14)	
Total operating expenses, non-GAAP	$ 16,250	$ 14,819	9.7 %
Operating income, as reported	$ 623	$ 693	
Add (Deduct): Reclassification between Fuel and oil and Other (gains) losses, net, associated with current period settled contracts	42	(35)	
Add (Deduct): Contracts settling in the current period, but for which gains and/or (losses) have been recognized in a prior period*	(10)	35	
Add: Acquisition and integration costs, net (a)	183	132	
Add: Asset impairment, net of profitsharing	—	14	
Operating income, non-GAAP	$ 838	$ 839	(0.1)%
Net income, as reported	$ 421	$ 178	
Add (Deduct): Mark-to-market impact from fuel contracts settling in future periods	(221)	21	
Add: Ineffectiveness from fuel hedges settling in future periods	42	33	
Add (Deduct): Other net impact of fuel contracts settling in the current or a prior period (excluding reclassifications)	(10)	35	
Add (Deduct): Income tax impact of fuel contracts	73	(31)	
Add: Acquisition and integration costs, net (b)	112	85	
Add: Asset impairment, net (b)	—	9	
Net income, non-GAAP	$ 417	$ 330	26.4 %
Net income per share, diluted, as reported	$ 0.56	$ 0.23	
Add (Deduct): Net impact from fuel contracts	(0.15)	0.07	
Add: Impact of special items, net (b)	0.15	0.13	
Net income per share, diluted, non-GAAP	$ 0.56	$ 0.43	30.2 %
Operating expenses per ASM (cents)	12.85	12.41	
Deduct: Fuel expense divided by ASMs (cents)	(4.78)	(4.68)	
Deduct: Impact of special items, net (cents) (a)	(0.14)	(0.12)	
Operating expenses per ASM, non-GAAP, excluding fuel and special items (cents)	7.93	7.61	4.2 %

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

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

(b) Amounts net of taxes and profitsharing. See footnote (a) above regarding Acquisition and integration costs.

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

2012 compared with 2011

The Company's net income of $421 million ($0.56 per share, diluted) in 2012 increased by $243 million, or 136.5 percent, compared to its 2011 net income of $178 million ($0.23 per share, diluted). The Company's GAAP results for both years were significantly impacted by the non-cash adjustments recorded as a result of the Company's portfolio of derivative contracts utilized to hedge against jet fuel price volatility, as well as acquisition and integration costs associated with the Company's 2011 acquisition of AirTran. As a result of the fuel hedges the Company had in place during 2012 — including those that settled during 2012 and those that will settle in future years—the Company recognized a net total of $28 million in gains allocated between Fuel and oil expense and Other (gains) losses, net, in the Consolidated Statement of Income. During 2011 the Company recognized a net total of $259 million in losses as a result of its fuel hedging activities, allocated between Fuel and oil expense and Other (gains) losses, net. Each of these totals for 2012 and 2011 include the net premium costs the Company paid to enter into a portion of its fuel derivative instruments such as option contracts which are classified as a component of Other (gains) losses, net. See Note 10 to the Consolidated Financial Statements for further information on fuel hedging and Note 2 for further information on the acquisition of AirTran. In addition, the Company's GAAP results for the year ended December 31, 2012, included a $137 million third quarter 2012 charge associated with the Company's agreement with Delta and Boeing Capital Corp. to lease or sublease all 88 of AirTran's Boeing 717s to Delta. See Note 8 to the Consolidated Financial Statements for further information on this transaction. The Company's GAAP results for the year ended December 31, 2011, included an asset impairment related to the Company's decision not to equip its Classic (737-300/500) aircraft with Required Navigation Performance (RNP) capabilities. Excluding the impact of these items, the Company's net income on a non-GAAP basis increased 26.4 percent for the year ended December 31, 2012, compared to 2011. This increase primarily was a result of better 2012 revenue production, which more than offset higher operating costs.

Operating revenues

Operating revenues for 2012 increased by $1.4 billion, or 9.1 percent, compared to 2011. The majority of the increase was due to the fact that 2012 results include the full year of AirTran Operating revenues, while 2011 results only include AirTran Operating revenues following the May 2, 2011, acquisition date. For the full year 2012, other than due to the inclusion of 12 months of activity versus only eight months in 2011, AirTran's standalone Operating revenues did not otherwise have a significant impact on the Company's consolidated results. Excluding the results of AirTran in both periods, Operating revenues for 2012 increased 5.5 percent on a dollar basis compared to 2011, primarily due to a 5.6 percent increase in Passenger revenues. Holding other factors constant, over 60 percent of the increase in Passenger revenues was attributable to higher Passenger yields (Passenger revenues per RPM flown), as the Company implemented fare increases in an attempt to buffer a portion of the impact of higher fuel costs. In addition to the fare increases the Company was able to implement and other revenue management techniques, the year-over-year increase in Passenger revenues benefited from continued optimization of the Company's flight schedule to better match demand in certain markets and, at certain times, targeted marketing campaigns in which the Company differentiates its products and services from competitors. These increases were partially offset by a slight decrease in Southwest's load factor, partially due to the impact of higher airfares on Customer demand.

Freight revenues for 2012 increased by $21 million, or 15.1 percent, compared to 2011, primarily due to an increase in shipments as a result of better domestic economic conditions than the prior year.

Other revenues for 2012 increased by $70 million, or 9.2 percent, compared to 2011, of which approximately $69 million was due to the inclusion of the full year of AirTran results in 2012, while 2011 results only include AirTran Other revenues following the acquisition date. Excluding the results of AirTran in both periods, Other revenues were relatively stable compared to 2011, as an increase in revenues from initiatives, such as the Company's EarlyBird product, for which Customers pay a service charge to automatically receive an assigned boarding position before general checkin begins, and service charges for pets was offset by an increase in the portion of the commissions earned from programs the Company sponsors with certain business partners that were classified as Passenger revenues as opposed to Other revenues. The classification of such amounts is influenced by average fares, among other factors.

See Note 1 to the Consolidated Financial Statements for further information on Southwest's frequent flyer program. Southwest's EarlyBird product and service charges for unaccompanied minors, pets, and excess bags contributed $219 million to Other revenues in 2012 versus $198 million generated from these products during 2011. Other revenues for 2012 included approximately $146 million in baggage fees collected from AirTran Customers, versus approximately $110 million for 2011.

Operating expenses

Operating expenses for 2012 increased by $1.5 billion, or 10.0 percent, compared to 2011, while capacity increased 6.3 percent compared to 2011. The increase in Operating expenses was primarily due to the inclusion of AirTran results for the full year 2012, while 2011 results only include AirTran Operating expenses following the acquisition date. 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. The following table presents the Company's Operating expenses per ASM for 2012 and 2011, followed by explanations of these changes on a per ASM basis and/or on a dollar basis:

	Year ended December 31,						
(in cents, except for percentages)	2012		2011		Per ASM change		Percent change
Salaries, wages, and benefits	3.69	¢	3.62	¢	0.07	¢	1.9%
Fuel and oil	4.78		4.68		0.10		2.1
Maintenance materials and repairs	0.88		0.79		0.09		11.4
Aircraft rentals	0.28		0.26		0.02		7.7
Landing fees and other rentals	0.81		0.80		0.01		1.3
Depreciation and amortization	0.66		0.59		0.07		11.9
Acquisition and integration	0.14		0.11		0.03		27.3
Other operating expenses	1.61		1.56		0.05		3.2
Total	12.85	¢	12.41	¢	0.44	¢	3.5%

On a per ASM basis, the Company's Operating expenses (unit costs) for 2012 increased 3.5 percent compared to 2011. Approximately 23 percent of this year-over-year cost per available seat mile increase was due to higher fuel costs, as the Company's average jet fuel cost per gallon increased 3.4 percent to $3.30, including the impact of hedging activity, and approximately 20 percent was due to higher maintenance materials and repairs costs. An increase in acquisition and integration expenses (incurred by Southwest) of $77 million also contributed to the year-over-year increase in costs on both a dollar and a per ASM basis during 2012. On a dollar basis, excluding the results for AirTran in both periods, Operating expenses increased 6.4 percent for 2012 compared to 2011, which was attributable to higher expenses in nearly every operating cost category, except for Aircraft rentals. On a non-GAAP basis, the Company's Operating expenses per ASM for 2012, excluding fuel, increased 4.2 percent compared to 2011.

Salaries, wages, and benefits expense for 2012 increased by $378 million compared to 2011. Approximately $139 million of this increase was due to the inclusion of the full year of AirTran results in 2012, while 2011 results only include AirTran Salaries, wages, and benefits expense following the acquisition date. Excluding the results of AirTran in both periods, Salaries, wages, and benefits expense increased 6.0 percent on a dollar basis for 2012 compared to 2011. Approximately 64 percent of this year-over-year increase was a result of higher salaries expense and approximately 18 percent was a result of higher Employee benefits expense, both primarily due to an increase in active full-time equivalent Employees. In addition, approximately 11 percent of the increase was due to an increase in profitsharing expense resulting from higher income available for profitsharing. The Company's profitsharing expense is based on profits that exclude the unrealized gains and/or losses the Company records for its fuel hedging program as well as acquisition and integration costs. See Note 10 to the Consolidated Financial Statements for further information on fuel hedging. On a consolidated basis, Salaries, wages, and benefits expense per ASM for 2012 increased 1.9 percent compared to 2011. The majority of the per ASM increase was due to an increase in active full-time equivalent employees.

Fuel and oil expense for 2012 increased by $476 million, or 8.4 percent, compared to 2011. Approximately $291 million of this increase was due to the inclusion of the full year of AirTran results in 2012, while the 2011 results only include AirTran fuel and oil expense following the acquisition date. Excluding the results of AirTran in both periods, Fuel and oil expense for 2012 increased 3.8 percent on a dollar basis, versus 2011. On a per ASM basis, the Company's 2012 Fuel and oil expense increased by 2.1 percent versus 2011. Both of these increases were primarily due to a 3.4 percent increase in the Company's average fuel cost per gallon. As a result of the Company's fuel hedging program and inclusive of accounting for derivatives and hedging, the Company recognized net losses totaling $157 million in 2012 in Fuel and oil expense relating to fuel derivative instruments versus net losses of $64 million recognized in Fuel and oil expense in 2011. These totals are inclusive of cash settlements realized from the expiration/settlement of fuel derivatives, which were $125 million paid to counterparties in 2012 versus $63 million paid to counterparties for 2011. These totals exclude gains and/or losses recognized from hedge ineffectiveness and from derivatives that do not qualify for hedge accounting, which impacts are recorded as a component of Other (gains) losses, net.

Maintenance materials and repairs expense for 2012 increased by $177 million, or 18.5 percent, compared to 2011. Approximately $106 million of this increase was due to the inclusion of the full year of AirTran results in 2012, while the 2011 results only include AirTran Maintenance materials and repairs expense following the acquisition date. The majority of the remaining increase was attributable to higher engine expense from higher rates associated with the Company's 737-700 fleet. Expense for the engines on this fleet is recorded on a per-flight hour basis and the maintenance agreement covering this fleet with GE Engine Services was modified during fourth quarter 2011 primarily to incorporate the 52 737-700s from the AirTran acquisition and convert them to the Southwest maintenance program, and to extend the term of that agreement to December 31, 2021. There was minimal engine maintenance expense for the AirTran 737s prior to the contract modification due to the fact that such engine expense was accounted for on a time and materials basis and there were no engine shop visits incurred. On a per ASM basis, the Company's Maintenance materials and repairs expense for 2012 increased 11.4 percent compared to 2011. Over 40 percent of this increase was a result of the higher rates associated with the engines on the Company's 737-700 fleet, and the majority of the remainder was due to higher airframe and component expense associated with ongoing *Evolve* modifications, which began in first quarter 2012.

Aircraft rentals expense for 2012 increased by $47 million, or 15.3 percent, compared to 2011. There was an increase of approximately $54 million due to the inclusion of the full year of AirTran results in 2012, while the 2011 results only include AirTran Aircraft rentals expense following the acquisition date. Excluding the results of AirTran in both periods, as well as the impact of amortization associated with the unfavorable aircraft lease liability created as part of purchase accounting adjustments based on the estimated fair value of AirTran Boeing 717 leases, Aircraft rentals expense for 2012 decreased approximately 4.7 percent on a dollar basis compared to 2011. See Note 2 to the Consolidated Financial Statements for further information on purchase accounting. The majority of the decrease was due to a decrease in operating leased aircraft from 192 at December 2011 to 187 at December 2012. On a per ASM basis, the Company's Aircraft rentals expense for 2012 increased 7.7 percent compared to 2011. This increase on a per ASM basis primarily was due to the acquisition of AirTran during 2011 and the fact that AirTran leases the majority of its aircraft fleet.

Landing fees and other rentals expense for 2012 increased by $84 million, or 8.8 percent, compared to 2011. The majority of the dollar increase was due to an increase in rates charged by airports for both landing fees and space rentals versus the same prior year period. In addition, approximately $29 million of this increase was due to the inclusion of the full year of AirTran results in 2012, while the 2011 results only include AirTran Landing fees and other rentals expense following the acquisition date. On a per ASM basis, the Company's Landing fees and other rentals expense for 2012 increased by 1.3 percent compared to 2011 primarily due to higher rates paid for airport space.

Depreciation and amortization expense for 2012 increased by $129 million, or 18.0 percent, compared to 2011. Approximately 49 percent of this increase was due to an acceleration of depreciation expense associated with aircraft in the Company's Classic (737-300/500) Fleet that were retired during 2012, coupled with the reduction in salvage values for the Company's Classic Fleet. See Note 3 to the Consolidated Financial Statements for further information on these changes in estimates. In addition, approximately 34 percent of this increase was due to a full year of depreciation associated with the purchase of 18 aircraft (737-700s) in 2011 and the purchase of 29 aircraft (737-800s) during 2012 and approximately $16 million of this increase was due to the inclusion of the full year of AirTran results in 2012, while the 2011 results only include AirTran Depreciation and amortization expense following the acquisition date. On a per ASM basis, the Company's Depreciation and amortization expense for 2012 increased by 11.9 percent compared to 2011, primarily due to the acceleration of depreciation expense associated with the aircraft in the Company's Classic Fleet that were retired in 2012, coupled with a reduction in salvage values for the Company's Classic Fleet.

For 2012, the Company incurred $183 million of Acquisition and integration costs related to the acquisition of AirTran compared to $134 million for 2011. These 2012 costs primarily consisted of costs associated with the Company's lease/sublease transaction for AirTran's Boeing 717-200 fleet, consulting, flight crew training, seniority integration, and facility integration expenses. See Note 2 and Note 8 to the Consolidated Financial Statements.

Other operating expenses for 2012 increased by $160 million, or 8.5 percent, compared to 2011. Approximately $65 million of this increase was due to the inclusion of the full year of AirTran results in 2012, while the 2011 results only include AirTran Other operating expenses following the acquisition date. Excluding the results of AirTran in both periods, Other operating expenses for 2012 increased 5.8 percent on a dollar basis compared to 2011. This increase was primarily due to consulting fees, WiFi enplanement fees, and other costs associated with completed and ongoing projects, the majority of which were related to the Company's strategic initiatives as previously discussed. On a per ASM basis, the Company's Other operating expenses for 2012 increased by 3.2 percent compared to 2011, also due to consulting and other outside services costs associated with completed and ongoing projects.

Other

Other expenses (income) include interest expense, capitalized interest, interest income, and other gains and losses. Interest expense for 2012 decreased by $47 million, or 24.2 percent, compared to 2011, primarily as a result of the Company's repayment of its $400 million 10.5% notes in December 2011 and $385 million 6.5% notes in March 2012. See Note 2 to the Consolidated Financial Statements.

Capitalized interest for 2012 increased by $9 million, or 75.0 percent, compared to 2011, primarily due to an increase in average progress payment balances for scheduled future aircraft deliveries.

Interest income for 2012 decreased by $3 million, or 30.0 percent, compared to 2011, primarily due to lower rates earned on invested cash and short-term investments.

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, 2012 and 2011:

	Year ended December 31,	
(in millions)	2012	2011
Mark-to-market impact from fuel contracts settling in future periods	$ (221)	$ 21
Ineffectiveness from fuel hedges settling in future periods	42	33
Realized ineffectiveness and mark-to-market (gains) or losses	(42)	35
Premium cost of fuel contracts	36	107
Other	4	2
	$ (181)	$ 198

Income taxes

The Company's effective tax rate was approximately 39 percent for 2012 compared to 45 percent for 2011. The lower rate for 2012 primarily was driven by the Company's higher 2012 income before taxes (thus diluting the impact of permanent tax differences), a portion of acquisition-related costs being non-deductible in 2011, and additional income tax expense of $5 million in 2011 as a result of an IRS settlement agreed to in first quarter 2011 related to tax years 2007 through 2009.

Liquidity and Capital Resources

Net cash provided by operating activities for 2013, 2012, and 2011 was $2.5 billion, $2.1 billion, and $1.4 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 2013, 2012, and 2011 were impacted primarily by the Company's results of operations, adjusted for noncash depreciation and amortization expense, 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. In the Consolidated Statement of Cash Flows, changes to cash collateral deposits are reflected in operating cash flows as Cash collateral received from or provided to derivative counterparties. During 2013 and 2012 the Company received $57 million and $233 million, respectively, in cash collateral from derivative counterparties, and in 2011 the Company provided $195 million in cash collateral to derivative counterparties. Net cash provided by operating activities is primarily used to finance capital expenditures, repay debt, fund stock repurchases, and provide working capital.

Net cash used in investing activities for 2013, 2012, and 2011 was $1.4 billion, $833 million, and $1.0 billion, respectively. Investing activities in 2013, 2012, and 2011 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. During 2013 and 2012 the Company's purchases and sales of short-term and noncurrent investments resulted in net cash provided of $63 million and $515 million, respectively, and in 2011 resulted in net cash used of $19 million.

Net cash used in financing activities for 2013, 2012, and 2011 was $851 million, $947 million, and $766 million, respectively. During 2013 the Company repaid $313 million in debt and capital lease obligations, compared to repayments of $578 million and $540 million during 2012 and 2011, respectively. The Company also repurchased approximately $540 million of its outstanding common stock through authorized share repurchases during 2013, compared to repurchases of $400 million and $225 million during 2012 and 2011, respectively.

The Company has access to a $1 billion unsecured revolving credit facility expiring in April 2018. Interest on the facility is based on the Company's credit ratings at the time of borrowing. At the Company's current ratings, the interest cost would be LIBOR plus a spread of 150 basis points. The facility contains a financial covenant requiring a minimum coverage ratio of adjusted pre-tax income to fixed obligations, as defined. As of December 31, 2013, the Company was in compliance with this covenant and there were no amounts outstanding under the revolving credit facility.

The Company has approximately $546 million in debt maturities that come due during 2014, including its 5.25% notes due October 1, 2014. The Company has not yet determined whether it will repay its 2014 debt maturities with cash from operations or whether it might issue new debt in its place. During January 2014, the Company also notified its lender that it intends to repay its Fixed-rate 717 Aircraft Notes payable prior to their 2017 due date. These certificates will be paid in full on April 1, 2014, and due to their early repayment, the Company is expected to incur a $5 million penalty.

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 2013 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 significant 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. Additionally, during January 2014, the Company agreed to purchase five pre-owned aircraft from a third party for delivery in 2014.

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, 2013, the Company operated 164 leased aircraft, of which 160 are under operating leases. Assets and obligations under operating leases are not included in the Company's Consolidated Balance Sheet. Disclosure of the contractual obligations associated with the Company's leased aircraft is included below, as well as in Note 8 to the Consolidated Financial Statements.

The Company is required to provide standby letters of credit to support certain obligations that arise in the ordinary course of business. Although the letters of credit are off-balance sheet, the majority of the obligations to which they relate are reflected as liabilities in the Consolidated Balance Sheet. Outstanding letters of credit totaled $182 million at December 31, 2013.

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

The following table aggregates the Company's material expected contractual obligations and commitments as of December 31, 2013:

	Obligations by period (in millions)				
Contractual obligations	**2014**	**2015 - 2016**	**2017 - 2018**	**Beyond 2018**	**Total**
Long-term debt (1)	$ 609	$ 687	$ 744	$ 648	$ 2,688
Interest commitments - fixed (2)	136	195	119	117	567
Interest commitments - floating (3)	9	27	3	1	40
Operating lease commitments (4)	689	1,199	945	1,755	4,588
Capital lease commitments (5)	8	16	16	29	69
Aircraft purchase commitments (6)	876	2,004	2,224	6,807	11,911
Other commitments	372	182	—	—	554
Total contractual obligations	$ 2,699	$ 4,310	$ 4,051	$ 9,357	$ 20,417

(1) Includes principal only and includes $68 million in 2014 associated with the Company's convertible senior notes due 2016. See Note 5 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, 2013 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 8 to the Consolidated Financial Statements.
(5) Includes interest on capital leases.
(6) Firm orders from Boeing and commitments with other parties.

The Company expects to incur no more than $550 million in Acquisition and integration costs associated with the AirTran acquisition, of which $410 million has been recorded through December 31, 2013. These costs have been, and are expected to continue to be, funded with cash from operations. The Company believes that its current liquidity position, including unrestricted cash and short-term investments of $ 3.2 billion as of December 31, 2013, anticipated future internally generated funds from operations, and its fully available, unsecured revolving credit facility of $1 billion that expires in April 2018, will enable it to meet these future integration expenditures. However, if a liquidity need were to arise, the Company believes it has access to financing arrangements because of its current investment grade credit ratings, large value of unencumbered assets, and modest leverage, which should enable it to meet its ongoing capital, operating, and other liquidity requirements. The Company will continue to consider various borrowing or leasing options to maximize liquidity and supplement cash requirements as necessary.

In January 2008, the Company's Board of Directors authorized the repurchase of up to $500 million of the Company's common stock. Through February 15, 2008, the Company had repurchased 4.4 million shares for a total of approximately $54 million, at which time repurchases under the program were suspended. On August 5, 2011, the Company's Board of Directors authorized the Company to resume a share repurchase program and approved the Company's repurchase, on a discretionary basis, of a total of up to $500 million of the Company's common stock following such authorization. On May 16, 2012, the Company's Board of Directors increased the previous share repurchase authorization by $500 million to a total of $1.0 billion. On May 15, 2013, the Company's Board of Directors further increased the previous share repurchase authorization by an additional $500 million to a total of $1.5 billion. Under an accelerated share repurchase agreement entered into by the Company with a third party financial institution in second quarter 2013, the Company paid a total of approximately $251 million and received a total of approximately 18.0 million shares. Under a separate accelerated share repurchase program entered into by the Company with a third party financial institution in third quarter 2013, the Company paid approximately $150 million and received an initial delivery of approximately 11.5 million shares. Final settlement of this third quarter ASR Program occurred in December 2013, and the Company elected to make a cash payment of approximately $40 million. As of December 31, 2013, the Company's cumulative purchases under all Board-authorized repurchases since the August 2011 authorization have totaled 111 million shares for $1.2 billion of the $1.5 billion in total authorized by the Board. During 2014, the Company currently intends to complete the remaining authorized share repurchases of the $1.5 billion in total authorized by the Board.

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

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 is currently estimated to begin during 2014.

Houston Hobby International Airport

The Company has committed to oversee and manage the construction, at Houston Hobby International 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 the project. In return, the Company will receive a monthly credit for the capital cost portions of the international terminal, from the date of initial occupancy of the terminal until expiration of the Lease. Additionally, some portion of the project is expected to qualify for rental credits that would be utilized upon completion of the facility against the Company's current lease space at the airport. At any time after the completion of the project, the City may buy out the Company's investment in the international terminal for the then-unamortized cost of the project.

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

During 2013, the Company committed to oversee and manage a renovation of Terminal 1 at Los Angeles International Airport, where it operates at 12 of the total 15 available gates, at a cost not to exceed $400 million. Although the Company has agreed to oversee and manage the project, all parties continue to discuss the scope of the project and how it will ultimately be funded. At the current time, the Company has not determined whether or how its liquidity may be impacted by this project.

The project is expected to begin sometime during 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 programs, fluctuates throughout the year based on seasonal travel patterns, fare sale activity, and activity associated with the Company's frequent flyer programs.

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. On September 13, 2013, Southwest implemented a No Show policy that applies to nonrefundable fares that are not canceled or changed by a Customer at least ten minutes prior to a flight's scheduled departure. 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.

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 510 Boeing 737 aircraft and 10 Boeing 717 aircraft in the Company's in-service fleet at December 31, 2013, which are either owned or on capital lease. The remaining 104 Boeing 737 aircraft and 56 Boeing 717 aircraft in the Company's in-service fleet at December 31, 2013, are operated under operating leases. In accounting for long-lived assets, the Company must make estimates about the expected useful lives of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and their future expected cash flows.

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

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

In estimating the lives and expected residual values of its aircraft, the Company primarily has relied upon actual experience with the same or similar aircraft types, current and projected future market information, and recommendations from Boeing. Aircraft estimated useful lives are based on the number of "cycles" flown (one take-off and landing) as well as the aircraft age. The Company has made a conversion of cycles into years based on both historical and anticipated future utilization of the aircraft. Subsequent revisions to these estimates, which can be significant, could be caused by changes to aircraft maintenance programs, changes in utilization of the aircraft (actual cycles during a given period of time), governmental regulations on aging aircraft, and changing market prices of new and used aircraft of the same or similar types. The Company evaluates its estimates and assumptions each reporting period and, when warranted, adjusts these estimates and assumptions. Generally, these adjustments are accounted for on a prospective basis through depreciation and amortization expense. For example, during 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. The 2012 reduction in estimated salvage value resulted in a $34 million increase in depreciation expense during the second half of the year, and increased 2013 expense by approximately $26 million. See Note 3 to the Consolidated Financial Statements for further information.

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, 2013, the Company was a party to over 706 separate financial derivative instruments related to its fuel hedging program for the years 2014 through 2017. Changes in the fair values of these instruments can vary dramatically based on changes in the underlying commodity prices, as has been evident in recent years. For example, during 2012, market "spot" prices for West Texas Intermediate crude oil peaked at a high of approximately $110 per barrel and hit a low price of approximately $78 per barrel. During 2013, market spot prices ranged from a high of $111 per barrel to a low of $87 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, and fixed price swap agreements. The Company does not purchase or hold any derivative instruments for trading purposes.

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

Fair values for financial derivative instruments and forward jet fuel prices are estimated prior to the time that the financial derivative instruments settle and the time that jet fuel is purchased and consumed, respectively. However, once settlement of the financial derivative instruments occurs and the hedged jet fuel is purchased and consumed, all values and prices are known and are recognized in the financial statements. In some historical periods, because of increased volatility in energy markets, the Company has in fact lost hedge accounting for certain types of commodities. In the third quarter of 2013, because of increased volatility in energy markets, 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 2012 or 2011. Although the Company's prospective assessment has been utilized to ensure that the commodities used in most cases still qualify for hedge accounting in specific locations where the Company hedges, there are no assurances that these commodities will continue to qualify in the future. This is due to the fact that future price changes in these refined products may not be consistent with historical price changes. Increased volatility in these commodity markets for an extended period of time, especially if such volatility were to worsen, could cause the Company to lose hedge accounting altogether for the commodities used in its fuel hedging program, which would create further volatility in the Company's financial results.

Estimating the fair value of these fuel derivative instruments and forward prices for jet fuel will also result in changes in their fair values from period to period and thus determine their accounting treatment. To the extent that the change in the estimated fair value of a fuel derivative instrument differs from the change in the estimated price of the associated jet fuel to be purchased, both on a cumulative and a period-to-period basis, ineffectiveness 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 2013, 2012, and 2011, 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, 2013, these included auction rate security investments, valued at $ 39 million, a portion of its fuel derivative option contracts, which were a net asset of $172 million, and $5 million in other investments.

All of the Company's auction rate security instruments are reflected at estimated fair value in the Consolidated Balance Sheet. 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

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

In March 2011, Southwest launched its current Rapid Rewards frequent flyer program, under which 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. As part of Southwest’s transition to the current program, Southwest did not convert members’ account balances under the previous program, and allowed members to continue to redeem those balances for award travel under the prior program rules for a period of time. As of December 31, 2013, no awards or credits issued under the previous program remained.

AirTran’s A+ Rewards frequent flyer program currently offers a number of ways to earn free travel, including bonus earnings for Business Class travel. A+ Rewards members currently can earn a credit for each one-way trip flown or 1.5 credits for one-way Business Class travel. A+ Rewards credits currently can also be earned for purchases made with an AirTran Airways A+ Visa card or an AirTran A+ Rewards Chase Visa credit card, qualifying car rentals from Hertz, for purchases from other A+ Rewards partners, and in conjunction with marketing promotions that AirTran may run from time to time. A+ Rewards members currently may purchase A+ Rewards credits, extend the expiration of A+ credits, or give A+ credits to another member to help earn a free flight faster.

Both Southwest and AirTran utilize the incremental cost method of accounting for points and/or credits earned through flights taken in their respective frequent flyer programs. A liability is recorded for the estimated incremental cost of providing free travel as points and/or credits are being earned. The liability recorded represents the total number of points and/or credits expected to be redeemed by members, regardless of whether the members may have enough to qualify for a full travel award. The incremental cost liability is primarily composed of direct Passenger costs such as fuel, food, and other operational costs, but does not include any contribution to fixed overhead costs or profit. At December 31, 2013, Southwest and AirTran's consolidated incremental cost liability was approximately $79 million.

Southwest and AirTran also sell frequent flyer points and/or credits and related services to business partners participating in the respective frequent flyer programs. The majority of the points and/or credits sold to business partners are through the Southwest co-branded Chase Visa credit card or the AirTran A+ cards. Funds received from the sale of points and/or credits associated with these agreements are accounted for under the residual method. Under the residual method, as of both December 31, 2012, and 2013, Southwest 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 significant 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. During 2011, the apportioned amount estimated to be associated with free travel as opposed to marketing services ranged from 86 percent to 92 percent. 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 has determined that the period revenue is recognized is the period in which it has fulfilled its obligation under the contract signed with the particular business partner, which is on a monthly or quarterly basis, upon sale, as the related marketing services are performed or provided. The vast majority of these marketing services consist of the access granted, either monthly or quarterly, to various lists of Southwest's frequent flyer members. Any estimated amount that is not associated with free travel would be recognized in Other revenue in the period earned. For AirTran, 100 percent of amounts received for credits sold is also estimated to relate to free travel and is deferred until the associated travel award is flown.

Under its current program, Southwest continues to estimate the portion of frequent flyer points that will not be redeemed. These estimates are based on experience in its previous program and expectations of customer behavior given the rules of the current program. Thus far, the Company has not had any material adjustments as a result of changes in its spoilage estimates. However, since the current program is still relatively new, these estimates may result in significant future adjustments based on actual experience.

Goodwill and other intangible assets

As a result of the Company's acquisition of AirTran on May 2, 2011, the Company has reflected Goodwill on its Consolidated Balance Sheet in the amount of $970 million at December 31, 2013, representing the excess of the fair value of AirTran's assets and liabilities over its book value on the acquisition date. In addition, the Company has recorded other intangible assets totaling approximately $166 million at December 31, 2013, 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 has selected October 1st as its annual testing date for Goodwill impairment.

The Company applies a fair value based methodology in testing the carrying value of Goodwill for its one reporting unit. Key assumptions and/or estimates made in the Company's 2013 Goodwill impairment test included the following: (i) a projection of revenues, expenses, and cash flows; (ii) an estimated weighted average cost of capital of 8.0 percent; and (iii) a tax rate of 37.6 percent. The Company believes these assumptions are consistent with those a hypothetical market participant would use given circumstances that were present at the time the estimates were made. However, actual results and amounts may be significantly different from the Company's estimates.

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 2013.

Future impairment of Goodwill may result from changes in assumptions, estimates, or circumstances, some of which are beyond the Company's control. Factors which could result in an impairment, holding other assumptions constant, could include, but are not limited to: (i) reduced passenger demand as a result of domestic or global economic conditions; (ii) 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.

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

The Company has interest rate risk in its floating-rate debt obligations and interest rate swaps, commodity price risk in jet fuel required to operate its aircraft fleet, and market risk in the derivatives used to manage its fuel hedging program and in the form of fixed-rate debt instruments. As of December 31, 2013, Southwest and AirTran operated a total of 164 aircraft in service under operating and capital leases. However, except for a small number of aircraft that have lease payments that fluctuate based in part on changes in market interest rates, the remainder of the leases are not considered market sensitive financial instruments and, therefore, are not included in the interest rate sensitivity analysis below. Commitments related to leases are disclosed in Note 8 to the Consolidated Financial Statements. The Company does not purchase or hold any derivative financial instruments for trading purposes. See Note 10 to the Consolidated Financial Statements for information on the Company's accounting for its hedging program and for further details on the Company's financial derivative instruments.

Hedging

The Company purchases jet fuel at prevailing market prices, but seeks to manage market risk through execution of a documented hedging strategy. The Company utilizes financial derivative instruments, on both a short term and a long term basis, as a form of insurance against the potential for significant increases in fuel prices. The Company believes there is significant risk in not hedging against the possibility of such fuel price increases. The Company expects to consume approximately 1.8 billion gallons of jet fuel in 2014. Based on this anticipated usage, a change in jet fuel prices of just one cent per gallon would impact the Company's Fuel and oil expense by approximately $ 18 million for 2014, excluding any impact associated with fuel derivative instruments held.

As of December 31, 2013, the Company held a net position of fuel derivative instruments that represented a hedge for a portion of its anticipated jet fuel purchases for each year from 2014 through 2017. See Note 10 to the Consolidated Financial Statements for further information. The Company may increase or decrease the size of its fuel hedge based on its expectation of future market prices, as well as its perceived exposure to cash collateral requirements contained in the agreements it has signed with various counterparties, while considering the significant cost that can be associated with different types of hedging strategies. The gross fair value of outstanding financial derivative instruments related to the Company's jet fuel market price risk at December 31, 2013, was a net asset of $180 million. In addition, no cash collateral deposits were provided by or held by the Company in connection with these instruments based on their fair value as of December 31, 2013. The fair values of the derivative instruments, depending on the type of instrument, were determined by use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets. An immediate 10 percent increase or decrease in underlying fuel-related commodity prices from the December 31, 2013 (for all years from 2014 through 2017) prices would correspondingly change the fair value of the commodity derivative instruments in place by approximately $500 million. Fluctuations in the related commodity derivative instrument cash flows may change by more or less than this amount based upon further fluctuations in futures prices as well as related income tax effects. In addition, this does not consider changes in cash collateral provided to or by counterparties, which would fluctuate in an amount equal to or less than this amount, depending on the type of collateral arrangement in place with each counterparty. This sensitivity analysis uses industry standard valuation models and holds all inputs constant at December 31, 2013 levels, except underlying futures prices.

The Company's credit exposure related to fuel derivative instruments is represented by the fair value of contracts with a net positive fair value to the Company. At such times, these outstanding instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. As of December 31, 2013, the Company had eight counterparties in which the derivatives held were a net asset, totaling $ 187 million. To manage credit risk, the Company selects and will periodically review counterparties based on credit ratings, limits its exposure to a single counterparty with collateral support agreements, and monitors the market position of the program and its relative market position with each counterparty. However, if one or more of these counterparties were in a liability position to the Company and were unable to meet their obligations, any open derivative contracts with the counterparty could be subject to early termination, which could result in substantial losses for the Company. At December 31, 2013, the Company had agreements with all of its counterparties containing early termination rights triggered by credit rating thresholds and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount based on the counterparty's credit rating. The Company also had agreements with counterparties in which cash deposits, lines of credit, and/or pledged aircraft are required to be posted whenever the net fair value of derivatives associated with those counterparties exceeds specific thresholds—cash is either posted by the counterparty if the value of derivatives is an asset to the Company, or cash, lines or credit, and/or aircraft could be posted by the Company if the value of derivatives is a liability to the Company. Refer to the counterparty credit risk and collateral table provided in Note 10 to the Consolidated Financial Statements for the fair values of fuel derivatives, amounts posted as collateral, and applicable collateral posting threshold amounts as of December 31, 2013, at which such postings are triggered.

At December 31, 2013, no cash deposits, letters of credit, and/or aircraft collateral were provided by or held by the Company based on its outstanding fuel derivative instrument portfolio. Due to the terms of the Company's current fuel hedging agreements with counterparties and the types of derivatives held, in the Company's judgment, it does not have significant additional exposure to future cash collateral requirements. As an example, if market prices for the commodities used in the Company's fuel hedging activities were to decrease by 25 percent from market prices as of December 31, 2013, given the Company's fuel derivative portfolio, its aircraft collateral facilities, and its investment grade credit rating, it would likely provide an additional $395 million in cash collateral, post $82 million in aircraft collateral, and post $110 million in letters of credit against these positions with its current counterparties. However, the Company would expect to also benefit from lower market prices paid for fuel used in its operations, and also has the ability to manage or reduce its derivative positions by entering into offsetting positions as one example.

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

The Company also has agreements with each of its counterparties associated with its outstanding interest rate swap agreements in which cash collateral may be required based on the fair value of outstanding derivative instruments, as well as the Company's and its counterparty's credit ratings. As of December 31, 2013, $31 million had been provided to one counterparty associated with interest rate derivatives based on the Company's outstanding net liability derivative position with that counterparty. In addition, in connection with interest rate swaps entered into by AirTran, a total of $1 million in cash collateral had been provided to one counterparty at December 31, 2013, as a result of a net liability derivative position with that counterparty. The outstanding interest rate net derivative positions with all other counterparties at December 31, 2013, were assets to the Company.

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

Financial market risk

The vast majority of the Company's tangible assets are aircraft, which are long-lived. The Company's strategy is to maintain a conservative balance sheet and grow capacity steadily and profitably under the right conditions. While the Company uses financial leverage, it strives to maintain a strong balance sheet and has a "BBB" rating with Fitch, a "BBB-" rating with Standard & Poor's, and a "Baa3" credit rating with Moody's as of December 31, 2013, all of which are considered "investment grade." The Company's French Credit Agreements due 2018 do not give rise to significant fair value risk but do give rise to interest rate risk because this borrowing was originally issued as floating-rate debt. In addition, as disclosed in Note 10 to the Consolidated Financial Statements, the Company has converted certain of its long-term debt to floating rate debt by entering into an interest rate swap agreement. Although there is interest rate risk associated with these floating rate borrowings, the risk of the French Credit Agreements due 2018 is somewhat mitigated by the fact that the Company may prepay this debt under certain conditions. See Notes 6 and 7 to the Consolidated Financial Statements for more information on the material terms of the Company's short-term and long-term debt.

As of December 31, 2013, excluding the notes or debentures that have been converted to a floating rate, the Company's fixed-rate senior unsecured notes outstanding included its $350 million 5.25% senior unsecured notes due 2014, its $300 million 5.125% senior unsecured notes due 2017, and its $100 million 7.375% senior unsecured notes due 2027. Each of these notes had previously been converted to floating rates, but in 2011 and 2012 the Company terminated the fixed-to-floating interest rate swap agreements related to them. See Note 10 to the Consolidated Financial Statements for further information. The effect of these terminations was that the interest associated with these debts prospectively reverted back to their original fixed rates. As a result of the gains realized on these transactions, which are being amortized over the remaining term of the corresponding notes, and based on projected interest rates at the date of termination, the Company does not believe its future interest expense, based on projected future interest rates at the date of termination, associated with these notes will significantly differ from the expense it would have recorded had the notes remained at floating rates. The Company believes the fixed interest rates associated with each of these notes are comparable to average rates prevailing for similar debt instruments over the last ten years. The following table displays the characteristics of the Company's secured fixed rate debt as of December 31, 2013:

	Principal amount (in millions)	Effective fixed rate	Final maturity	Underlying collateral
Term Loan Agreement	$ 210	6.315%	5/6/2019	14 specified Boeing 737-700 aircraft
Term Loan Agreement	85	6.84%	7/1/2019	5 specified Boeing 737-700 aircraft
Term Loan Agreement	413	5.223%	5/9/2020	21 specified Boeing 737-700 aircraft

The carrying value of the Company's floating rate debt totaled $430 million, and this debt had a weighted-average maturity of 3.53 years at floating rates averaging 2.36 percent for the year ended December 31, 2013. In total, the Company's fixed-rate debt and floating rate debt represented 16.06 percent and 2.89 percent, respectively, of consolidated noncurrent assets at December 31, 2013.

The Company also has some risk associated with changing interest rates due to the short-term nature of its invested cash, which totaled $1.4 billion, and short-term investments, which totaled $1.8 billion, at December 31, 2013. See Notes 1 and 10 to the Consolidated Financial Statements for further information. The Company currently invests available cash in certificates of deposit, highly rated money market instruments, investment grade commercial paper, treasury securities, U.S. government agency securities, and other highly rated financial instruments, depending on market conditions and operating cash requirements. As a result of previous turmoil in credit markets, the Company has discontinued further investments in auction rate securities. Because of the short-term nature of these investments, the returns earned parallel closely with short-term floating interest rates. The Company has not undertaken any additional actions to cover interest rate market risk and is not a party to any other material market interest rate risk management activities.

A hypothetical 10 percent change in market interest rates as of December 31, 2013, would not have a material effect on the fair value of the Company's fixed-rate debt instruments. See Note 11 to the Consolidated Financial Statements for further information on the fair value of financial instruments. A change in market interest rates could, however, have a corresponding effect on earnings and cash flows associated with the Company's floating-rate debt, invested cash (excluding cash collateral deposits held, if applicable), floating-rate aircraft leases, and short-term investments because of the floating-rate nature of these items. Assuming floating market rates in effect as of December 31, 2013 were held constant throughout a 12-month period, a hypothetical 10 percent change in those rates would have an immaterial impact on the Company's net earnings and cash flows. Utilizing these assumptions and considering the Company's cash balance (excluding the impact of cash collateral deposits held or provided to counterparties, if applicable), short-term investments, and floating-rate debt outstanding at December 31, 2013, an increase in rates would have a net negative effect on the Company's earnings and cash flows, while a decrease in rates would have a net positive effect on the Company's earnings and cash flows. However, a 10 percent change in market rates would not impact the Company's earnings or cash flow associated with the Company's publicly traded fixed-rate debt.

The Company is also subject to a financial covenant included in its revolving credit facility, and is subject to credit rating triggers related to its credit card transaction processing agreements, the pricing related to any funds drawn under its revolving credit facility, and some of its hedging counterparty agreements. Certain covenants include the maintenance of minimum credit ratings and/or triggers that are based on changes in these ratings. The Company's revolving credit facility contains a financial covenant requiring a minimum coverage ratio of adjusted pre-tax income to fixed obligations, as defined. As of December 31, 2013, the Company was in compliance with this covenant and there were no amounts outstanding under the revolving credit facility. However, if conditions change and the Company fails to meet the minimum standards set forth in the revolving credit facility, there could be a reduction in the availability of cash under the facility, or an increase in the costs to keep the facility intact as written. Eleven of the Company's hedging counterparty agreements contain ratings triggers in which cash collateral would be required to be posted with the counterparty if the Company's credit rating were to fall below investment grade by two of the three major rating agencies, and if the Company were in a net liability position with the counterparty. See Note 10 to the Consolidated Financial Statements for further information. As of December 31, 2013, no cash collateral deposits were provided by or held by the Company under these provisions. If the Company's credit rating had been below investment grade as of that date, the Company would have been required to post approximately $7 million in additional cash collateral deposits with fuel hedge counterparties.

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

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

As of December 31, 2013, the Company was in compliance with all credit card processing agreements. However, the inability to enter into credit card processing agreements would have a material adverse effect on the business of the Company. The Company believes that it will be able to continue to renew its existing credit card processing agreements or will be able to enter into new credit card processing agreements with other processors in the future.

Item 8. *Financial Statements and Supplementary Data*

Southwest Airlines Co.
Consolidated Balance Sheet
(in millions, except share data)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,355	$ 1,113
Short-term investments	1,797	1,857
Accounts and other receivables	419	332
Inventories of parts and supplies, at cost	467	469
Deferred income taxes	168	246
Prepaid expenses and other current assets	250	210
Total current assets	4,456	4,227
Property and equipment, at cost:		
Flight equipment	16,937	16,367
Ground property and equipment	2,666	2,383
Deposits on flight equipment purchase contracts	764	416
Assets constructed for others	453	331
	20,820	19,497
Less allowance for depreciation and amortization	7,431	6,731
	13,389	12,766
Goodwill	970	970
Other assets	530	633
	$ 19,345	$ 18,596
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,247	$ 1,107
Accrued liabilities	1,229	1,102
Air traffic liability	2,571	2,170
Current maturities of long-term debt	629	271
Total current liabilities	5,676	4,650
Long-term debt less current maturities	2,191	2,883
Deferred income taxes	2,934	2,884
Construction obligation	437	331
Other noncurrent liabilities	771	856
Stockholders' equity:		
Common stock, $1.00 par value: 2,000,000,000 shares authorized; 807,611,634 shares issued in 2013 and 2012	808	808
Capital in excess of par value	1,231	1,210
Retained earnings	6,431	5,768
Accumulated other comprehensive income (loss)	(3)	(119)
Treasury stock, at cost: 107,136,946 and 77,292,145 shares in 2013 and 2012 respectively	(1,131)	(675)
Total stockholders' equity	7,336	6,992
	$ 19,345	$ 18,596

See accompanying notes.

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

	Year ended December 31,		
	2013	**2012**	**2011**
OPERATING REVENUES:			
Passenger	$ 16,721	$ 16,093	$ 14,754
Freight	164	160	139
Other	814	835	765
Total operating revenues	17,699	17,088	15,658
OPERATING EXPENSES:			
Salaries, wages, and benefits	5,035	4,749	4,371
Fuel and oil	5,763	6,120	5,644
Maintenance materials and repairs	1,080	1,132	955
Aircraft rentals	361	355	308
Landing fees and other rentals	1,103	1,043	959
Depreciation and amortization	867	844	715
Acquisition and integration	86	183	134
Other operating expenses	2,126	2,039	1,879
Total operating expenses	16,421	16,465	14,965
OPERATING INCOME	1,278	623	693
OTHER EXPENSES (INCOME):			
Interest expense	131	147	194
Capitalized interest	(24)	(21)	(12)
Interest income	(6)	(7)	(10)
Other (gains) losses, net	(32)	(181)	198
Total other expenses (income)	69	(62)	370
INCOME BEFORE INCOME TAXES	1,209	685	323
PROVISION FOR INCOME TAXES	455	264	145
NET INCOME	$ 754	$ 421	$ 178
NET INCOME PER SHARE, BASIC	$ 1.06	$ 0.56	$ 0.23
NET INCOME PER SHARE, DILUTED	$ 1.05	$ 0.56	$ 0.23
Cash dividends declared per common share	$ .1300	$ .0345	$ .0180

See accompanying notes.

Southwest Airlines Co.
Consolidated Statement of Comprehensive Income
(in millions)

	Year ended December 31,		
	2013	2012	2011
NET INCOME	$ 754	$ 421	$ 178
Unrealized gain on fuel derivative instruments, net of deferred taxes of $31, $74, and $42	52	120	67
Unrealized gain (loss) on interest rate derivative instruments, net of deferred taxes of $19, $0, and ($20)	31	(1)	(32)
Unrealized gain (loss) on defined benefit plan items, net of deferred taxes of $15, ($11), and $0	24	(17)	—
Other, net of deferred taxes of $7, $3, and $1	9	3	3
OTHER COMPREHENSIVE INCOME	$ 116	$ 105	$ 38
COMPREHENSIVE INCOME	$ 870	$ 526	$ 216

See accompanying notes.

Southwest Airlines Co.
Consolidated Statement of Stockholders' Equity
(in millions, except per share amounts)

	Year ended December 31, 2013, 2012, and 2011					
	Common Stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at December 31, 2010	$ 808	$ 1,183	$ 5,399	$ (262)	$ (891)	$ 6,237
Repurchase of common stock	—	—	—	—	(225)	(225)
Issuance of common and treasury stock pursuant to Employee stock plans	—	(3)	(14)	—	37	20
Issuance of stock to acquire AirTran	—	—	(127)	—	650	523
Issuance of stock for conversion of debt	—	34	(27)	—	105	112
Net tax benefit (expense) of options exercised	—	(5)	—	—	—	(5)
Share-based compensation	—	13	—	—	—	13
Cash dividends, $.018 per share	—	—	(14)	—	—	(14)
Comprehensive income	—	—	178	38	—	216
Balance at December 31, 2011	$ 808	$ 1,222	$ 5,395	$ (224)	$ (324)	$ 6,877
Repurchase of common stock	—	—	—	—	(400)	(400)
Issuance of common and treasury stock pursuant to Employee stock plans	—	(4)	(22)	—	49	23
Net tax benefit (expense) of options exercised	—	(24)	—	—	—	(24)
Share-based compensation	—	16	—	—	—	16
Cash dividends, $.0345 per share	—	—	(26)	—	—	(26)
Comprehensive income	—	—	421	105	—	526
Balance at December 31, 2012	$ 808	$ 1,210	$ 5,768	$ (119)	$ (675)	$ 6,992
Repurchase of common stock	—	—	—	—	(540)	(540)
Issuance of common and treasury stock pursuant to Employee stock plans	—	12	—	—	84	96
Net tax benefit (expense) of options exercised	—	(9)	—	—	—	(9)
Share-based compensation	—	18	—	—	—	18
Cash dividends, $.1300 per share	—	—	(91)	—	—	(91)
Comprehensive income	—	—	754	116	—	870
Balance at December 31, 2013	$ 808	$ 1,231	$ 6,431	$ (3)	$ (1,131)	$ 7,336

See accompanying notes.

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

	Year ended December 31, 2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 754	$ 421	$ 178
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	867	844	715
Unrealized (gain) loss on fuel derivative instruments	(5)	(189)	90
Deferred income taxes	50	251	123
Changes in certain assets and liabilities:			
Accounts and other receivables	(17)	(33)	(26)
Other assets	(46)	(104)	(196)
Accounts payable and accrued liabilities	343	186	253
Air traffic liability	400	334	262
Cash collateral received from (provided to) derivative counterparties	57	233	(195)
Other, net	74	121	152
Net cash provided by operating activities	2,477	2,064	1,356
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment to acquire AirTran, net of AirTran cash on hand	—	—	(35)
Payments for purchase of property and equipment, net	(1,447)	(1,348)	(968)
Purchases of short-term investments	(3,135)	(2,481)	(5,362)
Proceeds from sales of short-term and other investments	3,198	2,996	5,343
Net cash used in investing activities	(1,384)	(833)	(1,022)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Employee stock plans	96	27	20
Proceeds from termination of interest rate derivative instrument	—	38	76
Payments of long-term debt and capital lease obligations	(313)	(578)	(540)
Payments of convertible debt	—	—	(81)
Payments of cash dividends	(71)	(22)	(14)
Repayment of construction obligation	(5)	—	—
Repurchase of common stock	(540)	(400)	(225)
Other, net	(18)	(12)	(2)
Net cash used in financing activities	(851)	(947)	(766)
NET CHANGE IN CASH AND CASH EQUIVALENTS	242	284	(432)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	$ 1,113	$ 829	$ 1,261
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,355	1,113	829
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	$ 133	$ 153	$ 185
Income taxes	$ 346	$ 100	$ 13
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:			
Assets constructed for others	$ 105	$ 129	$ 116
Fair value of equity consideration given to acquire AirTran	$ —	$ —	$ 523
Fair value of common stock issued for conversion of debt	$ —	$ —	$ 78

See accompanying notes.

Southwest Airlines Co.
Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Southwest Airlines Co. (the "Company") operates Southwest Airlines, a major domestic airline. The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries, which include AirTran Holdings, LLC. On May 2, 2011 (the "acquisition date"), the Company acquired all of the outstanding equity of AirTran Holdings, Inc. ("AirTran Holdings"), the former parent company of AirTran Airways, Inc. ("AirTran Airways"). Throughout these Notes, the Company makes reference to AirTran, which is meant to be inclusive of the following: (i) for periods prior to the acquisition date, AirTran Holdings and its subsidiaries, including, among others, AirTran Airways; and (ii) for periods on and after the acquisition date, AirTran Holdings, LLC, the successor to AirTran Holdings, and its subsidiaries, including among others, AirTran Airways. The accompanying Consolidated Financial Statements include the results of operations and cash flows for AirTran since May 2, 2011. See Note 2. All significant inter-entity balances and transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Certain prior period amounts have been reclassified to conform to the current presentation. In the Consolidated Statement of Comprehensive Income for the year ended December 31, 2012, the Company has reclassified $17 million from Other to Unrealized losses on defined benefit plan items, net of deferred tax.

Cash and cash equivalents

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

As of December 31, 2013, no cash collateral deposits were either held by or provided by the Company to its fuel hedge counterparties and the Company had provided cash collateral deposits totaling $32 million to its interest rate hedge counterparties. As of December 31, 2012, the Company had no cash collateral deposits held by or provided by the Company to its fuel hedge counterparties and cash collateral deposits totaling $89 million to its interest rate hedge counterparties. Cash collateral amounts provided or held associated with fuel and interest rate derivative instruments are not restricted in any way and earn interest income at an agreed upon rate that approximates the rates earned on short-term securities issued by the U.S. Government. Depending on the fair value of the Company's fuel and interest rate derivative instruments, the amounts of collateral deposits held or provided at any point in time can fluctuate significantly. See Note 10 for further information on these collateral deposits and fuel derivative instruments.

Short-term and noncurrent investments

Short-term investments consist of investments with original maturities of greater than three months but less than twelve months when purchased. These are primarily short-term securities issued by the U.S. Government and certificates of deposit issued by domestic banks. All of these investments are classified as available-for-sale securities and are stated at fair value, which approximates cost. For all short-term investments, at each reset period or upon reinvestment, the Company accounts for the transaction as Proceeds from sales of short-term investments for the security relinquished, and Purchases of short-investments for the security purchased, in the accompanying Consolidated Statement of Cash Flows. Unrealized gains and losses, net of tax, if any, are recognized in Accumulated other comprehensive income (loss) ("AOCI") in the accompanying Consolidated Balance Sheet. Realized net gains and losses on specific investments, if any, are reflected in Interest income in the accompanying Consolidated Statement of Income. Both unrealized and realized gains and/or losses associated with investments were immaterial for all years presented.

Noncurrent investments consist of investments with maturities of greater than twelve months. At December 31, 2013, these primarily consisted of the Company's auction rate security instruments that it expects will not be redeemed during 2014. See Note 11 for further information. Noncurrent investments are included as a component of Other assets in the Consolidated Balance Sheet.

Accounts and other receivables

Accounts and other receivables are carried at cost. They primarily consist of amounts due from credit card companies associated with sales of tickets for future travel, amounts due from business partners in the Company's frequent flyer programs, and amounts due from counterparties associated with fuel derivative instruments that have settled. The allowance for doubtful accounts was immaterial at December 31, 2013, 2012, and 2011. In addition, the provision for doubtful accounts and write-offs for 2013, 2012, and 2011 were each immaterial.

Inventories

Inventories consist primarily of aircraft fuel, flight equipment expendable parts, materials, and supplies. All of these items are carried at average cost, less an allowance for obsolescence. These items are generally charged to expense when issued for use. The reserve for obsolescence was $36 million and $34 million at December 31, 2013, and 2012, respectively. In addition, the Company's provision for obsolescence and write-offs for 2013, 2012, and 2011 were each immaterial.

Property and equipment

Property and equipment is stated at cost. Depreciation is provided by the straight-line method to estimated residual values over periods generally ranging from 23 to 25 years for flight equipment and 5 to 30 years for ground property and equipment once the asset is placed in service. Residual values estimated for aircraft generally range from 2 to 20 percent and for ground property and equipment generally range from 0 to 10 percent. Property under capital leases and related obligations are initially recorded at an amount equal to the present value of future minimum lease payments computed on the basis of the Company's incremental borrowing rate or, when known, the interest rate implicit in the lease. Amortization of property under capital leases is on a straight-line basis over the lease term and is included in Depreciation and amortization expense. Leasehold improvements generally are amortized on a straight-line basis over the shorter of the estimated useful life of the improvement or the remaining term of the lease. Assets constructed for others primarily consists of airport improvement projects, once placed into service, in which the Company is considered the accounting owner of the facilities, and such assets are amortized to estimated residual value over the term of the Company's lease or the expected life of the asset. See Note 4.

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

Aircraft and engine maintenance

The cost of scheduled inspections and repairs and routine maintenance costs for all aircraft and engines are charged to Maintenance materials and repairs expense as incurred. The Company also has "power-by-the-hour" agreements related to certain of its aircraft engines with external service providers. Under these agreements, which the

Company has determined effectively transfers the risk and creates an obligation associated with the maintenance on such engines to the counterparty, expense is recorded commensurate with each hour flown on an engine. In situations where the payments to the counterparty do not sufficiently match the level of services received during the period, expense is recorded on a straight-line basis over the term of the agreement based on our best estimate of expected future aircraft utilization. The Company modified its engine maintenance contract for its Classic fleet (737-300/500s) during fourth quarter 2011 and, although payments made under this contract are made on the basis of flight hours, the risk-transfer concept under this agreement is no longer met, and the Company now records expense on a time and materials basis when an engine repair event takes place. The impact of this change on fourth quarter 2011 was a reduction in Maintenance materials and repairs expense of $30 million, resulting in an increase in net income of $16 million, and an increase in earnings per share (basic and diluted) of $.02 per share. Modifications that significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the remaining life of the asset.

Goodwill and intangible assets

Goodwill represents the excess of the consideration transferred over the fair value of AirTran's assets and liabilities on the acquisition date. Goodwill is not amortized, but it is evaluated for impairment at least annually, or more frequently if events or circumstances indicate impairment may exist. A fair value-based methodology is utilized in testing the carrying value to Goodwill, utilizing assumptions including: (i) a long-term projection of revenues and expenses; (ii) estimated discounted future cash flows; (iii) observable earnings multiples of publicly-traded airlines; (iv) weighted-average cost of capital; and (v) expected tax rate. Factors used in the valuation of goodwill include, but are not limited to, management's plans for future operations, recent operating results and discounted projected future cash flows. These factors are considered Level 3 inputs within the fair value hierarchy. As a result of the annual impairment test performed as of October 1, 2013, no impairment was determined to exist for Goodwill. In the Goodwill impairment analysis performed, the excess fair value of the enterprise over carrying value was estimated to be in excess of 50 percent.

Intangible assets primarily consist of acquired leasehold rights to certain airport owned gates at Chicago's Midway International Airport, take-off and landing slots at certain domestic slot-controlled airports, and certain intangible assets recognized from the AirTran acquisition. See Note 2 for further information on acquired identifiable intangible assets. The following table is a summary of the Company's intangible assets as of December 31, 2013:

	Gross carrying amount (in millions)	Weighted-average useful life (in years)	Accumulated amortization (in millions)
Customer relationships/marketing agreements	$ 39	9	$ 23
Trademarks/trade names	36	6	25
Owned domestic slots	93	Indefinite	n/a
Leased domestic slots (1)	19	39	4
Noncompete agreements	5	2	5
Gate leasehold rights	60	19	29
Total	$ 252	15	$ 86

(1) Useful life of leased slots is based on the stated lease term.

During fourth quarter 2013, following the Company's acquisition of additional slots at New York's LaGuardia Airport, 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 is immaterial. Also, as part of this change, the Company evaluated its previously owned domestic slots for impairment, but none was noted.

The aggregate amortization expense for 2013, 2012, and 2011 was $19 million, $25 million, and $50 million, respectively. Estimated aggregate amortization expense for the five succeeding years and thereafter is as follows: 2014 – $13 million, 2015 – $11 million, 2016 – $8 million, 2017 – $5 million, 2018 – $5 million, and thereafter – $31 million.

Revenue recognition

Tickets sold are initially deferred as Air traffic liability. Passenger revenue is recognized when transportation is provided. Air traffic liability primarily represents tickets sold for future travel dates and estimated refunds and exchanges of tickets sold for past travel dates. The majority of the Company's tickets sold are nonrefundable. 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 refunded. A small percentage of tickets (or partial tickets) expire unused. The Company estimates the amount of tickets that expire unused and recognizes such amounts in Passenger revenue once the scheduled flight date has passed. Prior to September 13, 2013, funds associated with tickets in which a passenger did not show up for a flight without canceling were able to be reused on another flight for up to twelve months. On September 13, 2013, Southwest implemented a No Show policy that applies to nonrefundable fares that are not canceled or changed by a Customer at least ten minutes prior to a flight's scheduled departure. Based on the Company's revenue recognition policy, revenue is now recorded at the flight date for a Customer who does not change his/her itinerary and loses his/her funds. This change in Company policy did not have a significant impact on the amount of spoilage revenue recorded during 2013 or the Company's estimate of the amount of spoilage it expects to record in future periods. Amounts collected from passengers for ancillary services such as baggage and other fees are generally recognized as Other revenue when the service is provided, which is typically the flight date.

The Company is also required to collect certain taxes and fees from Customers on behalf of government agencies and remit these back to the applicable governmental entity on a periodic basis. These taxes and fees include U.S. federal transportation taxes, federal security charges, and airport passenger facility charges. These items are collected from Customers at the time they purchase their tickets, but are not included in Passenger revenue. The Company records a liability upon collection from the Customer and relieves the liability when payments are remitted to the applicable governmental agency.

Frequent flyer programs

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

Southwest and AirTran also sell frequent flyer points and related services to companies participating in their respective frequent flyer programs. Funds received from the sale of these points are accounted for using the residual method. Under this method, the Company determined the portion of funds received that relate to free travel were currently estimated to be 100 percent of the amount received under both Southwest's Rapid Reward program and under AirTran's A+ Reward program as of December 31, 2013. These amounts are deferred and recognized as Passenger revenue when the ultimate free travel awards are flown. In periods in which less than 100 percent of funds received are apportioned to free travel, the remainder of the amount received per point sold (the residual), which is not associated with future travel, includes items such as access to the Company's frequent flyer program population for marketing/solicitation purposes on a monthly or quarterly basis, use of the Company's logo on co-branded credit cards, and other trademarks, designs, images, etc. of the Company for use in marketing materials. This residual portion is recognized in Other revenue in the period earned, which the Company has determined is the period in which it has fulfilled its obligation under the executed contract with the particular business partner, which is on a monthly or quarterly basis, upon sale, as the related marketing services are performed or provided. For all points sold to business partners that are expected to expire unused, the Company recognizes spoilage in accordance with the redemption method. Southwest and AirTran's consolidated liability associated with the sale of frequent flyer points and/or flight credits, was approximately $1.1 billion as of December 31, 2013. This liability is included as part of Air Traffic liability in the Company's Consolidated Balance Sheet, based on current expectations of redemption patterns over the next twelve months.

In March 2011, Southwest re-launched its Rapid Rewards frequent flyer program. As part of Southwest's transition to the current program, the Company did not convert members' account balances under the previous program, but allowed members to continue to redeem those balances for award travel under the prior program rules for a period of time. The transition method used by the Company in moving members to the current program resulted in no material changes in the Company's estimation of its existing frequent flyer liabilities as of the launch date. Although the current program is still relatively new and the Company does expect a reduction in the amount of spoilage associated with points earned within the program compared to its previous program; thus far, the impact of this expected reduction has not been material.

Advertising

Advertising costs are charged to expense as incurred. Advertising and promotions expense for the years ended December 31, 2013, 2012, and 2011 was $208 million, $223 million, and $237 million, respectively, and is included as a component of Other operating expense in the accompanying Consolidated Statement of Income.

Share-based Employee compensation

The Company has share-based compensation plans covering several of its Employee groups, including plans covering the Company's Board of Directors. The Company accounts for share-based compensation based on its grant date fair value. See Note 14.

Financial derivative instruments

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

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

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

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

Software capitalization

The Company capitalizes certain internal and external costs related to the acquisition and development of internal use software during the application development stages of projects. The Company amortizes these costs using the straight-line method over the estimated useful life of the software, which typically ranges from five to fifteen years. Costs incurred during the preliminary project or the post-implementation/operation stages of the project are expensed as incurred. Capitalized computer software, included as a component of Ground property and equipment in the accompanying Consolidated Balance Sheet, net of accumulated depreciation, was $357 million and $256 million at December 31, 2013, and 2012, respectively. Computer software depreciation expense was $90 million, $59 million, and $55 million for the years ended December 31, 2013, 2012, and 2011, respectively, and is included as a component of Depreciation and amortization expense in the accompanying Consolidated Statement of Income.

Income taxes

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

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

Concentration risk

Approximately 83 percent of the Company's full-time equivalent Employees are unionized and are covered by collective bargaining agreements. The Company manages this risk by maintaining positive relationships with its Employees and its Employees' Representatives. Substantially all of the Company's unionized Employees, including its Pilots, Mechanics, Customer Service Agents and Customer Representatives, Ramp, Operations, Provisioning, and Freight Agents, Flight Attendants, Materials Specialists, Flight Simulator Technicians, and Facilities Maintenance Technicians are in discussions on labor agreements. These Employee groups represent approximately 82 percent of the Company's full-time equivalent Employees as of December 31, 2013.

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

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

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

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

2. AIRTRAN ACQUISITION AND RELATED MATTERS

Expenses related to the AirTran acquisition and integration

The Company has incurred and expects to continue to incur substantial Acquisition and integration expenses in connection with the AirTran acquisition, including the necessary costs associated with integrating the operations of the two companies. While the Company has assumed that a certain level of expenses will be incurred, there are many factors that could affect the total amount or the timing of these expenses, and many of the expenses that will be incurred are, by their nature, difficult to estimate. In some periods, these expenses have exceeded the estimated financial benefits that the Company achieved from the AirTran acquisition and the remaining integration of the companies could continue to result in the Company taking significant charges against earnings. The Company incurred acquisition and integration-related costs for the years ended December 31, 2013, 2012, and 2011, of $86 million, $183 million, and $134 million, respectively, primarily consisting of costs associated with the lease and sublease of AirTran's Boeing 717-200 fleet, consulting, Employee training, seniority integration, financial advisory fees, severance, technology integration projects, and facility integration expenses. In the Consolidated Statement of Income, these costs are classified as Acquisition and integration expenses.

Pro forma impact of the acquisition

The unaudited pro forma results presented below include the effects of the AirTran acquisition as if it had been consummated as of January 1, 2011. The pro forma results include the amortization associated with estimates for the acquired intangible assets, fair value adjustments for deferred revenue, favorable/unfavorable leasehold interests, property and equipment, and long-term debt. In addition, the pro forma results do not include any anticipated synergies, or the assumption of hedge accounting for AirTran's derivative instruments, or other expected benefits of the acquisition. Accordingly, the unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2011.

(in millions, except per share data)	Year ended December 31, 2011
Total operating revenues	$ 16,601
Net income	160
Net income per share, basic	0.21
Net income per share, diluted	0.21

3. ACCOUNTING CHANGES AND NEW ACCOUNTING PRONOUNCEMENTS

During first quarter 2012 the Company changed the estimated retirement dates of several 737-300 and 737-500 aircraft based on revisions in the Company's fleet plan. This change, which was accounted for on a prospective basis, resulted in an acceleration of depreciation expense, since the majority of these aircraft had previously been expected to retire in periods beyond 2012, but were subsequently expected to be retired during 2012. For the year ended December 31, 2012, the impact of this change was an increase in depreciation expense of approximately $12 million, excluding the impact of profitsharing and income taxes ($6 million after the impact of profitsharing and taxes, with a $.01 decrease in both basic and diluted net income per share). The impact of this change on 2013 was not material.

During third quarter 2012 the Company changed the estimated residual values of its entire fleet of owned 737-300 and 737-500 aircraft. This change was based on an agreement entered into during July 2012, pursuant to which the Company will lease or sublease certain aircraft to Delta Air Lines, Inc., and the resulting impact this transaction will have on how the Company manages the ultimate retirement of its owned 737-300 and 737-500 aircraft. See Note 8 for further information on the lease/sublease transaction. Based on the expected retirement dates and current and expected future market conditions related to its owned 737-300 and 737-500 aircraft, the Company reduced the residual values of these aircraft from approximately ten percent of original cost to approximately two percent of original cost. As this reduction in residual value is considered a change in estimate, it has been accounted for on a prospective basis, and thus the Company will record additional depreciation expense over the remainder of the useful lives for each aircraft. The impact of this change on the year ended December 31, 2012, was an increase in depreciation expense of approximately $34 million, excluding the impact of profitsharing and income taxes ($18 million after the impact of profitsharing and taxes, with a $.02 decrease in both basic and diluted net income per share). The impact of this change on the year ended December 31, 2013, was an increase in depreciation expense of approximately $26 million, excluding profitsharing and income taxes ($14 million after profitsharing and taxes, with a $.02 decrease in both basic and diluted net income per share).

On December 16, 2011, the Financial Accounting Standards Board ratified Accounting Standards Update ("ASU") No. 2011-11, "Disclosures about Offsetting Assets and Liabilities." The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position, as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013, and the Company adopted this ASU during first quarter 2013. This ASU did not have a material effect on the Company's financial position or results of operations, but did change the Company's disclosure policies for financial derivative instruments. See Note 10.

4. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has contractual obligations and commitments primarily with regard to future purchases of aircraft, repayment of debt, and lease arrangements. During the year ended December 31, 2013, the Company purchased 16 new 737-800 aircraft from Boeing, leased two new 737-800 aircraft from a third party, retired from service 11 of its older 737-300 and 737-500 aircraft and one of its 737-700 aircraft, and removed 22 of its 717-200 aircraft from active service. In addition, the Company also leased two 737-700 aircraft from a third party which were placed into service during third quarter 2013. As of December 31, 2013, the Company had scheduled deliveries for Boeing 737-700, 737-800, 737 MAX 7, and 737 MAX 8 aircraft as follows:

	The Boeing Company 737 NG				The Boeing Company 737 MAX			
	-700 Firm Orders	-800 Firm Orders	Options	Additional - 700 A/C	-7 Firm Orders	-8 Firm Orders	Options	Total
2014	—	33	—	7 (2)	—	—	—	40
2015	—	19	—	5	—	—	—	24
2016	31	—	12	—	—	—	—	43
2017	15	—	12	—	—	14	—	41
2018	10	—	12	—	—	13	—	35
2019	—	—	—	—	15	10	—	25
2020	—	—	—	—	14	22	—	36
2021	—	—	—	—	1	33	18	52
2022	—	—	—	—	—	30	19	49
2023	—	—	—	—	—	24	23	47
2024	—	—	—	—	—	24	23	47
2025	—	—	—	—	—	—	36	36
2026	—	—	—	—	—	—	36	36
2027	—	—	—	—	—	—	36	36
Total	56 (1)	52	36	12	30	170 (3)	191	547

(1) The Company has flexibility to substitute 737-800s in lieu of 737-700 firm orders.
(2) The Company executed an agreement in January 2014 to purchase an additional five 737-700 aircraft from a third party.
(3) The Company has flexibility to substitute MAX 7 in lieu of MAX 8 firm orders beginning in 2019.

The Company's financial commitments associated with the firm orders in the above aircraft table are as follows: $876 million in 2014, $824 million in 2015, $1.2 billion in 2016, $1.2 billion in 2017, $1.0 billion in 2018, and $6.8 billion thereafter.

In December 2013, the Company entered into an agreement with Broward County, Florida, which owns and operates Fort Lauderdale-Hollywood International Airport, to oversee and manage the design and construction of the airport's Terminal 1 Modernization Project at a cost not to exceed $295 million. In addition to significant improvements to the existing Terminal 1, the project includes the design and construction of a new five-gate Concourse A with an international processing facility. 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. Although construction on the project is not expected to begin until late in 2014, the Company believes that due to its agreed upon role in overseeing and managing the project, it will be considered the owner of the project for accounting purposes. As such, in the Consolidated Balance Sheet, the Company is expected to record an increase in Assets constructed for others as the project is built (with a corresponding cash outflow in Investing activities in the Consolidated Statement of Cash Flows), and an increase to Construction obligation (with a corresponding cash inflow in Financing activities in the Consolidated Statement of Cash Flows) as reimbursements are received from Broward County.

The Company entered into a Memorandum of Agreement (“MOA”) with the City of Houston (“City”), effective June 2012, to expand the existing Houston Hobby airport facility. As provided in the MOA, the Company and the City have entered into an Airport Use and Lease Agreement (“Lease”) to control the execution of this expansion and the financial terms thereof. Per the MOA and Lease, this project provides for a new five-gate international terminal with international passenger processing facilities, expansion of the existing security checkpoint, and upgrades to the

Southwest ticketing counter area. The project is estimated to cost $156 million, and the Company has agreed to provide the funding for, as well as management over, the project. In return, the Company will receive a monthly credit for the capital cost portions of the international terminal, from the date of initial occupancy of the terminal until expiration of the Lease. Additionally, some portion of the project is expected to qualify for rental credits that would be utilized upon completion of the facility against the Company's current lease space at the airport. At any time after the completion of the project, the City may buy out the Company's investment in the international terminal for the then-unamortized cost of the project. Construction began during third quarter 2013 and is estimated to be completed during the second half of 2015.

As a result of its significant involvement in the Houston Hobby project, the Company has evaluated its ongoing accounting requirements in consideration of accounting guidance provided for lessees involved in asset construction, and has determined that it qualifies as the accounting owner of the facility during the construction period. As such, during construction, the Company records expenditures as Assets constructed for others in the Consolidated Balance Sheet, along with a corresponding outflow within Payments for purchase of property and equipment, net, in the Consolidated Statement of Cash Flows. The amounts recorded for 2013 were not material.

In March 2013, the Company executed an agreement with Los Angeles World Airports ("LAWA"), which owns and operates Los Angeles International Airport. Under the agreement, the Company will oversee and manage the design and construction of the airport's Terminal 1 Modernization Project at a cost not to exceed $400 million. The Company and LAWA are currently working on how the project will be funded, which may include, but is not limited to, the funding being provided by the Company (for which it would be reimbursed upon completion of different project phases, as defined, or from an external source). Although construction on the project is not expected to begin until the middle of 2014, the Company believes that due to its agreed upon role in overseeing and managing the project, it will be considered the owner of the project for accounting purposes. However, since the source of funding for the project has not yet been decided upon, the final accounting treatment will be determined at a later date.

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

It is currently expected that the total construction costs associated with the LFMP project will be approximately $519 million. Although the City of Dallas has received commitments from various sources that are helping to fund portions of the LFMP project, including the Federal Aviation Administration ("FAA"), the Transportation Security Administration, and the City of Dallas' Aviation Fund, the majority of the funds used are from the issuance of bonds. During fourth quarter 2010, $310 million of such bonds were issued by the LFAMC, and the Company has guaranteed principal and interest payments on the bonds. An additional tranche of such bonds totaling $146 million was issued during second quarter 2012, and the Company has guaranteed the principal and interest payments on these bonds as well. The Company currently expects that as a result of the funding commitments from the above mentioned sources and the bonds that have been issued thus far, no further bond issuances and related guarantees from the Company will be required to complete the LFMP project.

In conjunction with the Company's significant presence at Dallas Love Field, its rights to occupy 16 of the available gates upon completion of the facility, and other factors, the Company agreed to manage the majority of the LFMP project. Based on these facts, the Company has evaluated its ongoing accounting requirements in consideration of accounting guidance provided for lessees involved in asset construction. The Company has recorded and will continue to record an asset and corresponding obligation for the cost of the LFMP project as the construction of the facility occurs. As of December 31, 2013, the Company had recorded LFMP construction costs of $430 million (of which $350 million has been placed into service and was classified as Assets constructed for others and $80 million was in progress and is classified within Ground property and equipment) and had a liability of $437 million classified as Airport construction obligations in its Consolidated Balance Sheet. Upon completion of different phases of the LFMP project, the Company has placed the associated assets in service and has begun depreciating the assets over their estimated useful lives. The amount of depreciation recorded for the year ended December 31, 2013, associated with the LFMP assets in service was $9 million. The corresponding LFMP liabilities will be reduced primarily through the Company's airport rental payments to the City of Dallas as the construction costs of the project are passed through to the Company via recurring airport rates and charges. Such 2013 payments are reflected as Repayments of airport construction obligations in the Consolidated Statement of Cash Flows. Further, future contractual airport rental payments to the City of Dallas are included in the schedule of future minimum lease payments in Note 8. The Company records interest expense on the Construction obligation at an imputed rate based on the outstanding bonds.

Contingencies

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

5. SUPPLEMENTAL FINANCIAL INFORMATION

(in millions)	December 31, 2013	December 31, 2012
Derivative contracts	$ 145	$ 306
Intangible assets	166	138
Non-current investments	44	41
Other	175	148
Other assets	$ 530	$ 633

(in millions)	December 31,2013	December 31, 2012
Accounts payable trade	$ 189	$ 174
Salaries payable	156	148
Taxes payable	146	128
Aircraft maintenance payable	331	299
Fuel payable	102	112
Other payable	323	246
Accounts payable	$ 1,247	$ 1,107

(in millions)	December 31, 2013	December 31, 2012
Profitsharing and savings plans	$ 244	$ 135
Aircraft and other lease related obligations	173	139
Vacation pay	278	270
Health	73	70
Derivative contracts	12	50
Workers compensation	161	159
Accrued taxes	65	67
Other	223	212
Accrued liabilities	$ 1,229	$ 1,102

(in millions)	December 31, 2013	December 31, 2012
Postretirement obligation	$ 138	$ 148
Non-current lease-related obligations	290	376
Other deferred compensation	163	141
Deferred gains from sale and leaseback of aircraft	65	63
Other	115	128
Other non-current liabilities	$ 771	$ 856

Other Operating Expenses

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

6. REVOLVING CREDIT FACILITY

On April 2, 2013, the Company entered into a new $ 1 billion unsecured revolving credit facility expiring in April 2018, and terminated its previous facility, which would have expired in April 2016. Interest on the facility is based on the Company's credit ratings at the time of borrowing. At the Company's current ratings, the interest cost would be LIBOR plus a spread of 150 basis points. The new facility also contains the same financial covenant as the previous facility, requiring a minimum coverage ratio of adjusted pre-tax income to fixed obligations, as defined. As of December 31, 2013, the Company was in compliance with this covenant and there were no amounts outstanding under the revolving credit facility.

7. LONG-TERM DEBT

(in millions)	December 31, 2013	December 31, 2012
5.25% Notes due 2014	$ 357	$ 366
5.75% Notes due 2016	320	331
5.25% Convertible Senior Notes due 2016	115	117
5.125% Notes due 2017	322	329
Fixed-rate 717 Aircraft Notes payable through 2017—10.37%	41	57
French Credit Agreements due 2018—1.05%	46	56
Fixed-rate 737 Aircraft Notes payable through 2018—7.02%	30	36
Term Loan Agreement due 2019—6.315%	210	241
Term Loan Agreement due 2019—6.84%	85	95
Term Loan Agreement due 2020—5.223%	413	451
Floating-rate 737 Aircraft Notes payable through 2020	340	527
Pass Through Certificates due 2022—6.24%	371	394
7.375% Debentures due 2027	136	138
Capital leases (Note 8)	56	37
	$ 2,842	$ 3,175
Less current maturities	629	271
Less debt discount and issuance costs	22	21
	$ 2,191	$ 2,883

AirTran Long-Term Debt

AirTran Holdings previously entered into aircraft purchase financing facilities, under which a total of 22 737-700 aircrafts were financed as of December 31, 2013.

As of December 31, 2013, after prepaying aircraft secured term loans for eight aircraft during 2012 and the first half of 2013, 19 Boeing 737 aircraft remain that were financed under floating-rate facilities. Each note is secured by a first mortgage on the aircraft to which it relates. The notes bear interest at a floating rate per annum equal to a margin plus the three or six-month LIBOR in effect at the commencement of each semi-annual or three-month period, as applicable. As of December 31, 2013, the weighted average interest rate is 1.68 percent. Principal and interest under the notes are payable semi-annually or every three months as applicable. As of December 31, 2013, the remaining debt outstanding may be prepaid without penalty under all aircraft loans provided under such facilities. The notes mature in years 2016 to 2020. As discussed further in Note 10, a portion of the above floating-rate debt has been effectively converted to a fixed rate via interest rate swap agreements which expire between 2016 and 2020.

As of December 31, 2013, three Boeing 737 aircraft were financed under a fixed-rate facility. Each note is secured by a first mortgage on the aircraft to which it relates. As of December 31, 2013, the weighted average interest rate is 7.02 percent. Payments of principal and interest under the notes are due semi-annually. The notes mature in years 2016 to 2018.

As of December 31, 2013, eight Boeing 717 aircraft were pledged as collateral for the obligations related to enhanced equipment trust certificates (EETCs). Principal and interest payments on the EETCs are due semi-annually through April 2017. The EETCs bear interest at a fixed rate of 10.37 percent.

In October 2009, AirTran Holdings completed a public offering of $115 million of convertible senior notes due in 2016. Such notes bear interest at 5.25 percent payable semi-annually, in arrears, on May 1 and November 1. As a result of the acquisition and subsequent dividends declared by the Company, the convertible senior notes are convertible into AirTran conversion units of 166.2806 per $1,000 in principal amount of such notes. Based on the terms of the merger agreement, the holders of these notes would receive shares of the Company's common stock at a conversion rate of 53.3761 shares and $615.16 in cash per $1,000 in principal amount of such notes. This conversion rate is subject to adjustment under certain circumstances such as: granting of stock and cash dividends, a make-whole fundamental change of ownership provision, the issuance of rights or warrants, and/or a distribution of capital stock. Subsequent to the acquisition, holders of $5 million in principal amount elected to convert their notes. Remaining holders may convert their convertible senior notes into cash and shares of common stock at their option at any time. As such, the Company has classified $68 million, which is the cash portion the Company would be required to pay upon conversion, as current maturities in the Consolidated Balance Sheet. The convertible senior notes are not redeemable at the Company's option prior to maturity. The holders of the convertible senior notes may require the Company to repurchase such notes, in whole or in part, for cash upon the occurrence of a fundamental change, as defined in the governing supplemental indenture, at a repurchase price of 100 percent of the principal amount plus any accrued and unpaid interest.

As a result of triggering the fundamental change of ownership provision in the convertible senior notes and as a result of the acquisition, an embedded conversion option is deemed to exist. In accordance with applicable accounting guidance, the embedded conversion option was effectively separated and accounted for as a free-standing derivative. A fair value calculation, utilizing similar market yields and the Company's common stock price, was performed for the debt with and without the equity to measure the equity component. The value allocated to the conversion option of $35 million is classified as permanent equity. The estimated premium associated with the notes excluding the equity feature was $10 million, and is being amortized to interest expense over the remaining life of the notes. The dilutive effect of the shares that would be issued if the convertible notes were converted is considered in the Company's net income per share calculations, unless such conversion would be considered antidilutive. See Note 9.

Other Company Long-Term Debt

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

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

On May 6, 2008, the Company entered into a term loan agreement providing for loans to the Company aggregating up to $600 million, to be secured by first-lien mortgages on 21 of the Company's 737-700 aircraft. On May 9, 2008, the Company borrowed the full $600 million and secured these loans with the requisite 21 aircraft mortgages. The loans mature on May 9, 2020, and are repayable quarterly in installments of principal, with the first payment made on August 9, 2008. The loans bear interest at the LIBO Rate (as defined in the term loan agreement) plus 0.95%, and interest is payable quarterly. Pursuant to the terms of the term loan agreement, the Company entered into an interest rate swap agreement to convert the variable rate on the term loan to a fixed 5.223% until maturity.

On October 3, 2007, grantor trusts established by the Company issued $500 million Pass Through Certificates consisting of $412 million 6.15% Series A certificates and $88 million 6.65% Series B certificates. A separate trust was established for each class of certificates. The trusts used the proceeds from the sale of certificates to acquire equipment notes in the same amounts, which were issued by the Company on a full recourse basis. Payments on the equipment notes held in each trust will be passed through to the holders of certificates of such trust. The equipment notes were issued for each of 16 Boeing 737-700 aircraft owned by the Company and are secured by a mortgage on each aircraft. Interest on the equipment notes held for the certificates is payable semi-annually, with the first payment made on February 1, 2008. Also beginning February 1, 2008, principal payments on the equipment notes held for both series of certificates are due semi-annually until the balance of the certificates mature on August 1, 2022. Prior to their issuance, the Company also entered into swap agreements to hedge the variability in interest rates on the Pass Through Certificates. The swap agreements were accounted for as cash flow hedges, and resulted in a payment by the Company of $20 million upon issuance of the Pass Through Certificates. The effective portion of the hedge is being amortized to interest expense concurrent with the amortization of the debt and is reflected in the above table as a reduction in the debt balance. The ineffectiveness of the hedge transaction was immaterial.

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

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

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

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

On February 28, 1997, the Company issued $100 million of senior unsecured 7.375% debentures due March 1, 2027. Interest is payable semi-annually on March 1 and September 1. The debentures may be redeemed, at the option of the Company, in whole at any time or in part from time to time, at a redemption price equal to the greater of the principal amount of the debentures plus accrued interest at the date of redemption or the sum of the present values of the remaining scheduled payments of principal and interest thereon, discounted to the date of redemption at the comparable treasury rate plus 20 basis points, plus accrued interest at the date of redemption. In January 2007, the Company entered into an interest rate swap agreement to convert this fixed-rate debt to a floating rate; however, the interest rate swap was terminated in December 2012. See Note 10 for more information on the interest rate swap agreement and termination.

The Company is required to provide standby letters of credit to support certain obligations that arise in the ordinary course of business. Although the letters of credit are an off-balance sheet item, the majority of the obligations to which they relate are reflected as liabilities in the Consolidated Balance Sheet. Outstanding letters of credit totaled $182 million at December 31, 2013.

The net book value of the assets pledged as collateral for the Company’s secured borrowings, primarily aircraft and engines, was $2.2 billion at December 31, 2013. In addition, the Company has pledged a total of up to 81 of its Boeing 737-700 aircraft at a net book value of $2.1 billion, in the case that it has obligations related to its fuel derivative instruments with counterparties that exceed certain thresholds. See Note 10 for further information on these collateral arrangements.

As of December 31, 2013, aggregate annual principal maturities of debt and capital leases (not including amounts associated with interest rate swap agreements, interest on capital leases, and amortization of purchase accounting adjustments) for the five-year period ending December 31, 2018 and thereafter, were $546 million in 2014, $170 million in 2015, $597 million in 2016, $506 million in 2017, $251 million in 2018, and $674 million thereafter.

8. LEASES

The Company had four aircraft classified as capital leases at December 31, 2013, compared to two aircraft classified as capital leases at December 31, 2012. Amounts applicable to these aircraft that are included in property and equipment were:

(in millions)	2013	2012
Flight equipment	$ 69	$ 45
Less: accumulated amortization	12	8
	$ 57	$ 37

Total rental expense for operating leases, both aircraft and other, charged to operations in 2013, 2012, and 2011 was $997 million, $943 million, and $847 million, respectively. The majority of the Company’s terminal operations space, as well as 160 aircraft in the Company's active fleet, were under operating leases at December 31, 2013. For aircraft operating leases and for terminal operations leases, expense is included in Aircraft rentals and in Landing fees and other rentals, respectively, in the Consolidated Statement of Income. Future minimum lease payments under capital leases and noncancelable operating leases and rentals to be received under subleases with initial or remaining terms in excess of one year at December 31, 2013, were:

(in millions)	Capital leases	Operating leases*	Subleases	Operating leases, net
2014	$ 8	$ 689	$ (52)	$ 637
2015	8	655	(90)	565
2016	8	544	(106)	438
2017	8	516	(106)	410
2018	8	429	(102)	327
Thereafter	29	1,755	(242)	1,513
Total minimum lease payments	69	$ 4,588	$ (698)	$ 3,890
Less amount representing interest	13			
Present value of minimum lease payments	56			
Less current portion	6			
Long-term portion	$ 50			

*Includes LFMP airport rental payments of $23 in 2014, $24 in 2015, $24 in 2016, $24 in 2017, $25 in 2018, and $685 thereafter. See Note 4.

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

During fourth quarter 2013, the Company entered into sale and leaseback transactions with a third party aircraft lessor for the sale and leaseback of two Boeing 737-800 aircraft. The transactions were closed on the date of delivery from Boeing, and resulted in the delivery payments being made by the aircraft lessor directly to Boeing, and Southwest being refunded the $12 million in progress payments it had previously made to Boeing during the period the aircraft was being constructed. These transactions resulted in deferred gains that are not material, which are being amortized over the terms of the respective leases, which are both 11 years. Both of the leases from these sale and leaseback transactions are accounted for as operating leases. Under the terms of the lease agreements, the Company will continue to operate and maintain the aircraft. Payments under the lease agreements are fixed. The lease agreements contain standard termination events, including termination upon a breach of the Company's obligations to make rental payments and upon any other material breach of the Company's obligations under the leases, and standard maintenance and return condition provisions. Upon a termination of the lease due to a breach by the Company, the Company would be liable for standard contractual damages, possibly including damages suffered by the lessor in connection with remarketing the aircraft or while the aircraft is not leased to another party.

On July 9, 2012, the Company signed an agreement with Delta Air Lines, Inc. and Boeing Capital Corp. to lease or sublease all 88 of AirTran's Boeing 717-200 aircraft ("B717s") to Delta. The first converted B717 was delivered to Delta during late September 2013, and a total of 13 B717s were delivered to Delta during 2013. Over the expected term of the transition period for all B717s, the Company expects to average approximately three B717 conversions per month. A total of 78 of the B717s are on operating lease, eight are owned, and two are currently classified as capital leases.

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

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

The accounting for this transaction is based on the guidance provided for lease transactions. For the components of this transaction finalized in third quarter 2012 and with respect to which the lease inception has been deemed to occur, the Company recorded a charge of approximately $137 million during third quarter 2012. The charge represents the remaining estimated cost, at the scheduled date of delivery of each B717 to Delta (including the conversion, maintenance, and other contractual costs to be incurred), of the Company's lease of the 78 B717s that are currently accounted for as operating leases, net of the future sublease income from Delta and the remaining unfavorable aircraft lease liability established as of the acquisition date. The charges recorded by the Company for this transaction were included as a component of Acquisition and integration costs in the Company's Consolidated Statement of Income and were included as a component of Other, net in Cash flows from operating activities in the Company's Consolidated Statement of Cash Flows, and the corresponding liability for this transaction is included as a component of Current liabilities and Other noncurrent liabilities in the Company's Consolidated Balance Sheet. See Note 2 for further information on the Company's Acquisition and integration costs. Following the initial recording of the $137 million liability in 2012, the Company paid $9 million in costs associated with the transaction, resulting in a liability balance of $128 million as of December 31, 2012. During 2013, the Company paid $12 million in costs, and recorded $6 million in accretion of the liability, resulting in a liability balance of $122 million as of December 31, 2013. The Company may also incur other costs associated with this transaction, such as potential changes associated with the extension of the time between when the Company removes an aircraft from revenue service and the time it is delivered to Delta. The Company has anticipated a reasonable period of transition time for the conversion process, but for some aircraft this period of time will be longer than anticipated due to the Company's plans to halt all B717 service on or around the end of 2014. The Company will follow "cease-use" date accounting guidance for these instances and thus may incur additional charges at the time the aircraft are removed from service. Any additional charges are not expected to be material.

9. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share (in millions except per share amounts):

	Year ended December 31,		
	2013	2012	2011
NUMERATOR:			
Net income	$ 754	$ 421	$ 178
Incremental income effect of interest on 5.25% convertible notes	3	3	—
Net income after assumed conversion	$ 757	$ 424	$ 178
DENOMINATOR:			
Weighted-average shares outstanding, basic	710	750	774
Dilutive effect of Employee stock options and restricted stock units	2	1	1
Dilutive effect of 5.25% convertible notes	6	6	—
Adjusted weighted-average shares outstanding, diluted	718	757	775
NET INCOME PER SHARE:			
Basic	$ 1.06	$ 0.56	$ 0.23
Diluted	$ 1.05	$ 0.56	$ 0.23
Potentially dilutive amounts excluded from calculations:			
Stock options and restricted stock units	9	35	48
5.25% convertible notes	—	—	6

10. FINANCIAL DERIVATIVE INSTRUMENTS

Fuel contracts

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

The Company has used financial derivative instruments for both short-term and long-term time frames, and primarily uses a mixture of purchased call options, collar structures (which include both a purchased call option and a sold put option), call spreads (which include a purchased call option and a sold call option), and fixed price swap agreements in its portfolio. Although the use of collar structures and swap agreements can reduce the overall cost of hedging, these instruments carry more risk than purchased call options in that the Company could end up in a liability position when the collar structure or swap agreement settles. With the use of purchased call options and call spreads, the Company cannot be in a liability position at settlement, but may be exposed to price changes beyond a certain market price.

The Company evaluates its hedge volumes strictly from an "economic" standpoint and thus does not consider whether the hedges have qualified or will qualify for hedge accounting. The Company defines its "economic" hedge as the net volume of fuel derivative contracts held, including the impact of positions that have been offset through sold positions, regardless of whether those contracts qualify for hedge accounting. The level at which the Company is hedged for a particular period is also dependent on current market prices for that period as well as the types of derivative instruments held and the strike prices of those instruments. For example, the Company may enter into “out-of-the-money” option contracts (including catastrophic protection), which may not generate intrinsic gains at settlement if market prices do not rise above the option strike price. Therefore, even though the Company may have an “economic” hedge in place for a particular period, that hedge may not produce any hedging gains and may even produce hedging losses depending on market prices, the types of instruments held, and the strike prices of those instruments.

For 2013, the Company had fuel derivative instruments in place for 51 percent of its fuel consumption. As of December 31, 2013, the Company also had fuel derivative instruments in place to provide coverage for 43 percent of its 2014 estimated fuel consumption, depending on where market prices settle. The following table provides information about the Company’s volume of fuel hedging for the years 2014 through 2017 on an “economic” basis considering current market prices:

Period (by year)	**Fuel hedged as of December 31, 2013 (gallons in millions)**(a)	**Derivative underlying commodity type as of December 31, 2013**
2014	764	WTI crude, Brent crude oil, GC Jet Fuel
2015	1,156	WTI crude and Brent crude oil
2016	977	Brent crude oil
2017	933	WTI crude and Brent crude oil

(a) The Company determines gallons hedged based on market prices and forward curves as of December 31, 2013. Due to the types of derivatives utilized by the Company, these volumes may vary significantly as market prices fluctuate.

Upon proper qualification, the Company accounts for its fuel derivative instruments as cash flow hedges. Generally, utilizing hedge accounting, all periodic changes in fair value of the derivatives designated as hedges that are considered to be effective are recorded in Accumulated Other Comprehensive Income (Loss) ("AOCI") until the underlying jet fuel is consumed. See Note 12. The Company’s results are subject to the possibility that periodic changes will not be effective, as defined, or that the derivatives will no longer qualify for hedge accounting. Ineffectiveness results when the change in the fair value of the derivative instrument exceeds the change in the value of the Company’s expected future cash outlay to purchase and consume jet fuel. To the extent that the periodic changes in the fair value of the derivatives are ineffective, the ineffective portion is recorded to Other (gains) losses, net in the Consolidated Statement of Income. Likewise, if a hedge ceases to qualify for hedge accounting, any change in the fair value of derivative instruments since the last reporting period is recorded to Other (gains) losses, net, in the Consolidated Statement of Income in the period of the change; however, any amounts previously recorded to AOCI would remain there until such time as the original forecasted transaction occurs, at which time these amounts would be reclassified to Fuel and oil expense. When the Company has sold derivative positions in order to effectively “close” or offset a derivative already held as part of its fuel derivative instrument portfolio, any subsequent changes in fair value of those positions are marked to market through earnings. Likewise, any changes in fair value of those positions that were offset by entering into the sold positions are concurrently marked to market through earnings. However, any changes in value related to hedges that were deferred as part of AOCI while designated as a hedge would remain until the originally forecasted transaction occurs. In a situation where it becomes probable that a fuel hedged forecasted transaction will not occur, any gains and/or losses that have been recorded to AOCI would be required to be immediately reclassified into earnings. The Company did not have any such situations occur during 2011, 2012, or during the year ended December 31, 2013.

In some situations, an entire commodity type used in hedging may cease to qualify for special hedge accounting treatment. As an example, during 2013, the Company's routine statistical analysis performed to determine which commodities qualify for special hedge accounting treatment on a prospective basis dictated that WTI crude oil based derivatives no longer qualify for hedge accounting. This is primarily due to the fact that the correlation between WTI crude oil prices and jet fuel prices during recent periods has not been as strong as in the past, and therefore the Company can no longer demonstrate that derivatives based on WTI crude oil prices will result in effective hedges on a prospective basis. As such, the change in fair value of all of the Company's derivatives based in WTI have been recorded to Other (gains) losses for the second half of 2013, and all future changes in the fair value of such instruments will continue to be recorded directly to earnings in future periods. The change in fair value of the Company's WTI derivative contracts during the second half of 2013 was an increase of $15 million, which resulted in a gain in the Consolidated Statement of Income. Any amounts previously recorded to AOCI will remain there until such time as the original forecasted transaction occurs in accordance with hedge accounting requirements. The Company will continue to evaluate whether it can qualify for hedge accounting for WTI derivative contracts in future periods.

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

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

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

(in millions)	Balance Sheet location	Asset derivatives Fair value at 12/31/2013	Asset derivatives Fair value at 12/31/2012	Liability derivatives Fair value at 12/31/2013	Liability derivatives Fair value at 12/31/2012
Derivatives designated as hedges*					
Fuel derivative contracts (gross)	Prepaid expenses and other current assets	$ 74	$ —	$ —	$ —
Fuel derivative contracts (gross)	Other assets	209	355	1	16
Fuel derivative contracts (gross)	Accrued liabilities	—	—	—	—
Fuel derivative contracts (gross)	Other noncurrent liabilities	—	—	—	—
Interest rate derivative contracts	Other assets	20	31	—	—
Interest rate derivative contracts	Accrued liabilities	—	—	—	—
Interest rate derivative contracts	Other noncurrent liabilities	—	—	77	126
Total derivatives designated as hedges		$ 303	$ 386	$ 78	$ 142
Derivatives not designated as hedges*					
Fuel derivative contracts (gross)	Prepaid expenses and other current assets	$ 175	$ 375	$ 182	$ 327
Fuel derivative contracts (gross)	Other assets	16	233	99	351
Fuel derivative contracts (gross)	Accrued liabilities	9	10	21	60
Fuel derivative contracts (gross)	Other noncurrent liabilities	—	—	—	—
Total derivatives not designated as hedges		$ 200	$ 618	$ 302	$ 738
Total derivatives		$ 503	$ 1,004	$ 380	$ 880

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

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

(in millions)	Balance Sheet location	December 31, 2013	December 31, 2012
Cash collateral deposits provided to counterparties for interest rate contracts - noncurrent	Offset against Other noncurrent liabilities	32	89
Receivable from third parties for fuel contracts - current	Accounts and other receivables	57	—
Receivable from third parties for fuel contracts - noncurrent	Other assets	—	54
Prepaid settlements for fuel contracts - current	Prepaid expenses and other current assets	—	15

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

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

As of December 31, 2013, $31 million had been provided to one counterparty associated with interest rate derivatives based on the Company's outstanding net liability derivative position with that counterparty. In addition, in connection with interest rate swaps entered into by AirTran, $1 million had been provided to one counterparty at December 31, 2013, as a result of the outstanding net liability derivative position with that counterparty. The outstanding interest rate net derivative positions with all other counterparties at December 31, 2013, were assets to the Company.

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

Offsetting of derivative assets
(in millions)

		(i)	(ii)	(iii) = (i) + (ii)	(i)	(ii)	(iii) = (i) + (ii)
		December 31, 2013			December 31, 2012		
Description	**Balance Sheet location**	**Gross amounts of recognized assets**	**Gross amounts offset in the Balance Sheet**	**Net amounts of assets presented in the Balance Sheet**	**Gross amounts of recognized assets**	**Gross amounts offset in the Balance Sheet**	**Net amounts of assets presented in the Balance Sheet**
Fuel derivative contracts	Prepaid expenses and other current assets	$ 249	$ (182)	$ 67 (a)	$ 375	$ (327)	$ 48 (a)
Fuel derivative contracts	Other assets	$ 225	$ (100)	$ 125	$ 588	$ (367)	$ 221
Fuel derivative contracts	Accrued liabilities	$ 9	$ (9)	$ —	$ 10	$ (10)	$ —
Fuel derivative contracts	Other noncurrent liabilities	$ —	$ —	$ —	$ —	$ —	$ —
Interest rate derivative contracts	Other assets	$ 20	$ —	$ 20	$ 31	$ —	$ 31

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

Offsetting of derivative liabilities
(in millions)

		(i)	(ii)	(iii) = (i) + (ii)	(i)	(ii)	(iii) = (i) + (ii)
		December 31, 2013			December 31, 2012		
Description	Balance Sheet location	Gross amounts of recognized liabilities	Gross amounts offset in the Balance Sheet	Net amounts of liabilities presented in the Balance Sheet	Gross amounts of recognized liabilities	Gross amounts offset in the Balance Sheet	Net amounts of liabilities presented in the Balance Sheet
Fuel derivative contracts	Prepaid expenses and other current assets	$ 182	$ (182)	$ —	$ 327	$ (327)	$ —
Fuel derivative contracts	Other assets	$ 100	$ (100)	$ —	$ 367	$ (367)	$ —
Fuel derivative contracts	Accrued liabilities	$ 21	$ (9)	$ 12	$ 60	$ (10)	$ 50
Fuel derivative contracts	Other noncurrent liabilities	$ —	$ —	$ —	$ —	$ —	$ —
Interest rate derivative contracts	Other noncurrent liabilities	$ 77	$ (32)	$ 45	$ 126	$ (89)	$ 37

The net amounts of derivative assets and liabilities are reconciled to the individual line item amounts presented in the Consolidated Balance Sheet in Note 5.

The following tables present the impact of derivative instruments and their location within the Consolidated Statement of Income for the year ended December 31, 2013 and 2012:

Derivatives in cash flow hedging relationships

	(Gain) loss recognized in AOCI on derivatives (effective portion)		(Gain) loss reclassified from AOCI into income (effective portion)(a)		(Gain) loss recognized in income on derivatives (ineffective portion)(b)	
	Year ended December 31,		Year ended December 31,		Year ended December 31,	
(in millions)	2013	2012	2013	2012	2013	2012
Fuel derivative contracts	$ 52 *	$ (19) *	$ 103 *	$ 101 *	$ 10	$ 43
Interest rate derivatives	(14) *	17 *	18 *	(16) *	1	—
Total	$ 38	$ (2)	$ 121	$ 85	$ 11	$ 43

*Net of tax

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

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

Derivatives not in cash flow hedging relationships

	(Gain) loss recognized in income on derivatives		
	Year ended December 31,		
(in millions)	2013	2012	Location of (gain) loss recognized in income on derivatives
Fuel derivative contracts	$ (100)	$ (264)	Other (gains) losses, net

The Company also recorded expense associated with premiums paid for fuel derivative contracts that settled/expired during 2013, 2012, and 2011 of $60 million, $36 million, and $107 million, respectively. These amounts are excluded from the Company's measurement of effectiveness for related hedges and are included as a component of Other (gains) losses, net, in the Consolidated Statement of Income.

The fair values of the derivative instruments, depending on the type of instrument, were determined by the use of present value methods or option value models with assumptions about commodity prices based on those observed in underlying markets or provided by third parties. Included in the Company's cumulative net unrealized losses from fuel hedges as of December 31, 2013, were approximately $28 million in unrealized gains, net of taxes, which are expected to be realized in earnings during the twelve months subsequent to December 31, 2013. In addition, as of December 31, 2013, the Company had already recognized cumulative net gains due to ineffectiveness and derivatives that did not qualify for hedge accounting treatment totaling $57 million, net of taxes. These net gains were recognized in 2013 and prior periods, and are reflected in Retained earnings as of December 31, 2013, but the underlying derivative instruments will not expire/settle until 2014 or future periods.

Interest rate swaps

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

The Company has floating-to-fixed interest rate swap agreements associated with its $600 million floating-rate term loan agreement due 2020 and its $332 million term loan agreement due 2019 that are accounted for as cash flow hedges. These interest rate hedges have fixed the interest rate on the $600 million floating-rate term loan agreement at 5.223% until maturity, and for the $332 million term loan agreement at 6.315% until maturity.

The fair values of the interest rate swap agreements, which are adjusted regularly, have been aggregated by counterparty for classification in the Consolidated Balance Sheet. Agreements totaling an asset of $20 million are fair value hedges and are classified as a component of Other assets. The corresponding adjustment related to the net asset associated with the Company's fair value hedges is to the carrying value of the long-term debt. Agreements totaling a net liability of $77 million are cash flow hedges and are classified as a component of Other noncurrent liabilities. The corresponding adjustment related to the net liability associated with the Company's cash flow hedges is to AOCI. See Note 12.

AirTran has also entered into a number of interest rate swap agreements, which convert a portion of AirTran's floating-rate debt to a fixed-rate basis for the remaining life of the debt, thus reducing the impact of interest rate changes on future interest expense and cash flows. Under these agreements, which expire between 2016 and 2020, it pays fixed rates between 4.35% and 6.435% and receives either three-month or six-month LIBOR on the notional values. The notional amount of outstanding debt related to interest rate swaps as of December 31, 2013, was $275 million. These interest rate swap arrangements were designated as cash flow hedges as of the acquisition date. The ineffectiveness associated with all of the Company's interest rate cash flow hedges for all periods presented was not material.

In June 2012, the Company terminated the AirTran floating-to-fixed interest rate swap agreements related to its Floating-rate 737 Aircraft Notes payable through 2020. These swaps were previously designated as cash flow hedges and the gains and/or losses that had previously been deferred in AOCI, which were not material, are being released to expense/income in accordance with the original debt payment schedule. The release of amounts deferred in AOCI related to these interest rate swap agreements was not material during 2013 and is not expected to have a material effect on the Company's future results of operations.

In December 2012, the Company terminated the fixed-to-floating interest rate swap agreement related to its $100 million 7.375% debentures due 2027. The effect of this termination is such that the interest associated with the debt prospectively reverts back to its original fixed rate. As a result of the approximate $38 million gain realized on this transaction, which will be amortized over the remaining term of the corresponding debentures, and based on projected interest rates at the date of termination, the Company does not believe its future interest expense associated with these debentures will significantly differ from the expense it would have recorded had the debentures remained at floating rates.

As a result of the fixed-to-floating interest rate swap agreement in place, the average floating rate recognized during 2013 for the Company's $300 million 5.75% Notes due 2016 was approximately 2.54 percent, based on actual and forward rates as of December 31, 2013.

Credit risk and collateral

Credit exposure related to fuel derivative instruments is represented by the fair value of contracts that are an asset to the Company at the reporting date. At such times, these outstanding instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company has not experienced any significant credit loss as a result of counterparty nonperformance in the past. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings, limits its exposure with respect to each counterparty, and monitors the market position of the fuel hedging program and its relative market position with each counterparty. At December 31, 2013, the Company had agreements with all of its active counterparties containing early termination rights and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount based on the counterparty credit rating. The Company also had agreements with counterparties in which cash deposits, letters of credit, and/or pledged aircraft are required to be posted whenever the net fair value of derivatives associated with those counterparties exceeds specific thresholds. The following table provides the fair values of fuel derivatives, amounts posted as collateral, and applicable collateral posting threshold amounts as of December 31, 2013, at which such postings are triggered:

(in millions)	Counterparty (CP) A	B	C	D	E	Other(a)	Total
Fair value of fuel derivatives	$ 27	$ 42	$ 41	$ 24	$ 26	$ 20	$ 180
Cash collateral held (by) CP	—	—	—	—	—	—	—
Aircraft collateral pledged to CP	—	—	—	—	—	—	—
Letters of credit (LC)	—	—	—	—	—	—	—
Option to substitute LC for aircraft	(250) to (650)(d)	(100) to (500)(d)	N/A	(250) to (650) (d)	N/A		
Option to substitute LC for cash	N/A	>(500)	(100) to (150)(e)	(50) to (250) or >(650)(d)	N/A		
If credit rating is investment grade, fair value of fuel derivative level at which:							
Cash is provided to CP	(50) to (250) or >(650)	(50) to (100) or >(500)	>(50)	(50) to (250) or >(650)	>(50)		
Cash is received from CP	>50	>150	>175(c)	>200	>30		
Aircraft or cash can be pledged to CP as collateral	(250) to (650)(d)	(100) to (500) (d)	N/A	(250) to (650) (d)	N/A		
If credit rating is non-investment grade, fair value of fuel derivative level at which:							
Cash is provided to CP	(0) to (250) or >(650)	(0) to (100) or >(500)	(b)	(0) to (250) or >(650)	(b)		
Cash is received from CP	(b)	(b)	(b)	(b)	(b)		
Aircraft can be pledged to CP as collateral	(250) to (650)	(100) to (500)	N/A	(250) to (650)	N/A		

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

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

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

(d) The Company has the option of providing cash, letters of credit, or pledging aircraft as collateral. No cash, letters of credit, or aircraft were pledged as collateral with such counterparties as of December 31, 2013.

(e) The Company has the option of providing cash or letters of credit as collateral. No cash or letters of credit were pledged as collateral with such counterparties as of December 31, 2013.

11. FAIR VALUE MEASUREMENTS

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

As of December 31, 2013, the Company held certain items that are required to be measured at fair value on a recurring basis. These included cash equivalents, short-term investments (primarily treasury bills, commercial paper, and certificates of deposit), certain noncurrent investments, interest rate derivative contracts, fuel derivative contracts, and available-for-sale securities. The majority of the Company's short-term investments consist of instruments classified as Level 1. However, the Company has certificates of deposit, commercial paper, and Eurodollar time deposits that are classified as Level 2, due to the fact that the fair value for these instruments is determined utilizing observable inputs in non-active markets. Noncurrent investments consist of certain auction rate securities, primarily those collateralized by student loan portfolios, which are guaranteed by the U.S. Government. Other available-for-sale securities primarily consist of investments associated with the Company's excess benefit plan.

The Company's fuel and interest rate derivative instruments consist of over-the-counter contracts, which are not traded on a public exchange. Fuel derivative instruments include swaps, as well as different types of option contracts, whereas interest rate derivatives consist solely of swap agreements. See Note 10 for further information on the Company's derivative instruments and hedging activities. The fair values of swap contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Therefore, the Company has categorized these swap contracts as Level 2. The Company's Treasury Department, which reports to the Chief Financial Officer, determines the value of option contracts utilizing an option pricing model based on inputs that are either readily available in public markets, can be derived from information available in publicly quoted markets, or are provided by financial institutions that trade these contracts. The option pricing model used by the Company is an industry standard model for valuing options and is the same model used by the broker/dealer community (i.e., the Company's counterparties). The inputs to this option pricing model are the option strike price, underlying price, risk free rate of interest, time to expiration, and volatility. Because certain inputs used to determine the fair value of option contracts are unobservable (principally implied volatility), the Company has categorized these option contracts as Level 3. Volatility information is obtained from external sources, but is analyzed by the Company for reasonableness and compared to similar information received from other external sources. The fair value of option contracts considers both the intrinsic value and any remaining time value associated with those derivatives that have not yet settled. The Company also considers counterparty credit risk and its own credit risk in its determination of all estimated fair values. To validate the reasonableness of the Company's option pricing model, on a monthly basis, the Company compares its option valuations to third party valuations. If any significant differences were to be noted, they would be researched in order to determine the reason. However, historically, no significant differences have been noted. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of derivative contracts it holds.

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

All of the Company's auction rate security instruments, totaling $39 million (net) at December 31, 2013, are classified as available-for-sale securities and are reflected at their estimated fair value in the Consolidated Balance Sheet. The Company's Treasury Department determines the estimated fair values of these securities utilizing a discounted cash flow analysis. The Company has performed, and routinely updates, a valuation for each of its auction rate security instruments, considering, among other items, the collateralization underlying the security investments, the expected future cash flows, including the final maturity, associated with the securities, estimates of the next time the security is expected to have a successful auction or return to full par value, forecasted reset rates based on LIBOR or the issuer's net loan rate, and a counterparty credit spread. To validate the reasonableness of the Company's discounted cash flow analyses, the Company compares its valuations to third party valuations on a quarterly basis.

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

Description	December 31, 2013	Fair value measurements at reporting date using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets		(in millions)		
Cash equivalents				
Cash equivalents (a)	$ 992	$ 992	$ —	$ —
Commercial paper	280	—	280	—
Certificates of deposit	23	—	23	—
Eurodollar Time Deposits	60	—	60	—
Short-term investments:				
Treasury bills	1,570	1,570	—	—
Certificates of deposit	227	—	227	—
Noncurrent investments (b)				
Auction rate securities	39	—	—	39
Interest rate derivatives (see Note 10)	20	—	20	—
Fuel derivatives:				
Swap contracts (c)	16	—	16	—
Option contracts (c)	458	—	—	458
Option contracts (d)	9	—	—	9
Other available-for-sale securities	63	58	—	5
Total assets	$ 3,757	$ 2,620	$ 626	$ 511
Liabilities				
Fuel derivatives:				
Swap contracts (c)	$ (8)	$ —	$ (8)	$ —
Option contracts (c)	(274)	—	—	(274)
Option contracts (d)	(21)	—	—	(21)
Interest rate derivatives (see Note 10)	(77)	—	(77)	—
Deferred compensation	(158)	(158)	—	—
Total liabilities	$ (538)	$ (158)	$ (85)	$ (295)

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

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

(c) In the Consolidated Balance Sheet amounts are presented as a net asset. See Note 10.

(d) In the Consolidated Balance Sheet amounts are presented as a net liability. See Note 10.

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

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

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

(c) In the Consolidated Balance Sheet amounts are presented as a net asset. See Note 10.

(d) In the Consolidated Balance Sheet amounts are presented as a net liability. See Note 10.

The Company had no transfers of assets or liabilities between any of the above levels during the years ended December 31, 2013 or 2012. The Company did not have any assets or liabilities measured at fair value on a nonrecurring basis as of December 31, 2013 or 2012. The following tables present the Company's activity for items measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for 2013 and 2012:

(in millions)	Fuel derivatives		Auction rate securities		Other securities	Total
	Fair value measurements using significant unobservable inputs (Level 3)					
Balance at December 31, 2012	$ 219		$ 36		$ 5	$ 260
Total gains or (losses) (realized or unrealized)						
Included in earnings	71		—		—	71
Included in other comprehensive income	(107)		3		—	(104)
Purchases	357	(a)	—		—	357
Sales	(417)	(a)	—		—	(417)
Settlements	49		—		—	49
Balance at December 31, 2013	$ 172		$ 39	(b)	$ 5	$ 216
The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2013	$ 86		$ —		$ —	$ 86

(a) The purchase and sale of fuel derivatives are recorded gross based on the structure of the derivative instrument and whether a contract with multiple derivatives is purchased as a single instrument or separate instruments.
(b) Included in Other assets in the Consolidated Balance Sheet.

(in millions)	Fuel derivatives		Auction rate securities		Other securities	Total
	Fair value measurements using significant unobservable inputs (Level 3)					
Balance at December 31, 2011	$ 417		$ 67		$ 5	$ 489
Total gains or (losses) (realized or unrealized)						
Included in earnings	(62)		—		—	(62)
Included in other comprehensive income	22		—		—	22
Purchases	1,003	(a)	—		—	1,003
Sales	(1,081)	(a)	(31)		—	(1,112)
Settlements	(80)		—		—	(80)
Balance at December 31, 2012	$ 219		$ 36	(b)	$ 5	$ 260
The amount of total gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2012	$ 27		$ —		$ —	$ 27

(a) The purchase and sale of fuel derivatives are recorded gross based on the structure of the derivative instrument and whether a contract with multiple derivatives is purchased as a single instrument or separate instruments.
(b) Included in Other assets in the Consolidated Balance Sheet.

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

All settlements from fuel derivative contracts that are deemed "effective" are included in Fuel and oil expense in the period the underlying fuel is consumed in operations. Any "ineffectiveness" associated with hedges, including amounts that settled in the current period (realized), and amounts that will settle in future periods (unrealized), is recorded in earnings immediately, as a component of Other (gains) losses, net. See Note 10 for further information on hedging. Any gains and losses (realized and unrealized) related to other investments are reported in Other operating expenses, and were immaterial for 2013 and 2012.

The following table presents a range of the unobservable inputs utilized in the fair value measurements of the Company's assets and liabilities classified as Level 3 at December 31, 2013:

Quantitative information about Level 3 fair value measurements

	Valuation technique	Unobservable input	Period (by year)	Range
Fuel derivatives	Option model	Implied volatility	2014	9-25%
			2015	13-23%
			2016	13-20%
			2017	13-17%
Auction rate securities	Discounted cash flow	Time to principal recovery		5-8 years
		Illiquidity premium		3-4%
		Counterparty credit spread		1-3%

The carrying amounts and estimated fair values of the Company's long-term debt (including current maturities), as well as the applicable fair value hierarchy tier, at December 31, 2013, are presented in the table below. The fair values of the Company's publicly held long-term debt are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets; therefore, the Company has categorized these agreements as Level 2. Six of the Company's debt agreements are not publicly held. The Company has determined the estimated fair value of this debt to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable. The Company utilizes indicative pricing from counterparties and a discounted cash flow method to estimate the fair value of the Level 3 items.

(in millions)	Carrying value	Estimated fair value	Fair value level hierarchy
5.25% Notes due 2014	$ 357	$ 362	Level 2
5.75% Notes due 2016	320	354	Level 2
5.25% Convertible Senior Notes due 2016	115	178	Level 2
5.125% Notes due 2017	322	346	Level 2
Fixed-rate 717 Aircraft Notes payable through 2017 - 10.37%	41	39	Level 2
French Credit Agreements due 2018 - 1.05%	46	46	Level 3
Fixed-rate 737 Aircraft Notes payable through 2018 - 7.02%	30	31	Level 3
Term Loan Agreement due 2019 - 6.315%	210	213	Level 3
Term Loan Agreement due 2019 - 6.84%	85	90	Level 3
Term Loan Agreement due 2020 - 5.223%	413	388	Level 3
Floating-rate 737 Aircraft Notes payable through 2020	340	335	Level 3
Pass Through Certificates due 2022 - 6.24%	371	418	Level 2
7.375% Debentures due 2027	136	146	Level 2

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income includes changes in the fair value of certain financial derivative instruments that qualify for hedge accounting, unrealized gains and losses on certain investments, and actuarial gains/losses arising from the Company's postretirement benefit obligation. A rollforward of the amounts included in AOCI, net of taxes, is shown below for 2013 and 2012:

(in millions)	Fuel derivatives	Interest rate derivatives	Defined benefit plan items	Other	Deferred tax impact	Accumulated other comprehensive income (loss)
Balance at December 31, 2011	$ (297)	$ (107)	$ 54	$ (14)	$ 140	$ (224)
2012 changes in fair value	31	(27)	(28)	6	(73)	(91)
Reclassification to earnings	163	26	—	—	7	196
Balance at December 31, 2012	$ (103)	$ (108)	$ 26	$ (8)	$ 74	$ (119)
2013 changes in fair value	(82)	22	39	16	—	(5)
Reclassification to earnings	165	28	—	—	(72)	121
Balance at December 31, 2013	$ (20)	$ (58)	$ 65	$ 8	$ 2	$ (3)

The following table illustrates the significant amounts reclassified out of each component of AOCI for the year ended December 31, 2013:

Year ended December 31, 2013		
(in millions) AOCI components	Amounts reclassified from AOCI	Affected line item in the Consolidated Statement of Comprehensive Income
Unrealized gain on fuel derivative instruments	$ 165	Fuel and oil expense
	62	Less: Tax Expense
	$ 103	Net of tax
Unrealized gain on interest rate derivative instruments	$ 28	Interest expense
	10	Less: Tax Expense
	$ 18	Net of tax
Total reclassifications for the period	$ 121	Net of tax

13. COMMON STOCK

The Company has one class of capital stock, its common stock. Holders of shares of common stock are entitled to receive dividends when and if declared by the Board of Directors and are entitled to one vote per share on all matters submitted to a vote of the Shareholders. At December 31, 2013, the Company had 29 million shares of common stock reserved for issuance pursuant to Employee stock plans (of which 22 million shares had not been granted) through various share-based compensation arrangements. See Note 14.

14. STOCK PLANS

Share-based compensation

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

The Consolidated Statement of Income for the years ended December 31, 2013, 2012, and 2011, reflects share-based compensation expense of $18 million, $16 million, and $13 million, respectively. The total tax benefit recognized in earnings from share-based compensation arrangements for the years ended December 31, 2013, 2012, and 2011, was not material. As of December 31, 2013, there was $22 million of total unrecognized compensation cost related to share-based compensation arrangements, which is expected to be recognized over a weighted-average period of 1.1 years.

Restricted stock units and stock grants

Under the Company's Amended and Restated 2007 Equity Incentive Plan ("2007 Equity Plan"), it granted restricted stock units ("RSUs") to certain Employees during 2011, 2012, and 2013. In addition, the Company granted approximately 63 thousand shares of unrestricted stock at a weighted average grant price of $14.34 in 2013, approximately 82 thousand shares at a weighted average grant price of $8.21 in 2012, and approximately 33 thousand shares at a weighted average grant price of $12.26 in 2011 to members of its Board of Directors. The fair value of RSUs and unrestricted stock grants is based on the closing price of the Company's common stock on the date of grant. Outstanding RSUs vest over three years, subject to the individual's continued employment or service. The Company recognizes expense on a straight-line basis over the vesting period. A remaining balance of up to 10 million shares of the Company's common stock may be issued pursuant to grants under the 2007 Equity Plan. Aggregated information regarding the Company's RSUs is summarized below:

	RESTRICTED STOCK UNITS	
	Units (000)	**Wtd. Average Fair Value**
Outstanding December 31, 2010	990	$ 12.28
Granted	1,007	12.27
Vested	(327)	12.28
Surrendered	(30)	12.28
Outstanding December 31, 2011	1,640	12.27
Granted	1,939	8.21
Vested	(644)	12.27
Surrendered	(59)	10.54
Outstanding December 31, 2012	2,876	9.57
Granted	1,139	14.34
Vested	(1,263)	10.24
Surrendered	(168)	9.11
Outstanding December 31, 2013	2,584	$ 11.38

Stock options

The Company has previously awarded stock options under plans covering Employees subject to collective bargaining agreements (collective bargaining plans) and plans covering other Employees and members of the Board of Directors (other Employee plans). None of the collective bargaining plans were required to be approved by Shareholders. Options granted to Employees under collective bargaining plans are non-qualified, granted at or above the fair value of the Company's common stock on the date of grant, and generally have terms ranging from six to twelve years. There were no material grants of stock options to Employees covered by collective bargaining plans during 2011, 2012, or 2013. Neither Executive Officers nor members of the Company's Board of Directors are eligible to participate in any of the collective bargaining plans. Options granted to Employees and members of the Board of Directors through other Employee plans are both qualified as incentive stock options under the Internal Revenue Code of 1986 and non-qualified stock options, granted at no less than the fair value of the Company's common stock on the date of grant, and have 10-year terms. All of the options included in other Employee plans have been approved by Shareholders, except one plan covering non-management, non-contract Employees, which did not require Shareholder approval and had an insignificant number of options outstanding as of December 31, 2013. Although the Company does not have a formal policy, upon option exercise, the Company will typically issue treasury stock, to the extent such shares are available.

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of subjective assumptions including expected stock price volatility. The Company estimates expected stock price volatility via observations of both historical volatility trends as well as implied future volatility observations as determined by independent third parties. Stock options issued by the Company during 2013 and 2012 were immaterial.

Aggregated information regarding Company issued stock options is summarized below:

	STOCK OPTION PLANS			
	Options (000)	**Wtd. average exercise price**	**Wtd. average remaining contractual term**	**Aggregate intrinsic value (millions)**
Outstanding December 31, 2010	50,982	$ 14.68		
Granted	—	—		
Exercised	(181)	7.74		
Surrendered	(3,477)	17.38		
Outstanding December 31, 2011	47,324	$ 14.51		
Granted	6	9.00		
Exercised	(573)	8.00		
Surrendered	(27,847)	14.85		
Outstanding December 31, 2012	18,910	$ 14.19		
Granted	—	—		
Exercised	(6,633)	13.31		
Surrendered	(3,116)	14.94		
Outstanding December 31, 2013	9,161	$ 14.58	1.9	$ 39
Vested or expected to vest at December 31, 2013	9,137	$ 14.58	1.9	$ 39
Exercisable at December 31, 2013	8,689	$ 14.49	1.9	$ 38

The total aggregate intrinsic value of options exercised for all plans during the years ended December 31, 2013, 2012, and 2011, was $22 million, $1 million, and $1 million, respectively. The total grant date fair value of shares vesting during the years ended December 31, 2013, 2012, and 2011, was $16 million, $13 million, and $13 million, respectively.

Employee Stock Purchase Plan

Under the amended 1991 Employee Stock Purchase Plan (ESPP), which has been approved by Shareholders, the Company is authorized to issue up to a remaining balance of 11 million shares of the Company's common stock to Employees of the Company. These shares may be issued at a price equal to 90 percent of the market value at the end of each monthly purchase period. Common stock purchases are paid for through periodic payroll deductions. For the years ended December 31, 2013, 2012, and 2011, participants under the plan purchased 1.5 million shares, 2.2

million shares, and 1.7 million shares at average prices of $12.03, $8.01, and $9.73, respectively. The weighted-average fair value of each purchase right under the ESPP granted for the years ended December 31, 2013, 2012, and 2011, which is equal to the ten percent discount from the market value of the Common Stock at the end of each monthly purchase period, was $1.34, $0.89, and $1.03, respectively.

Taxes

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

15. EMPLOYEE RETIREMENT PLANS

Defined contribution plans

Southwest has defined contribution plans covering substantially all of its Employees. Contributions under all defined contribution plans are primarily based on Employee compensation and performance of the Company. The Company sponsors Employee savings plans under section 401(k) of the Internal Revenue Code, which include Company matching contributions. In addition, the Southwest Airlines Co. ProfitSharing Plan (ProfitSharing Plan) is a defined contribution plan to which the Company may contribute a percentage of its eligible pre-tax profits, as defined, on an annual basis. No Employee contributions to the ProfitSharing Plan are allowed. AirTran Employees became eligible to participate in Southwest's ProfitSharing Plan beginning January 1, 2012.

Company contributions to all defined contribution plans expensed in 2013, 2012, and 2011, reflected as a component of Salaries, wages, and benefits, were $497 million, $370 million, and $316 million, respectively.

Postretirement benefit plans

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

The following table shows the change in the accumulated postretirement benefit obligation (APBO) for the years ended December 31, 2013 and 2012:

(in millions)	2013	2012
APBO at beginning of period	$ 148	$ 107
Service cost	30	20
Interest cost	4	4
Benefits paid	(3)	(5)
Credit for prior service	—	17
Actuarial (gain)/loss	(41)	5
APBO at end of period	$ 138	$ 148

During 2013, the Company recorded a $41 million actuarial gain as a decrease to the APBO with an offset to AOCI. This actuarial gain is reflected above and resulted from changes in certain key assumptions used to determine the Company's year-end obligation. The assumption change that resulted in the largest portion of the actuarial gain was the expected participation rate in the Plan for future qualifying retirees, which reflects lower expectations as to utilization of benefits based on recent history.

Also, pursuant to the Merger Agreement between AirTran and Southwest, Southwest Employees that were former AirTran employees are to be given credit for their service with AirTran for purposes of determining eligibility for retiree benefits. This service credit requirement resulted in a $17 million increase to the APBO during 2012, which is being accounted for as prior service cost to be amortized over the average future service of active AirTran employees.

The assumed healthcare cost trend rates have a significant effect on the amounts reported for the consolidated postretirement plans. A one percent change in all healthcare cost trend rates used in measuring the APBO at December 31, 2013, would have the following effects:

(in millions)	1% increase	1% decrease
Increase (decrease) in total service and interest costs	$ 3	$ (3)
Increase (decrease) in the APBO	$ 19	$ (16)

All plans are unfunded, and benefits are paid as they become due. Estimated future benefit payments expected to be paid for each of the next five years and the five years thereafter are $4 million in 2014, $5 million in 2015, $6 million in 2016, $7 million in 2017, $7 million in 2018, and $50 million for the next five years thereafter.

The funded status (the difference between the fair value of plan assets and the projected benefit obligations) of the Company’s consolidated benefit plans are recognized in the Consolidated Balance Sheet, with a corresponding adjustment to AOCI. The following table reconciles the funded status of the plans to the accrued postretirement benefit cost recognized in Other non-current liabilities on the Company’s Consolidated Balance Sheet at December 31, 2013 and 2012.

(in millions)	2013	2012
Funded status	$ (138)	$ (148)
Unrecognized net actuarial gain	(80)	(44)
Unrecognized prior service cost	15	18
Accumulated other comprehensive income	65	26
Cost recognized on Consolidated Balance Sheet	$ (138)	$ (148)

The consolidated periodic postretirement benefit cost for the years ended December 31, 2013, 2012, and 2011, included the following:

(in millions)	2013	2012	2011
Service cost	$ 30	$ 20	$ 17
Interest cost	4	4	4
Amortization of prior service cost	3	—	—
Recognized actuarial gain	(4)	(5)	(6)
Net periodic postretirement benefit cost	$ 33	$ 19	$ 15

Unrecognized prior service cost is expensed using a straight-line amortization of the cost over the average future service of Employees expected to receive benefits under the plans. Actuarial gains are amortized utilizing the minimum amortization method. The following actuarial assumptions were used to account for the Company’s postretirement benefit plans at December 31, 2013, 2012, and 2011:

	2013 (2)	2012 (2)	2011
Wtd-average discount rate	5.05%	2.90%	4.05%
Assumed healthcare cost trend rate (1)	7.50%	8.00%	7.50%

(1) The assumed healthcare cost trend rate is assumed to remain at 7.5% for 2014, then decline gradually to 5.0% by 2024 and remain level thereafter.
(2) Includes AirTran plans.

The selection of a discount rate is made annually and is selected by the Company based upon comparison of the expected future cash flows associated with the Company's future payments under its consolidated postretirement obligations to a yield curve created using high quality bonds that closely match those expected future cash flows. This rate increased during 2013 due to both market conditions and a longer expected participant service period. The assumed healthcare trend rate is also reviewed at least annually and is determined based upon both historical experience with the Company's healthcare benefits paid and expectations of how those trends may or may not change in future years.

16. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities at December 31, 2013 and 2012, are as follows:

(in millions)	2013	2012
DEFERRED TAX LIABILITIES:		
Accelerated depreciation	$ 4,069	$ 3,939
Fuel derivative instruments	36	33
Other	84	70
Total deferred tax liabilities	4,189	4,042
DEFERRED TAX ASSETS:		
Fuel derivative instruments	8	40
Deferred gains from sale and leaseback of aircraft	24	24
Capital and operating leases	163	179
Construction obligation	168	127
Accrued engine maintenance	90	84
Accrued employee benefits	307	281
State taxes	74	77
Business partner income	457	339
Net operating losses and credit carryforwards	14	83
Other	118	170
Total deferred tax assets	1,423	1,404
Net deferred tax liability	$ 2,766	$ 2,638

The provision for income taxes is composed of the following:

(in millions)	2013	2012	2011
CURRENT:			
Federal	$ 355	$ (45)	$ 4
State	44	12	13
Total current	399	(33)	17
DEFERRED:			
Federal	62	287	122
State	(6)	10	6
Total deferred	56	297	128
	$ 455	$ 264	$ 145

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

(in millions)	2013	2012	2011
Tax at statutory U.S. tax rates	$ 423	$ 240	$ 114
Nondeductible items	10	10	13
State income taxes, net of federal benefit	25	14	13
Other, net	(3)	—	5
Total income tax provision	$ 455	$ 264	$ 145

During 2013, the Company continues to maintain and did not adjust, a $5 million liability for unrecognized tax benefits, the majority of which related to AirTran's tax positions in prior years.

As of December 31, 2013, the Company had net operating loss ("NOL") carryforwards of approximately $34 million from its federal tax return. These NOL's are available to offset future taxable income. At a 35 percent federal statutory tax rate, these NOL's result in a deferred tax asset of $12 million, as of December 31, 2013, which represents the expected future tax benefit of the NOL's, and which is netted against the Company's Deferred income tax liability in the Consolidated Balance Sheet. These NOL's will expire from 2017 to 2031 if not utilized. No valuation allowance was necessary. See Note 2 for further information on the acquisition of AirTran. The only periods subject to examination for the Company's federal tax return are the 2012 and 2013 tax years.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Southwest Airlines Co.

We have audited the accompanying consolidated balance sheet of Southwest Airlines Co. as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southwest Airlines Co. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Southwest Airlines Co.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated February 3, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas
February 3, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Southwest Airlines Co.

We have audited Southwest Airlines Co.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). Southwest Airlines Co.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Annual Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Southwest Airlines Co. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Southwest Airlines Co. as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 and our report dated February 3, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas
February 3, 2014

QUARTERLY FINANCIAL DATA
(unaudited)

(in millions except per share amounts)	THREE MONTHS ENDED March 31	June 30	Sept. 30	Dec. 31
2013				
Operating revenues	$ 4,084	$ 4,643	$ 4,545	$ 4,428
Operating income	70	433	390	386
Income before income taxes	94	363	419	334
Net income	59	224	259	212
Net income per share, basic	0.08	0.31	0.37	0.30
Net income per share, diluted	0.08	0.31	0.37	0.30

	March 31	June 30	Sept. 30	Dec. 31
2012				
Operating revenues	$ 3,991	$ 4,616	$ 4,309	$ 4,173
Operating income	22	460	51	91
Income (loss) before income taxes	159	368	33	125
Net income (loss)	98	228	16	78
Net income (loss) per share, basic	0.13	0.30	0.02	0.11
Net income (loss) per share, diluted	0.13	0.30	0.02	0.11

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

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures. The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2013. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2013, at the reasonable assurance level.

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

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

Management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (1992 Framework). Based on this evaluation, management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective.

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

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. ***Other Information***

None.

PART III

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

Directors and Executive Officers

The information required by this Item 10 regarding the Company's directors will be set forth under the heading "Proposal 1 — Election of Directors" in the Proxy Statement for the Company's 2014 Annual Meeting of Shareholders and is incorporated herein by reference. The information required by this Item 10 regarding the Company's executive officers is set forth under the heading "Executive Officers of the Registrant" in Part I of this Form 10-K and is incorporated herein by reference.

Section 16(a) Compliance

The information required by this Item 10 regarding compliance with Section 16(a) of the Exchange Act will be set forth under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement for the Company's 2014 Annual Meeting of Shareholders and is incorporated herein by reference.

Corporate Governance

Except as set forth in the following paragraph, the remaining information required by this Item 10 will be set forth under the heading "Corporate Governance" in the Proxy Statement for the Company's 2014 Annual Meeting of Shareholders and is incorporated herein by reference.

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

Item 11. ***Executive Compensation***

The information required by this Item 11 will be set forth under the headings "Compensation of Executive Officers" and "Compensation of Directors" in the Proxy Statement for the Company's 2014 Annual Meeting of Shareholders and is incorporated herein by reference.

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

Except as set forth below regarding securities authorized for issuance under equity compensation plans, the information required by this Item 12 will be set forth under the heading "Voting Securities and Principal Shareholders" in the Proxy Statement for the Company's 2014 Annual Meeting of Shareholders and is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2013, regarding compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)		Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights* (b)		Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)	
Equity Compensation Plans Approved by Security Holders	9,611,722	(1)	$ 15.02	(2)	21,506,906	(3)
Equity Compensation Plans not Approved by Security Holders	2,134,009		$ 13.13		—	
Total	11,745,731		$ 14.58	(2)	21,506,906	

* As adjusted for stock splits.

(1) Includes 7,027,378 shares of common stock issuable upon exercise of outstanding stock options and 2,584,344 restricted share units settleable in shares of the Company's common stock.

(2) The weighted-average exercise price does not take into account the restricted share units discussed in footnote (1) above because the restricted share units do not have an exercise price upon vesting.

(3) Of these shares, (i) 11,382,155 shares remained available for issuance under the Company's tax-qualified employee stock purchase plan; and (ii) 10,124,751 shares remained available for issuance under the Company's 2007 Equity Incentive Plan in connection with the exercise of stock options and stock appreciation rights, the settlement of awards of restricted stock, restricted stock units, and phantom shares, and the grant of unrestricted shares of common stock; however, no more than 721,983 shares remain available for grant in connection with awards of unrestricted shares of common stock, stock-settled phantom shares, and awards to non-Employee members of the Board. These shares are in addition to the shares reserved for issuance pursuant to outstanding awards included in column (a).

See Note 14 to the Consolidated Financial Statements for information regarding the material features of the above plans. Each of the above plans provides that the number of shares with respect to which options may be granted, the number of shares of common stock subject to an outstanding option, and the number of restricted share units granted shall be proportionately adjusted in the event of a subdivision or consolidation of shares or the payment of a stock dividend on common stock, and the purchase price per share of outstanding options shall be proportionately revised.

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

The information required by this Item 13 will be set forth under the heading "Certain Relationships and Related Transactions, and Director Independence" in the Proxy Statement for the Company's 2014 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. *Principal Accounting Fees and Services*

The information required by this Item 14 will be set forth under the heading "Relationship with Independent Auditors" in the Proxy Statement for the Company's 2014 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) 1. *Financial Statements:*

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

2. *Financial Statement Schedules:*

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

3. Exhibits:

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)).
4.2	Indenture dated as of February 14, 2005, between the Company and The Bank of New York Trust Company, N.A., Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated February 14, 2005 (File No. 1-7259)).
4.3	Indenture dated as of September 17, 2004, between the Company and Wells Fargo Bank, N.A., Trustee (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed October 30, 2002 (File No. 333-100861)).
4.4	Indenture dated as of February 25, 1997, between the Company and U.S. Trust Company of Texas, N.A. (incorporated by reference to Exhibit 4.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)).
	The Company is not filing any other instruments evidencing any indebtedness because the total amount of securities authorized under any single such instrument does not exceed 10 percent of its total consolidated assets. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.
10.1	Purchase Agreement No. 1810, dated January 19, 1994, between The Boeing Company and the Company (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-7259)); Supplemental Agreement No. 1 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)); Supplemental Agreements Nos. 2, 3, and 4 (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-7259)); Supplemental Agreements Nos. 5, 6, and 7 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-7259)); Supplemental Agreements Nos. 8, 9, and 10 (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended

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10.11	Southwest Airlines Co. 2002 SWAPA Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed August 27, 2002 (File No. 333-98761)).
10.12	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)).
10.13	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)).
10.14	Southwest Airlines Co. 2002 Mechanics Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed October 30, 2002 (File No. 333-100862)).
10.15	Southwest Airlines Co. 2002 Ramp, Operations, Provisioning and Freight Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)).
10.16	Southwest Airlines Co. 2002 Customer Service/Reservations Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)); Amendment No. 1 to the Company's 2002 Customer Service/Reservations Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed April 2, 2003 (File No. 333-104245)).
10.17	Southwest Airlines Co. 2003 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File No. 1-7259)). (2)
10.18	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)
10.19	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)
10.20	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)
10.21	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)
10.22	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)
10.23	Amended and Restated Southwest Airlines Co. 2005 Excess Benefit Plan (as amended and restated effective for plan years beginning on and after January 1, 2009) (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
10.24	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)).

10.25	Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan Form of Notice of Grant and Terms and Conditions for Restricted Stock Unit grants (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-7259)). (2)
10.26	$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)).
10.27	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)). (1)
10.27(a)	Supplemental Agreement No. 3 to Purchase Agreement No. 3729, dated December 13, 2011, between The Boeing Company and the Company. (1)
10.28	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)
21	Subsidiaries of the Company.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. (3)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.
(2) Management contract or compensatory plan or arrangement.
(3) This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

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

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 3, 2014

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)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on February 3, 2014, on behalf of the registrant and in the capacities indicated.

Signature	Title
/s/ GARY C. KELLY **Gary C. Kelly**	Chairman of the Board, President, & Chief Executive Officer (Principal Executive Officer)
/s/ TAMMY ROMO **Tammy Romo**	Senior Vice President Finance & Chief Financial Officer (Principal Financial & Accounting Officer)
/s/ DAVID W. BIEGLER **David W. Biegler**	Director
/s/ J. VERONICA BIGGINS **J. Veronica Biggins**	Director
/s/ DOUGLAS H. BROOKS **Douglas H. Brooks**	Director
/s/ WILLIAM H. CUNNINGHAM **William H. Cunningham**	Director
/s/ JOHN G. DENISON **John G. Denison**	Director
/s/ NANCY B. LOEFFLER **Nancy B. Loeffler**	Director
/s/ JOHN T. MONTFORD **John T. Montford**	Director
/s/ THOMAS M. NEALON **Thomas M. Nealon**	Director
/s/ DANIEL D. VILLANUEVA **Daniel D. Villanueva**	Director

INDEX TO THE 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)).
4.2	Indenture dated as of February 14, 2005, between the Company and The Bank of New York Trust Company, N.A., Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated February 14, 2005 (File No. 1-7259)).
4.3	Indenture dated as of September 17, 2004, between the Company and Wells Fargo Bank, N.A., Trustee (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed October 30, 2002 (File No. 333-100861)).
4.4	Indenture dated as of February 25, 1997, between the Company and U.S. Trust Company of Texas, N.A. (incorporated by reference to Exhibit 4.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-7259)).
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10.12	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)).
10.13	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)).
10.14	Southwest Airlines Co. 2002 Mechanics Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed October 30, 2002 (File No. 333-100862)).
10.15	Southwest Airlines Co. 2002 Ramp, Operations, Provisioning and Freight Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)).
10.16	Southwest Airlines Co. 2002 Customer Service/Reservations Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 1-7259)); Amendment No. 1 to the Company's 2002 Customer Service/Reservations Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8 filed April 2, 2003 (File No. 333-104245)).
10.17	Southwest Airlines Co. 2003 Non-Qualified Stock Option Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (File No. 1-7259)). (2)
10.18	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)
10.19	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)
10.20	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)
10.21	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)
10.22	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)

10.23	Amended and Restated Southwest Airlines Co. 2005 Excess Benefit Plan (as amended and restated effective for plan years beginning on and after January 1, 2009) (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-7259)). (2)
10.24	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)).
10.25	Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan Form of Notice of Grant and Terms and Conditions for Restricted Stock Unit grants (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 1-7259)). (2)
10.26	$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)).
10.27	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)). (1)
10.27(a)	Supplemental Agreement No. 3 to Purchase Agreement No. 3729, dated December 13, 2011, between The Boeing Company and the Company. (1)
10.28	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)
21	Subsidiaries of the Company.
23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer. (3)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.
(2) Management contract or compensatory plan or arrangement.
(3) This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

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

Supplemental Agreement No. 85

to

Purchase Agreement No. 1810

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

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

THIS SUPPLEMENTAL AGREEMENT is entered into as of November 4, 2013, by and between THE BOEING COMPANY, a Delaware corporation with principal offices in Seattle, Washington, (**Boeing**) and SOUTHWEST AIRLINES CO., a Texas corporation with principal offices in Dallas, Texas (**Buyer**).

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

WHEREAS, Boeing and Buyer agree to amend the Purchase Agreement by substituting the purchase of nineteen (19) Boeing Model 737-800 aircraft in place of the nineteen (19) undelivered firm Block 700LUV Aircraft identified in the table immediately below pursuant to Letter Agreement SWA-PA-1810-LA-1105883, "Aircraft Model Substitution," to the Purchase Agreement.

Delivery Month	Quantity	Manufacturer Serial Number (MSN)
Jan-2015	2	36899, 42535
Feb-2015	3	36901,36654*, 36906*
Mar-2015	3	36902, 36936, 36655*
Apr-2015	3	36649, 36652, 36656*
May-2015	2	36903, 36657*
Nov-2015	3	36937*, 36940, 36715
Dec-2015	3	35976, 36734, 36941

* Indicates that the delivery month is revised concurrently with substitution.

<u>*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.</u>**

WHEREAS, Boeing and Buyer agree to amend the Purchase Agreement by revising the delivery month of two (2) Block 800LUV Aircraft as identified in the table immediately below.

Delivery Month	Revised Delivery Month	MSN
Sep-2014	Aug-2014	36935
Sep-2014	Aug-2014	42528

WHEREAS, Boeing and Buyer agree to amend the Purchase Agreement by substituting the purchase of twenty (20) Boeing Model 737-8 aircraft in place of the twenty (20) undelivered firm Block 700LUV and Block 800LUV Aircraft identified in the table immediately below (**Subject Firm Aircraft**) pursuant to Letter Agreement 6-1162-KJJ-057, "Product Development Matters," to the Purchase Agreement. The Subject Firm Aircraft will be moved to Purchase Agreement No. PA-03729 between Boeing and Buyer together with certain business considerations applicable to the Subject Firm Aircraft.

Delivery Month	Quantity	Manufacturer Serial Number (MSN)
Oct-2014	2	36732, 38806
Nov-2014	1	37043
Feb-2015	2	42536, 36722
Mar-2015	2	42537, 36727
Apr-2015	2	42538, 38815
May-2015	2	42539, 38817
Jun-2015	1	42540
Jul-2015	1	42541
Aug-2015	2	42542, 35967
Sep-2015	2	42543, 36730
Oct-2015	2	33940, 35974
Nov-2015	1	35975

WHEREAS, Boeing and Buyer agree that Boeing will ***

WHEREAS, Boeing and Buyer agree that ***

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

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

2. Table 1a, “Aircraft Delivery, Description, Price and Advance Payments - Block 700LUV Aircraft,” to the Purchase Agreement is deleted in its entirety and a new Table 1b is attached hereto and incorporated into the Purchase Agreement by this reference.

3. Table 1c, “Aircraft Information Table - Block 800LUV Aircraft (non-ETOPS Configuration),” to the Purchase Agreement is deleted in its entirety and a new Table 1b is attached hereto and incorporated into the Purchase Agreement by this reference.

4. Attachment B to Exhibit E, “Buyer Furnished Equipment Variables,” of the Purchase Agreement is deleted in its entirety and a new Attachment B (identified by “SA-85”) is attached hereto and incorporated into the Purchase Agreement by this reference.

5. Letter Agreement SWA-PA-1810-LA-1001315R2, *** to the Purchase Agreement is deleted in its entirety and replaced with a revised Letter Agreement SWA-PA-1810-LA-1001315R3, attached hereto and incorporated in the Purchase Agreement by this reference.

6. Attachment A to Letter Agreement No. SWA-PA-1810-LA-1001315R2, *** to the Purchase Agreement is deleted in its entirety and a new Attachment A (identified by “SA-85”) is attached hereto and incorporated into the Purchase Agreement by this reference.

7. Letter Agreement SWA-PA-1810-LA-1105888R3, *** to the Purchase Agreement is deleted in its entirety and replaced with a revised Letter Agreement SWA-PA-1810-LA-1105888R4, attached hereto and incorporated in the Purchase Agreement by this reference.

8. New Letter Agreement SWA-PA-1810-LA-1303010, *** to the Purchase Agreement is attached hereto and incorporated in the Purchase Agreement by this reference.

9. If Buyer owes Boeing any additional Advance Payment amounts as a result of the execution of this Supplemental Agreement, Buyer will pay such amounts to Boeing. If as a result of the execution of this Supplemental Agreement, there is any excess in Advance Payments made by Buyer to Boeing, Boeing will retain such excess amounts until the next Advance Payment is due, at which time Buyer may reduce the amount of such Advance Payment by the amount of such excess. A reconciliation regarding changes in Advance Payments arising from this Supplemental Agreement will be provided separately to Buyer by Boeing.

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

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY	SOUTHWEST AIRLINES CO.
By: /s/ Jeff Solomon	By: /s/ Chris Monroe
Its: Attorney-In-Fact	Its: Chris Monroe VP, Treasurer

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RESTRICTED LETTER AGREEMENTS

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ADDITIONAL LETTERS (FOR REFERENCE) - *INACTIVE (as of SA-82)*

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

INACTIVE / DELETED TABLES, EXHIBITS, AND LETTER AGREEMENTS

TABLE

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

EXHIBITS

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

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Exhibits	Title	Last Updated under SA	Current Status
A-4	Aircraft Configuration - 737-700 Block T-W-2b Aircraft	SA-66	Inactive
C.2	737-800 Customer Support Variables	SA-71	Deleted under SA-75
D	Price Adjustment Due to Economic Fluctuations - Aircraft Price Adjustment (July 1992 Base Price)		Inactive
D-1	Price Adjustment Due to Economic Fluctuations - Aircraft Price Adjustment (July 1999 Base Price)	SA-13	Inactive
E.2	737-800 Buyer Furnished Equipment Provisions Document	SA-73	Deleted under SA-75

RESTRICTED LETTER AGREEMENTS

Letter Agreement	Title	Last Updated under SA	Current Status
6-1162-RLL-933R21	Option Aircraft	SA-60	Deleted under SA-75
6-1162-RLL-935R1	Performance Guarantees	SA-1	Inactive
6-1162-RLL-936R4	Certain Contractual Matters	SA-4	Inactive
6-1162-RLL-937	Alternate Advance Payment Schedule		Inactive
6-1162-RLL-938	***		Inactive
6-1162-RLL-939R1	Certification Flight Test Aircraft	SA-1	Inactive
6-1162-RLL-940R1	Training Matters	SA-1	Inactive
6-1162-RLL-942	Open Configuration Matters		Inactive
6-1162-RLL-943R1	Substitution Rights	SA-6	Deleted under SA-75
6-1162-RLL-944	***		Inactive
6-1162-RLL-945	Comparison of 737-7H4 and 737-3H4 Block Fuel Burn		Inactive
6-1162-RLL-1855R3	Additional Contractual Matters	SA-4	Inactive
6-1162-RLL-1856	***	SA-1	Inactive
6-1162-RLL-1857	Service Ready Validation Program Field Test	SA-1	Inactive
6-1162-RLL-1858R1	Escalation Matters	SA-4	Inactive
6-1162-RLL-2036	Amortization of Costs for Customer Unique Changes	SA-1	Inactive

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Table 1a to

Purchase Agreement No. PA-1810

Aircraft Delivery, Description, Price and Advance Payments

Block 700LUV Aircraft

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

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Aircraft Serial Number		Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Jan-2016	2	***	36650, 36735		***	***	***	***	***
Feb-2016	3	***	36904, 36932, 36737		***	***	***	***	***
Mar-2016	2	***	36651, 36738		***	***	***	***	***
Apr-2016	3	***	36653, 36938, 36723		***	***	***	***	***
May-2016	3	***	36658, 36939, 33937		***	***	***	***	***
Jun-2016	1	***	36916		***	***	***	***	***
Jul-2016	3	***	36921, 36945, 33942		***	***	***	***	***
Aug-2016	4	***	36678, 36661, 35965, 36728		***	***	***	***	***
Sep-2016	3	***	36977, 36923, 41530		***	***	***	***	***
Oct-2016	3	***	36666, 38812, 38813		***	***	***	***	***
Nov-2016	3	***	36670, 38814, 41531		***	***	***	***	***
Dec-2016	1	***	38816		***	***	***	***	***
Jan-2017	2	***	42532, 36910	Note 1	***	***	***	***	***
Feb-2017	2	***	36969, 36970		***	***	***	***	***
Feb-2017	1	***	36922	Note 1	***	***	***	***	***
Mar-2017	1	***	36972		***	***	***	***	***

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

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Aircraft Serial Number		Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Mar-2017	2	***	36946, 36949	Note 1	***	***	***	***	***
Apr-2017	1	***	36974		***	***	***	***	***
Apr-2017	1	***	36927	Note 1	***	***	***	***	***
May-2017	1	***	36975		***	***	***	***	***
May-2017	2	***	36925, 36944	Note 1	***	***	***	***	***
Jun-2017	1	***	36976		***	***	***	***	***
Jun-2017	1	***	36943	Note 1	***	***	***	***	***
Jan-2018	1	***	36926	Note 1	***	***	***	***	***
Feb-2018	1	***	42545		***	***	***	***	***
Feb-2018	1	***	42533	Note 1	***	***	***	***	***
Mar-2018	2	***	42534, 36928	Note 1	***	***	***	***	***
Apr-2018	3	***	36968, 36952, 36954	Note 1	***	***	***	***	***
May-2018	2	***	36951, 36957	Note 1	***	***	***	***	***
Total:	**56**								

Notes:

1) The Advance Payment Base Price is determined using the escalation factor from Boeing's 4th Qtr 2011 forecast.

Table 1c to
Purchase Agreement No. PA-1810
Aircraft Delivery, Description, Price and Advance Payments
Block 800LUV Aircraft (non-ETOPS Configuration)

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

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Aircraft Serial Number	Escalation Forecast	Sub-Block *Note 2*	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Sep-2013	3	* * *	36933, 36912, 36914	* * *		* * *	* * *	* * *	* * *	* * *
Nov-2013	3	* * *	36915, 33939, 42526	* * *		* * *	* * *	* * *	* * *	* * *
Dec-2013	3	* * *	36917, 36919, 36731	* * *		* * *	* * *	* * *	* * *	* * *
Mar-2014	1	* * *	37004	* * *		* * *	* * *	* * *	* * *	* * *
Apr-2014	4	* * *	42384, 36894, 36895, 36896	* * *		* * *	* * *	* * *	* * *	* * *
May-2014	3	* * *	36897, 42385, 42521	* * *		* * *	* * *	* * *	* * *	* * *
Jun-2014	4	* * *	36898, 36905, 42522, 42523	* * *		* * *	* * *	* * *	* * *	* * *
Jun-2014	2	* * *	tbd, tbd	* * *	OPEX	* * *	* * *	* * *	* * *	* * *
Jul-2014	1	* * *	36911	* * *		* * *	* * *	* * *	* * *	* * *
Jul-2014	3	* * *	tbd, tbd, tbd	* * *	OPEX	* * *	* * *	* * *	* * *	* * *
Aug-2014	**6**	* * *	36907, 42524,35973, 42525, **36935, 42528**	* * *		* * *	* * *	* * *	* * *	* * *
Sep-2014	**2**	* * *	42527, 42531	* * *		* * *	* * *	* * *	* * *	* * *

Table 1c to
Purchase Agreement No. PA-1810
Aircraft Delivery, Description, Price and Advance Payments
Block 800LUV Aircraft (non-ETOPS Configuration)

Delivery Date	Number of Aircraft	Escalation Factor (Airframe)	Aircraft Serial Number	Escalation Forecast	Sub-Block *Note 2*	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Oct-2014	**2**	* * *	36909, 36920	* * *		* * *	* * *	* * *	* * *	* * *
Nov-2014	**1**	* * *	36971	* * *		* * *	* * *	* * *	* * *	* * *
Dec-2014	2	* * *	37037, 37045	* * *		* * *	* * *	* * *	* * *	* * *
Dec-2014	2	* * *	42529, 42530	* * *		* * *	* * *	* * *	* * *	* * *
Jan-2015	**2**	* * *	**36899, 42535**	* * *		* * *	* * *	* * *	* * *	* * *
Feb-2015	**3**	* * *	**36901, 36654, 36906**	* * *		* * *	* * *	* * *	* * *	* * *
Mar-2015	**3**	* * *	**36902, 36936, 36655**	* * *		* * *	* * *	* * *	* * *	* * *
Apr-2015	**3**	* * *	**36649, 36652, 36656**	* * *		* * *	* * *	* * *	* * *	* * *
May-2015	**2**	* * *	**36903, 36657**	* * *		* * *	* * *	* * *	* * *	* * *
Nov-2015	**3**	* * *	**36937, 36715, 36940**	* * *		* * *	* * *	* * *	* * *	* * *
Dec-2015	**3**	* * *	**36941, 36734, 35976**	* * *		* * *	* * *	* * *	* * *	* * *
Total:	**61**									

Notes:

1) * * *

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

BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODEL737-7H4 and 737-8H4 AIRCRAFT

This Attachment B to Exhibit E of Purchase Agreement No. 1810 contains supplier selection dates, preliminary on-dock dates and other requirements applicable to the 737-7H4 Aircraft and 737-8H4 Aircraft.

Supplier Selection for 737-8H4 Aircraft.

Buyer will select and notify Boeing of the suppliers and part numbers of the following BFE items by the following dates:

Galley System	~~March 1, 2011~~ Completed
Galley Inserts	~~March 1, 2011~~ Completed
Seats (passenger)	~~January 17, 2011~~ Completed
Miscellaneous Emergency Equipment	~~March 1, 2011~~ Completed

Preliminary On-dock Dates for 737-7H4 Aircraft & 737-8H4 Aircraft.

For planning purposes, preliminary BFE on-dock dates are set forth below:

	Preliminary On-Dock Dates Month of Delivery						
Item	**Mar 2012**	**Apr 2012**	**May 2012**	**Jun-2012**	**Jul 2012**	**Aug 2012**	**Sep 2012**
Seats	1/23/2012	2/21/2012	3/22/2012	4/20/2012	5/22/2012	6/21/2012	7/23/2012
Galleys/Furnishings	1/16/2012	2/14/2012	3/15/2012	4/13/2012	5/15/2012	6/14/2012	7/16/2012
Antennas & Mounting Equipment	11/23/2011	12/21/2011	1/23/2012	2/20/2012	3/22/2012	4/20/2012	5/23/2012
Avionics	1/16/2012	2/14/2012	3/15/2012	4/13/2012	5/15/2012	6/14/2012	7/16/2012
Cabin Systems Equipment	1/16/2012	2/14/2012	3/15/2012	4/13/2012	5/15/2012	6/14/2012	7/16/2012
Miscellaneous Emergency Equipment	1/16/2012	2/14/2012	3/15/2012	4/13/2012	5/15/2012	6/14/2012	7/16/2012
Textiles/Raw Material	9/29/2011	10/28/2011	12/1/2011	1/10/2012	2/9/2012	3/9/2012	4/9/2012
Cargo Systems (Single Aisle Programs)	1/3/2012	1/31/2012	3/1/2012	3/30/2012	5/1/2012	5/31/2012	7/2/2012
Provision Kits (Single Aisle Programs)	9/2/2011	9/30/2011	11/1/2011	11/30/2011	1/3/2012	1/31/2012	3/2/2012
Radomes (Single Aisle Programs)	12/16/2011	1/13/2012	2/15/2012	3/13/2012	4/16/2012	5/14/2012	6/15/2012

	Preliminary On-Dock Dates Month of Delivery						
Item	**Oct 2012**	**Nov 2012**	**Dec 2012**	**Jan-2013**	**Feb-2013**	**Mar-2013**	**Apr-2013**
Seats	8/23/2012	9/20/2012	10/23/2012	11/20/2012	12/13/2012	1/23/2013	2/20/2013
Galleys/Furnishings	8/16/2012	9/13/2012	10/16/2012	11/13/2012	12/6/2012	1/16/2013	2/13/2013
Antennas & Mounting Equipment	6/22/2012	7/20/2012	8/23/2012	9/20/2012	10/12/2012	11/21/2012	12/20/2012
Avionics	8/16/2012	9/13/2012	10/16/2012	11/13/2012	12/6/2012	1/16/2013	2/13/2013
Cabin Systems Equipment	8/16/2012	9/13/2012	10/16/2012	11/13/2012	12/6/2012	1/16/2013	2/13/2013
Miscellaneous Emergency Equipment	8/16/2012	9/13/2012	10/16/2012	11/13/2012	12/6/2012	1/16/2013	2/13/2013
Textiles/Raw Material	5/10/2012	6/7/2012	7/11/2012	8/8/2012	8/29/2012	10/1/2012	10/29/2013
Cargo Systems (Single Aisle Programs)	8/2/2012	8/30/2012	10/2/2012	10/30/2012	11/21/2012	1/2/2013	1/30/2013
Provision Kits (Single Aisle Programs)	4/2/2012	4/30/2012	6/1/2012	6/29/2012	7/20/2012	9/4/2012	10/1/2012
Radomes (Single Aisle Programs)	7/16/2012	8/13/2012	9/17/2012	10/12/2012	11/6/2012	12/17/2012	1/13/2013

	Preliminary On-Dock Dates Month of Delivery						
Item					**Sep 2013**	**Oct 2013**	**Nov 2013**
Seats					7/23/2013	8/22/2013	9/20/2013
Galleys/Furnishings					7/16/2013	8/15/2013	9/13/2013
Antennas & Mounting Equipment					5/23/2013	6/21/2013	7/19/2013
Avionics					7/16/2013	8/15/2013	9/13/2013
Cabin Systems Equipment					7/16/2013	8/15/2013	9/13/2013
Miscellaneous Emergency Equipment					7/16/2013	8/15/2013	9/13/2013
Textiles/Raw Material					4/9/2013	5/9/2013	6/7/2013
Cargo Systems (Single Aisle Programs)					7/2/2013	8/1/2013	8/30/2013
Provision Kits (Single Aisle Programs)					3/1/2013	4/1/2013	4/30/2013
Radomes (Single Aisle Programs)					6/17/2013	7/15/2013	8/13/2013

	Preliminary On-Dock Dates Month of Delivery						
Item	**Dec 2013**			**Mar-2014**	**Apr 2014**	**May 2014**	**Jun 2014**
Seats	10/23/2013			1/23/2014	2/20/2014	3/21/2014	4/22/2014
Galleys/Furnishings	10/16/2013			1/16/2014	2/13/2014	3/14/2014	4/15/2014
Antennas & Mounting Equipment	8/23/2013			11/22/2013	12/20/2013	1/21/2014	2/21/2014
Avionics	10/16/2013			1/16/2014	2/13/2014	3/14/2014	4/15/2014
Cabin Systems Equipment	10/16/2013			1/16/2014	2/13/2014	3/14/2014	4/15/2014
Miscellaneous Emergency Equipment	10/16/2013			1/16/2014	2/13/2014	3/14/2014	4/15/2014
Textiles/Raw Material	7/11/2013			10/1/2013	10/29/2013	11/27/2013	1/9/2014
Cargo Systems (Single Aisle Programs)	10/2/2013			1/2/2014	1/30/2014	3/1/2014	4/2/2014
Provision Kits (Single Aisle Programs)	6/3/2013			9/3/2013	9/30/2013	11/1/2013	12/2/2013
Radomes (Single Aisle Programs)	10/11/2013			12/16/2013	1/13/2014	2/14/2014	3/14/2014

	Preliminary On-Dock Dates Month of Delivery						
Item	**Jul 2014**	**Aug 2014**	**Sep 2014**	**Oct 2014**	**Nov 2014**	**Dec 2014**	**Jan 2015**
Seats	5/21/2014	6/20/2014	7/23/2014	8/21/2014	9/23/2014	10/24/2014	11/18/2014
Galleys/Furnishings	5/14/2014	6/13/2014	7/16/2014	8/14/2014	9/16/2014	10/17/2014	11/11/2014
Antennas & Mounting Equipment	3/21/2014	6/13/2014	5/23/2014	6/20/2014	7/23/2014	8/25/2014	9/18/2014
Avionics	5/14/2014	4/21/2014	7/16/2014	8/14/2014	9/16/2014	10/17/2014	11/11/2014
Cabin Systems Equipment	5/14/2014	4/21/2014	7/16/2014	8/14/2014	9/16/2014	10/17/2014	11/11/2014
Miscellaneous Emergency Equipment	5/14/2014	4/21/2014	7/16/2014	8/14/2014	9/16/2014	10/17/2014	11/11/2014
Textiles/Raw Material	2/7/2014	3/10/2014	4/9/2014	5/8/2014	6/10/2014	7/14/2014	8/6/2014
Cargo Systems (Single Aisle Programs)	5/1/2014	5/30/2014	7/2/2014	7/31/2014	9/2/2014	10/3/2014	10/28/2014
Provision Kits (Single Aisle Programs)	1/2/2014	1/30/2014	3/3/2014	3/31/2014	5/2/2014	8/4/2014	6/27/2014
Radomes (Single Aisle Programs)	4/14/2014	5/13/2014	6/16/2014	7/14/2014	8/15/2014	9/17/2014	10/10/2014

	Preliminary On-Dock Dates Month of Delivery					
Item	**Feb 2015**	**Mar 2015**	**Apr 2015**	**May 2015**		
Seats	12/15/2014	1/22/2015	2/19/2015	3/23/2015		
Galleys/Furnishings	12/8/2014	1/15/2015	2/12/2015	3/16/2015		
Antennas & Mounting Equipment	10/15/2014	11/21/2014	12/19/2014	1/23/2015		
Avionics	12/8/2014	1/15/2015	2/12/2015	3/16/2015		
Cabin Systems Equipment	12/8/2014	1/15/2015	2/12/2015	3/16/2015		
Miscellaneous Emergency Equipment	12/8/2014	1/15/2015	2/12/2015	3/16/2015		
Textiles/Raw Material	8/29/2014	11/17/2014	10/28/2014	12/1/2014		
Cargo Systems (Single Aisle Programs)	11/24/2014	1/2/2015	1/29/2015	3/2/2015		
Provision Kits (Single Aisle Programs)	7/24/2014	9/2/2014	9/29/2014	11/2/2015		
Radomes (Single Aisle Programs)	11/7/2014	12/15/2014	1/12/2015	2/16/2015		

	Preliminary On-Dock Dates Month of Delivery					
Item				**Nov 2015**	**Dec 2015**	**Jan 2016**
Seats				9/22/2015	10/22/2015	11/18/2015
Galleys/Furnishings				9/15/2015	10/15/2015	11/11/2015
Antennas & Mounting Equipment				7/22/2015	8/21/2015	9/18/2016
Avionics				9/15/2015	10/15/2015	11/11/2015
Cabin Systems Equipment				9/15/2015	10/15/2015	11/11/2015
Miscellaneous Emergency Equipment				9/15/2015	10/15/2015	11/11/2015
Textiles/Raw Material				6/9/2015	7/10/2015	8/6/2015
Cargo Systems (Single Aisle Programs)				9/1/2015	10/1/2015	10/28/2015
Provision Kits (Single Aisle Programs)				5/1/2015	6/1/2015	6/29/2015
Radomes (Single Aisle Programs)				8/14/2015	9/15/2015	10/12/2015

	Preliminary On-Dock Dates Month of Delivery					
Item	**Feb 2016**	**Mar 2016**	**Apr 2016**	**May 2016**	**Jun 2016**	**Jul 2016**
Seats	12/15/2015	1/21/2016	2/19/2016	3/23/2016	4/21/2016	5/20/2016
Galleys/Furnishings	12/8/2015	1/14/2016	2/12/2016	3/16/2016	4/14/2016	5/13/2016
Antennas & Mounting Equipment	10/15/2015	11/20/2015	12/18/2015	1/22/2016	2/22/2016	3/21/2016
Avionics	12/8/2015	1/14/2016	2/12/2016	3/16/2016	4/14/2016	5/13/2016
Cabin Systems Equipment	12/8/2015	1/14/2016	2/12/2016	3/16/2016	4/14/2016	5/13/2016
Miscellaneous Emergency Equipment	12/8/2015	1/14/2016	2/12/2016	3/16/2016	4/14/2016	5/13/2016
Textiles/Raw Material	8/31/2015	9/29/2015	10/28/2015	12/2/2015	1/11/2016	2/9/2016
Cargo Systems (Single Aisle Programs)	11/24/2015	12/23/2015	1/29/2016	3/2/2016	3/31/2016	4/29/2016
Provision Kits (Single Aisle Programs)	7/24/2015	8/24/2015	9/29/2015	11/2/2105	12/1/2015	12/23/2015
Radomes (Single Aisle Programs)	11/9/2015	12/14/2015	1/12/2016	2/16/2016	3/14/2016	4/13/2016

	Preliminary On-Dock Dates Month of Delivery					
Item	**Aug 2016**	**Sep 2016**	**Oct 2016**	**Nov 2016**	**Dec 2016**	**Jan 2017**
Seats	6/22/2015	7/21/2016	8/23/2016	9/22/2016	10/21/2016	11/18/2016
Galleys/Furnishings	6/15/2016	7/14/2016	8/16/2016	9/15/2016	10/14/2016	11/11/2016
Antennas & Mounting Equipment	4/22/2016	5/20/2016	6/23/2016	7/22/2016	8/22/2106	9/19/2016
Avionics	6/15/2016	7/14/2016	8/16/2016	9/15/2016	10/14/2016	11/11/2016
Cabin Systems Equipment	6/15/2016	7/14/2016	8/16/2016	9/15/2016	10/14/2016	11/11/2016
Miscellaneous Emergency Equipment	6/15/2016	7/14/2016	8/16/2016	9/15/2016	10/14/2016	11/11/2016
Textiles/Raw Material	3/10/2016	4/7/2016	5/10/2016	6/9/2016	7/11/2016	8/9/2016
Cargo Systems (Single Aisle Programs)	6/1/2016	7/1/2016	8/2/2016	9/1/2016	10/1/2016	10/28/2016
Provision Kits (Single Aisle Programs)	2/1/2016	3/1/2016	4/1/2016	5/2/2016	6/1/2016	6/28/2016
Radomes (Single Aisle Programs)	5/16/2016	5/13/2016	7/15/2016	8/15/2016	9/14/2016	10/11/2016

	Preliminary On-Dock Dates Month of Delivery					
Item	**Feb 2017**	**Mar 2017**	**Apr 2017**	**May 2017**	**Jun 2017**	
Seats	12/14/2016	1/23/2017	2/20/2017	3/23/2017	4/20/2017	
Galleys/Furnishings	12/7/2016	1/16/2017	2/13/2017	3/16/2017	4/13/2017	
Antennas & Mounting Equipment	10/14/2016	11/23/2016	12/20/2016	1/23/2017	2/20/2017	
Avionics	12/7/2016	1/16/2017	2/13/2017	3/16/2017	4/13/2017	
Cabin Systems Equipment	12/7/2016	1/16/2017	2/13/2017	3/16/2017	4/13/2017	
Miscellaneous Emergency Equipment	12/7/2016	1/16/2017	2/13/2017	3/16/2017	4/13/2017	
Textiles/Raw Material	8/30/2016	9/29/2016	10/27/2016	12/1/2016	1/9/2017	
Cargo Systems (Single Aisle Programs)	11/23/2016	1/3/2017	1/30/2017	3/2/2017	3/30/3017	
Provision Kits (Single Aisle Programs)	7/22/2016	9/2/2016	9/30/2016	11/2/2016	11/30/2016	
Radomes (Single Aisle Programs)	12/14/2016	1/23/2017	1/13/2017	2/16/2017	3/13/2017	

Preliminary On-Dock Dates for deliveries from January 2018 to May 2018 are TBD.

Additional Delivery Requirements - Import.

Buyer will be the "**importer of record**" (as defined by the U.S. Customs and Border Protection) for all BFE imported into the United States, and as such, it has the responsibility to ensure all of Buyer's BFE shipments comply with U.S. Customs Service regulations. In the event Buyer requests Boeing, in writing, to act as importer of record for Buyer's BFE, and Boeing agrees to such request, Buyer is responsible for ensuring Boeing can comply with all U.S. Customs Import Regulations by making certain that, at the time of shipment, all BFE shipments comply with the requirements in the "International Shipment Routing Instructions", including the Customs Trade Partnership Against Terrorism (**C-TPAT**), as set out on the Boeing website referenced below. Buyer agrees to include the International Shipment Routing Instructions, including C-TPAT requirements, in each contract between Buyer and BFE supplier.

http://www.boeing.com/companyoffices/doingbiz/supplier_portal/index_general.html

The Boeing Company
P. O. Box 3707
Seattle, WA 98124-2207

SWA-PA-1810-LA-1001315**R3**

Southwest Airlines Co.
2707 Love Field Drive
P.O. Box 36611
Dallas, Texas 75235

Subject: ***

This Letter Agreement amends Purchase Agreement No. 1810 dated as of January 19, 1994 (the Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Buyer) relating to Model 737-7H4 and 737-8H4 aircraft (Aircraft).

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

***

1. ***

2. ***

3. ***

4. ***

5. ***

6. Assignment.

Notwithstanding any other provisions of the Agreement, the rights and obligations described in this Letter Agreement, *** have been provided to Buyer and cannot be assigned, in whole or in part.

7. Confidential Treatment

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Buyer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Buyer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this Section) without the prior written consent of Boeing and (c) any auditors and attorneys of Buyer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this Section, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Buyer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Jeff Solomon

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 4, 2013

SOUTHWEST AIRLINES CO.

By /s/ Chris Monroe
Chris Monroe
Its VP, Treasurer

***

Letter Agmt SWA-PA-1810-LA-1001315R3; paragraph 3

No.	Model	Aircraft Block	MSN's	Current Delivery Mo.	Base Year	***
1	737-700	T-W-2b	36962	July-11	1999	***
2	737-700	T-W-2b	36963	July-11	1999	***
3	737-700	T-W-2b	36965	August-11	1999	***
4	737-700	T-W-2b	36967	October-11	1999	***
5	737-800	800LUV	36980	March-12	2011	***
6	737-800	800LUV	36983	April-12	2011	***
7	737-800	800LUV	36985	May-12	2011	***
8	737-800	800LUV	36987	May-12	2011	***
9	737-800	800LUV	36990	July-12	2011	***
10	737-800	800LUV	36992	August-12	2011	***
11	737-800	800LUV	36994	September-12	2011	***
12	737-800	800LUV	37003	November-12	2011	***
13	737-800	800LUV	37009	December-12	2011	***
14	737-800	800LUV	36973	March-13	2011	***
15	737-800	800LUV	36998	March-13	2011	***
16	737-800	800LUV	36908	April-13	2011	***
17	737-800	800LUV	36933	September-13	2011	***
18	737-800	800LUV	42526	November-13	2011	
19	737-800	800LUV	37004	March-14	2011	
20	737-800	800LUV	42521	May-14	2011	
21	737-800	800LUV	42522	June-14	2011	
22	737-800	800LUV	*tbd*	June-14	2011	
23	737-800	800LUV	*tbd*	June-14	2011	
24	737-800	800LUV	42523	June-14	2011	
25	737-800	800LUV	*tbd*	July-14	2011	
26	737-800	800LUV	*tbd*	July-14	2011	
27	737-800	800LUV	*tbd*	July-14	2011	
28	737-800	800LUV	42524	August-14	2011	
29	737-800	800LUV	42525	August-14	2011	
30	737-800	800LUV	36935	**August-14**	2011	
31	737-800	800LUV	42527	September-14	2011	
32	737-800	800LUV	42528	**August-14**	2011	
33	737-800	800LUV	42531	September-14	2011	
34	737-800	800LUV	36909	October-14	2011	
35	737-800	800LUV	42529	December-14	2011	
36	737-800	800LUV	42530	December-14	2011	
37	737-800	800LUV	37045	December-14	2011	
38	737-800	800LUV	37037	December-14	2011	
39	737-**800**	**800LUV**	42535	January-15	2011	
40	737-**800**	**800LUV**	36940	November-15	2011	
41	737-700	700LUV	36938	April-16	2011	
42	737-700	700LUV	36939	May-16	2011	
43	737-700	700LUV	36945	July-16	2011	
44	737-700	700LUV	36977	September-16	2011	
45	737-700	700LUV	42532	January-17	2011	
46	737-700	700LUV	36910	January-17	2011	
47	737-700	700LUV	36970	February-17	2011	
48	737-700	700LUV	36969	February-17	2011	

49	737-700	700LUV	36972	March-17	2011
50	737-700	700LUV	36927	April-17	2011
51	737-700	700LUV	36974	April-17	2011
52	737-700	700LUV	36925	May-17	2011
53	737-700	700LUV	36975	May-17	2011
54	737-700	700LUV	36976	June-17	2011
55	737-700	700LUV	36926	January-18	2011
56	737-700	700LUV	42533	February-18	2011
57	737-700	700LUV	42545	February-18	2011
58	737-700	700LUV	42534	March-18	2011
59			*tbd*		
60			*tbd*		
61			*tbd*		
62			*tbd*		

BOEING

The Boeing Company P. O. Box 3707 Seattle, WA 98124-2207

SWA-PA-1810-LA-1105888R4

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

Subject: ***

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

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

***

1. ***

2. Termination of Agreements relating to Large Area Display System. Boeing and Buyer hereby terminate all agreements relating to the installation of large area display systems on Buyer's 737-300/-500 aircraft in Buyer's fleet (**LADS Project**). *** Boeing and Buyer hereby agree that neither party shall have any further obligations with respect to the LADS Project.

3. ***

*** Aircraft by MSN	
36717	33943
34861	33925
33923	36724
36718	33917
33929	34479
36399	34862
33927	35110
33928	33918
35109	33930
35788	33931
36091	33921
33926	33922
33919	36725
33934	33933
33924	36716

4. Assignment.

The business terms described in this Letter Agreement are provided *** in consideration of Buyer's taking title to the Firm Aircraft and Option Aircraft at time of delivery and becoming the operator of the Firm Aircraft and Option Aircraft. Under no circumstances will Buyer be permitted to assign the business terms set forth herein.

5. Confidentiality

Buyer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Buyer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Buyer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this paragraph) without the prior written consent of Boeing and (c) any auditors and attorneys of Buyer who have a need to know such information and have signed a confidentiality agreement in the same form and substance
similar to this paragraph, or are otherwise bound by a

confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Buyer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Jeff Solomon

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 4, 2013

SOUTHWEST AIRLINES CO.

By /s/ Chris Monroe
Chris Monroe
Its VP, Treasurer

The Boeing Company P. O. Box 3707 Seattle, WA 98124-2207

SWA-PA-1810-LA-1303010

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

Subject: ***

Reference: (a) Purchase Agreement No. PA-1810 (**Purchase Agreement**) between The Boeing Company (**Boeing**) and Southwest Airlines Co. (**Buyer**) relating to Model 737-7H4 and 737-8H4 aircraft (**Aircraft**)
(b) Letter Agreement SWA-PA-1810-LA-1005885R3, ***
(c) Letter Agreement SWA-PA-1810-LA-1003490R3, ***

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

***

1. ***

2. Assignment.

The business terms described in this Letter Agreement are provided *** in consideration of Buyer's taking title to the Aircraft at time of delivery and becoming the operator of the Aircraft. Under no circumstances will Buyer be permitted to assign the business terms set forth herein.

3. Confidentiality.

Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-RLL-934, as amended.

Very truly yours,

THE BOEING COMPANY

By /s/ Jeff Solomon

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 4, 2013

Southwest Airlines Co.

By /s/ Chris Monroe
Chris Monroe
Its VP, Treasurer

SUPPLEMENTAL AGREEMENT NO. 3

to

Purchase Agreement No. 3729

between

THE BOEING COMPANY

and

SOUTHWEST AIRLINES CO.

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

THIS SUPPLEMENTAL AGREEMENT, entered into as of November 4, 2013, is made between THE BOEING COMPANY, a Delaware corporation (**Boeing**), and SOUTHWEST AIRLINES CO., a Texas corporation (**Customer**);

Customer and Boeing entered into Purchase Agreement Number PA-03729 dated December 13, 2011, as amended and supplemented, (**Purchase Agreement**) relating to the purchase and sale of Boeing Model 737-8 and Model 737-7 aircraft; and this Supplemental Agreement No. 3 is an amendment to and is incorporated into the Purchase Agreement:

WHEREAS, Boeing and Customer agree to amend the Purchase Agreement to document Customer's substitution of twenty (20) firm Model 737-700 and Model 737-800 aircraft (**Substitution Aircraft**) to firm Model 737-8 aircraft (**New Firm -8 Aircraft**), exercised pursuant to the terms of SA-85 to Purchase Agreement No. 1810 between Customer and Boeing (**SA-85**);

NOW, THEREFORE, the parties agree that the Purchase Agreement is amended as set forth below and otherwise agree as follows:

1. The Table of Contents of the Purchase Agreement is deleted in its entirety and a new Table of Contents is attached hereto and incorporated into the Purchase Agreement by this reference.
2. Table 1A, "737-8 Aircraft Delivery, Description, Price and Advance Payments", to the Purchase Agreement is deleted in its entirety and a new Table 1A (identified by "SA-3") is attached hereto and incorporated into the Purchase Agreement by this reference.
3. Attachment 1 to Letter Agreement SWA-PA-03729-LA-1106474, "Option Aircraft", is deleted in its entirety and replaced with a new Attachment 1 (identified by

*****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.**

"SA-3") attached hereto and incorporated into the Purchase Agreement by this reference.

4. Letter Agreement SWA-PA-03729-LA-1301168, ***, is deleted in its entirety and replaced with the attached revised Letter Agreement SWA-PA-03729-LA-1301168R1, ***.

5. If Customer owes Boeing any additional Advance Payment amounts as a result of the execution of this Supplemental Agreement, Customer will pay such amounts to Boeing. If as a result of the execution of this Supplemental Agreement, there is any excess in Advance Payments made by Customer to Boeing, Boeing will retain such excess amounts until the next Advance Payment is due, at which time Customer may reduce the amount of such Advance Payment by the amount of such excess. A reconciliation regarding changes in Advance Payments arising from this Supplemental Agreement will be provided separately to Customer by Boeing.

6. The Purchase Agreement is amended as set forth above, and all other terms and conditions of the Purchase Agreement remain unchanged and are in full force and effect.

AGREED AND ACCEPTED this

November 4, 2013
Date

THE BOEING COMPANY	SOUTHWEST AIRLINES CO.
/s/ Jeff Solomon	/s/ Chris Monroe
Signature	Signature
Jeff Solomon	Chris Monroe
Printed name	Printed name
Attorney-in-Fact	VP Treasurer
Title	Title

PURCHASE AGREEMENT NUMBER PA-03729
between
THE BOEING COMPANY
and
Southwest Airlines Co.
Relating to Boeing Model 737-8 and 737-7 Aircraft

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SWA-PA-03729-LA-1106469R1	***	SA-2
SWA-PA-03729-LA-1106470R1	***	SA-2
SWA-PA-03729-LA-1106471R1	Substitute Aircraft	SA-2
SWA-PA-03729-LA-1106472R1	***	SA-2
SWA-PA-03729-LA-1106473	***	
SWA-PA-03729-LA-1106474	Option Aircraft	
	Attachment 1	**SA-3**
SWA-PA-03729-LA-1106475	***	
SWA-PA-03729-LA-1106476*	***	
SWA-PA-03729-LA-1106477*	***	
SWA-PA-03729-LA-1106478	***	
SWA-PA-03729-LA-1106479R1	***	SA-2
SWA-PA-03729-LA-1106480R1	***	SA-2
SWA-PA-03729-LA-1106481R2	***	SA-2
SWA-PA-03729-LA-1106482*	***	
SWA-PA-03729-LA-1106483*	***	
SWA-PA-03729-LA-1106484*	***	
	Attachment A	SA-2
	Attachment B	SA-2
SWA-PA-03729-LA-1106485*	***	

LETTER AGREEMENTS	TITLES	
SWA-PA-03729-LA-1209080	***	SA-1
SWA-PA-03729-LA-1210419	***	SA-1
SWA-PA-03729-LA-1300943	***	SA-2
SWA-PA-03729-LA-1301168**R1**	***	**SA-3**
SWA-PA-01810/03729-LA-1301169	***	SA-2
SWA-PA-03729-LA-1301170	***	SA-2

* Denotes revision to Page 1 or Page 2 only to reference 737-7 (SA-2)

Table 1A to
Purchase Agreement No. PA-03729
Aircraft Delivery, Description, Price and Advance Payments
737-8 Aircraft

Airframe Model/MTOW:	737-8	175900 pounds	**Detail Specification:**	D019A001-TBD (10/27/2011)	2Q11 External Fcst
Engine Model/Thrust:	CFMLEAP-1B26	tbd	**Airframe Price Base Year/Escalation Formula:**	Jul-11	ECI-MFG/CPI
Airframe Price:		***	**Engine Price Base Year/Escalation Formula:**	N/A	N/A
Optional Features:		***			
Sub-Total of Airframe and Features:		***	**Airframe Escalation Data:**		
Engine Price (Per Aircraft):		***	**Base Year Index (ECI):**	***	
Aircraft Basic Price (Excluding BFE/SPE):		***	**Base Year Index (CPI):**	***	
Buyer Furnished Equipment (BFE) Estimate:		***			
//Seller Purchased Equipment (SPE)/In-Flight Entertainment (IFE)// Estimate:		***			

Delivery Date*	Number of Aircraft	Escalation Factor (Airframe)	Manufacturer Serial Number	Aircraft Block	Notes	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Jul-2017	1	***	36929	A	Note 1	***	***	***	***	***
Jul-2017	2	***		C	Note 1	***	***	***	***	***
Aug-2017	3	***	36979, 36930, 36984	A	Note 1	***	***	***	***	***
Aug-2017	3	***		C	Note 1	***	***	***	***	***
Sep-2017	1	***	36934	A	Note 1	***	***	***	***	***
Oct-2017	1	***	36988	A		***	***	***	***	***
Oct-2017	1	***		C		***	***	***	***	***
Nov-2017	1	***	36989	A		***	***	***	***	***
Nov-2017	1	***		C		***	***	***	***	***
Jan-2018	1	***	42544	A		***	***	***	***	***
Jan-2018	1	***		C		***	***	***	***	***
Mar-2018	1	***		C		***	***	***	***	***
Jun-2018	1	***	42546	A		***	***	***	***	***
Jul-2018	1	***	42547	A		***	***	***	***	***
Jul-2018	1	***		C		***	***	***	***	***
Aug-2018	1	***	42548	A		***	***	***	***	***
Sep-2018	1	***				***	***	***	***	***
Sep-2018	1	***	37019	A		***	***	***	***	***

Table 1A to
Purchase Agreement No. PA-03729
Aircraft Delivery, Description, Price and Advance Payments
737-8 Aircraft

Delivery Date*	Number of Aircraft	Escalation Factor (Airframe)	Manufacturer Serial Number	Aircraft Block	Notes	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Oct-2018	1	***				***	***	***	***	***
Oct-2018	1	***	42549	A		***	***	***	***	***
Nov-2018	1	***				***	***	***	***	***
Dec-2018	1	***				***	***	***	***	***
Jan-2019	1	***				***	***	***	***	***
Jan-2019	1	***	37042	A		***	***	***	***	***
Feb-2019	1	***	42550	A		***	***	***	***	***
Mar-2019	1	***	42551	A		***	***	***	***	***
Jul-2019	1	***				***	***	***	***	***
Jul-2019	1	***	37034	A		***	***	***	***	***
Sep-2019	1	***				***	***	***	***	***
Oct-2019	1	***				***	***	***	***	***
Oct-2019	1	***	42552	A		***	***	***	***	***
Dec-2019	1	***				***	***	***	***	***
Jan-2020	1	***	42553	A		***	***	***	***	***
Feb-2020	1	***				***	***	***	***	***
Feb-2020	1	***	35970	B		***	***	***	***	***
Mar-2020	1	***				***	***	***	***	***
Mar-2020	1	***	35968	B		***	***	***	***	***
Apr-2020	1	***				***	***	***	***	***
Apr-2020	1	***	35972	B		***	***	***	***	***
May-2020	1	***				***	***	***	***	***
May-2020	1	***	36736	B		***	***	***	***	***
Jun-2020	1	***				***	***	***	***	***
Jun-2020	1	***	33941	B		***	***	***	***	***
Jul-2020	1	***				***	***	***	***	***
Jul-2020	1	***	35963	B		***	***	***	***	***
Aug-2020	1	***				***	***	***	***	***
Aug-2020	1	***	36733	B		***	***	***	***	***

Table 1A to

Purchase Agreement No. PA-03729

Aircraft Delivery, Description, Price and Advance Payments

737-8 Aircraft

Delivery Date*	Number of Aircraft	Escalation Factor (Airframe)	Manufacturer Serial Number	Aircraft Block	Notes	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Sep-2020	1	* * *				* * *	* * *	* * *	* * *	* * *
Sep-2020	1	* * *	35971	B		* * *	* * *	* * *	* * *	* * *
Oct-2020	1	* * *				* * *	* * *	* * *	* * *	* * *
Oct-2020	1	* * *	38804	B		* * *	* * *	* * *	* * *	* * *
Nov-2020	1	* * *				* * *	* * *	* * *	* * *	* * *
Nov-2020	1	* * *	38805	B		* * *	* * *	* * *	* * *	* * *
Dec-2020	1	* * *				* * *	* * *	* * *	* * *	* * *
Jan-2021	1	* * *				* * *	* * *	* * *	* * *	* * *
Jan-2021	1	* * *	36729	B		* * *	* * *	* * *	* * *	* * *
Feb-2021	3	* * *				* * *	* * *	* * *	* * *	* * *
Mar-2021	3	* * *				* * *	* * *	* * *	* * *	* * *
Apr-2021	3	* * *				* * *	* * *	* * *	* * *	* * *
May-2021	3	* * *				* * *	* * *	* * *	* * *	* * *
Jun-2021	3	* * *				* * *	* * *	* * *	* * *	* * *
Jul-2021	3	* * *				* * *	* * *	* * *	* * *	* * *
Aug-2021	3	* * *				* * *	* * *	* * *	* * *	* * *
Sep-2021	3	* * *				* * *	* * *	* * *	* * *	* * *
Oct-2021	3	* * *				* * *	* * *	* * *	* * *	* * *
Nov-2021	2	* * *				* * *	* * *	* * *	* * *	* * *
Dec-2021	2	* * *				* * *	* * *	* * *	* * *	* * *
Jan-2022	3	* * *				* * *	* * *	* * *	* * *	* * *
Feb-2022	3	* * *				* * *	* * *	* * *	* * *	* * *
Mar-2022	3	* * *				* * *	* * *	* * *	* * *	* * *
Apr-2022	3	* * *				* * *	* * *	* * *	* * *	* * *
May-2022	3	* * *				* * *	* * *	* * *	* * *	* * *
Jun-2022	3	* * *				* * *	* * *	* * *	* * *	* * *
Jul-2022	2	* * *				* * *	* * *	* * *	* * *	* * *
Aug-2022	2	* * *				* * *	* * *	* * *	* * *	* * *
Sep-2022	2	* * *				* * *	* * *	* * *	* * *	* * *

Table 1A to
Purchase Agreement No. PA-03729
Aircraft Delivery, Description, Price and Advance Payments
737-8 Aircraft

		Escalation	Manufacturer			Escalation Estimate	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery):			
Delivery Date*	Number of Aircraft	Factor (Airframe)	Serial Number	Aircraft Block	Notes	Adv Payment Base Price Per A/P	At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Oct-2022	2	***				***	***	***	***	***
Nov-2022	2	***				***	***	***	***	***
Dec-2022	2	***				***	***	***	***	***
Jan-2023	2	***				***	***	***	***	***
Feb-2023	2	***				***	***	***	***	***
Mar-2023	1	***				***	***	***	***	***
Mar-2023	1	***	36732	B		***	***	***	***	***
Apr-2023	1	***				***	***	***	***	***
Apr-2023	1	***	38806	B		***	***	***	***	***
May-2023	1	***				***	***	***	***	***
May-2023	1	***	37043	A		***	***	***	***	***
Jun-2023	1	***				***	***	***	***	***
Jun-2023	1	***	42536	A		***	***	***	***	***
Jul-2023	1	***				***	***	***	***	***
Jul-2023	1	***	36722	B		***	***	***	***	***
Aug-2023	1	***				***	***	***	***	***
Aug-2023	1	***	42537	A		***	***	***	***	***
Sep-2023	1	***				***	***	***	***	***
Sep-2023	1	***	36727	B		***	***	***	***	***
Oct-2023	1	***				***	***	***	***	***
Oct-2023	1	***	42538	A		***	***	***	***	***
Nov-2023	1	***				***	***	***	***	***
Nov-2023	1	***	38815	B		***	***	***	***	***
Dec-2023	1	***				***	***	***	***	***
Dec-2023	1	***	42539	A		***	***	***	***	***
Jan-2024	2	***				***	***	***	***	***
Feb-2024	2	***				***	***	***	***	***
Mar-2024	1	***				***	***	***	***	***
Mar-2024	1	***	38817	B		***	***	***	***	***

Table 1A to
Purchase Agreement No. PA-03729
Aircraft Delivery, Description, Price and Advance Payments
737-8 Aircraft

Delivery Date*	Number of Aircraft	Escalation Factor (Airframe)	Manufacturer Serial Number	Aircraft Block	Notes	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Apr-2024	1	***				***	***	***	***	***
Apr-2024	1	***	42540	A		***	***	***	***	***
May-2024	1	***				***	***	***	***	***
May-2024	1	***	42541	A		***	***	***	***	***
Jun-2024	1	***				***	***	***	***	***
Jun-2024	1	***	42542	A		***	***	***	***	***
Jul-2024	1	***				***	***	***	***	***
Jul-2024	1	***	35967	B		***	***	***	***	***
Aug-2024	1	***				***	***	***	***	***
Aug-2024	1	***	42543	A		***	***	***	***	***
Sep-2024	1	***				***	***	***	***	***
Sep-2024	1	***	36730	B		***	***	***	***	***
Oct-2024	1	***				***	***	***	***	***
Oct-2024	1	***	33940	B		***	***	***	***	***
Nov-2024	1	***				***	***	***	***	***
Nov-2024	1	***	35974	B		***	***	***	***	***
Dec-2024	1	***				***	***	***	***	***
Dec-2024	1	***	35975	B		***	***	***	***	***
Total:	18									

* ***

Notes:
1) ***

Attachment 1 To
Letter Agreement No. LA 1106474
Option Aircraft Delivery, Description, Price and Advance Payments

Airframe Model/MTOW:	737-8	175900 pounds	**Detail Specification:**	D019A007-NEW (11/4/2011)	
Engine Model/Thrust:	CFMLEAP-1B26	0 pounds	**Airframe Price Base Year/Escalation Formula:**	Jul-11	ECI-MFG/CPI
Airframe Price:		* * *	**Engine Price Base Year/Escalation Formula:**	N/A	N/A
Optional Features:		* * *			
Sub-Total of Airframe and Features:		* * *	**Airframe Escalation Data:**		
Engine Price (Per Aircraft):		* * *	**Base Year Index (ECI):**	* * *	
Aircraft Basic Price (Excluding BFE/SPE):		* * *	**Base Year Index (CPI):**	* * *	
Buyer Furnished Equipment (BFE) Estimate:		* * *			
//Seller Purchased Equipment (SPE)/In-Flight Entertainment (IFE)// Estimate:		* * *			
Non-Refundable Deposit/Aircraft at Def Agreemt:		* * *			

Delivery Date*		**Escalation Factor (Airframe)**		**Aircraft Block**	**Escalation Estimate Adv Payment Base Price Per A/P**	**Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing *** **	**24 Mos. *** **	**21/18/12/9/6 Mos. *** **	**Total *** **
Jan-2021	1	* * *		D	* * *	* * *	* * *	* * *	* * *
Jan-2021	1	* * *			* * *	* * *	* * *	* * *	* * *
Feb-2021	1	* * *		D	* * *	* * *	* * *	* * *	* * *
Mar-2021	1	* * *			* * *	* * *	* * *	* * *	* * *
Apr-2021	1	* * *		D	* * *	* * *	* * *	* * *	* * *
Apr-2021	1	* * *			* * *	* * *	* * *	* * *	* * *
May-2021	1	* * *		D	* * *	* * *	* * *	* * *	* * *
May-2021	1	* * *			* * *	* * *	* * *	* * *	* * *
Jun-2021	1	* * *		D	* * *	* * *	* * *	* * *	* * *
Jul-2021	2	* * *			* * *	* * *	* * *	* * *	* * *
Jul-2021	1	* * *		D	* * *	* * *	* * *	* * *	* * *
Aug-2021	1	* * *		D	* * *	* * *	* * *	* * *	* * *
Sep-2021	1	* * *			* * *	* * *	* * *	* * *	* * *

Attachment 1 To
Letter Agreement No. LA 1106474
Option Aircraft Delivery, Description, Price and Advance Payments

Delivery Date*	Number of Aircraft	Escalation Factor (Airframe)		Aircraft Block	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Oct-2021	1	***		D	***	***	***	***	***
Oct-2021	1	***			***	***	***	***	***
Nov-2021	1	***		D	***	***	***	***	***
Dec-2021	1	***			***	***	***	***	***
Jan-2022	1	***		D	***	***	***	***	***
Jan-2022	1	***			***	***	***	***	***
Feb-2022	1	***		D	***	***	***	***	***
Feb-2022	1	***			***	***	***	***	***
Mar-2022	1	***		D	***	***	***	***	***
Mar-2022	1	***			***	***	***	***	***
Apr-2022	1	***		D	***	***	***	***	***
May-2022	1	***			***	***	***	***	***
Jun-2022	1	***		D	***	***	***	***	***
Jul-2022	1	***			***	***	***	***	***
Jul-2022	1	***		D	***	***	***	***	***
Aug-2022	1	***			***	***	***	***	***
Sep-2022	1	***		D	***	***	***	***	***
Oct-2022	1	***			***	***	***	***	***
Oct-2022	1	***		D	***	***	***	***	***
Nov-2022	1	***			***	***	***	***	***
Nov-2022	1	***		D	***	***	***	***	***
Dec-2022	1	***			***	***	***	***	***
Dec-2022	1	***		D	***	***	***	***	***
Jan-2023	1	***			***	***	***	***	***
Jan-2023	1	***		D	***	***	***	***	***

Attachment 1 To

Letter Agreement No. LA 1106474

Option Aircraft Delivery, Description, Price and Advance Payments

Delivery Date*	Number of Aircraft	Escalation Factor (Airframe)		Aircraft Block	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Feb-2023	1	***			***	***	***	***	***
Feb-2023	1	***		D	***	***	***	***	***
Mar-2023	1	***			***	***	***	***	***
Mar-2023	1	***		D	***	***	***	***	***
Apr-2023	1	***			***	***	***	***	***
Apr-2023	1	***		D	***	***	***	***	***
May-2023	1	***			***	***	***	***	***
May-2023	1	***		D	***	***	***	***	***
Jun-2023	1	***			***	***	***	***	***
Jun-2023	1	***		D	***	***	***	***	***
Jul-2023	1	***			***	***	***	***	***
Aug-2023	1	***		D	***	***	***	***	***
Aug-2023	1	***			***	***	***	***	***
Sep-2023	1	***		D	***	***	***	***	***
Sep-2023	1	***			***	***	***	***	***
Oct-2023	1	***		D	***	***	***	***	***
Oct-2023	1	***			***	***	***	***	***
Nov-2023	1	***		D	***	***	***	***	***
Nov-2023	1	***			***	***	***	***	***
Dec-2023	1	***		D	***	***	***	***	***
Dec-2023	1	***			***	***	***	***	***
Jan-2024	1	***		D	***	***	***	***	***
Jan-2024	1	***			***	***	***	***	***
Feb-2024	1	***		D	***	***	***	***	***
Feb-2024	1	***			***	***	***	***	***

Attachment 1 To

Letter Agreement No. LA 1106474

Option Aircraft Delivery, Description, Price and Advance Payments

Delivery Date*	Number of Aircraft	Escalation Factor (Airframe)		Aircraft Block	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Mar-2024	1	***		D	***	***	***	***	***
Mar-2024	1	***			***	***	***	***	***
Apr-2024	1	***		D	***	***	***	***	***
Apr-2024	1	***			***	***	***	***	***
May-2024	1	***		D	***	***	***	***	***
May-2024	1	***			***	***	***	***	***
Jun-2024	1	***		D	***	***	***	***	***
Jun-2024	1	***			***	***	***	***	***
Jul-2024	1	***		D	***	***	***	***	***
Aug-2024	1	***			***	***	***	***	***
Aug-2024	1	***		D	***	***	***	***	***
Sep-2024	1	***			***	***	***	***	***
Sep-2024	1	***		D	***	***	***	***	***
Oct-2024	1	***			***	***	***	***	***
Oct-2024	1	***		D	***	***	***	***	***
Nov-2024	1	***			***	***	***	***	***
Nov-2024	1	***		D	***	***	***	***	***
Dec-2024	2	***			***	***	***	***	***
Jan-2025	3	***			***	***	***	***	***
Feb-2025	3	***			***	***	***	***	***
Mar-2025	3	***			***	***	***	***	***
Apr-2025	3	***			***	***	***	***	***
May-2025	3	***			***	***	***	***	***
Jun-2025	3	***			***	***	***	***	***
Jul-2025	3	***			***	***	***	***	***

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Letter Agreement No. LA 1106474

Option Aircraft Delivery, Description, Price and Advance Payments

Delivery Date*	Number of Aircraft	Escalation Factor (Airframe)		Aircraft Block	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Aug-2025	3	***			***	***	***	***	***
Sep-2025	3	***			***	***	***	***	***
Oct-2025	3	***			***	***	***	***	***
Nov-2025	3	***			***	***	***	***	***
Dec-2025	3	***			***	***	***	***	***
Jan-2026	3	***			***	***	***	***	***
Feb-2026	3	***			***	***	***	***	***
Mar-2026	3	***			***	***	***	***	***
Apr-2026	3	***			***	***	***	***	***
May-2026	3	***			***	***	***	***	***
Jun-2026	3	***			***	***	***	***	***
Jul-2026	3	***			***	***	***	***	***
Aug-2026	3	***			***	***	***	***	***
Sep-2026	3	***			***	***	***	***	***
Oct-2026	3	***			***	***	***	***	***
Nov-2026	3	***			***	***	***	***	***
Dec-2026	3	***			***	***	***	***	***
Jan-2027	3	***			***	***	***	***	***
Feb-2027	3	***			***	***	***	***	***
Mar-2027	3	***			***	***	***	***	***
Apr-2027	3	***			***	***	***	***	***
May-2027	3	***			***	***	***	***	***
Jun-2027	3	***			***	***	***	***	***
Jul-2027	3	***			***	***	***	***	***
Aug-2027	3	***			***	***	***	***	***

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Letter Agreement No. LA 1106474

Option Aircraft Delivery, Description, Price and Advance Payments

Delivery Date*	Number of Aircraft	Escalation Factor (Airframe)		Aircraft Block	Escalation Estimate Adv Payment Base Price Per A/P	Advance Payment Per Aircraft (Amts. Due/Mos. Prior to Delivery): At Signing ***	24 Mos. ***	21/18/12/9/6 Mos. ***	Total ***
Sep-2027	3	* * *			* * *	* * *	* * *	* * *	* * *
Oct-2027	3	* * *			* * *	* * *	* * *	* * *	* * *
Nov-2027	3	* * *			* * *	* * *	* * *	* * *	* * *
Dec-2027	3	* * *			* * *	* * *	* * *	* * *	* * *
Total:	12								

* * * *

The Boeing Company
P.O. Box 3707
Seattle, WA 98124-2207

SWA-PA-03729-LA-1301168**R1**

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

Subject: ***

Reference: Purchase Agreement No. 3729 (Purchase Agreement) between The Boeing Company (Boeing) and Southwest Airlines Co. (Customer) relating to Model 737-7 737-8 aircraft

This letter agreement (**Letter Agreement**) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

***

1. ***

2. Assignment.

*** described in this Letter Agreement are provided *** in consideration of Customer's taking title to the applicable Firm Aircraft or Block D Option Aircraft at time of delivery and becoming the operator of the applicable Firm Aircraft or Block D Option Aircraft. Under no circumstances will Customer be permitted to assign the business terms set forth herein.

3. Confidentiality.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential and has value precisely because it is not available generally to other parties. Customer agrees to limit the disclosure of the contents of this Letter Agreement to (a) its directors and officers, (b) employees of Customer with a need to know the contents for performing its obligations (including, without limitation, those employees performing accounting, finance, administration and other functions necessary to finance and purchase, deliver or lease the Aircraft) and who understand they are not to disclose its contents to any other person or entity (other than those to whom disclosure is permitted by this paragraph) without the prior written consent of Boeing and (c) any auditors and attorneys of Customer who have a need to know such information and have signed a confidentiality agreement in the same form and substance similar to this paragraph, or are otherwise bound by a confidentiality obligation. Disclosure to other parties is not permitted without Boeing's consent except as may be required by applicable law or governmental regulations. Customer shall be fully responsible to Boeing for compliance with such obligations.

Very truly yours,

THE BOEING COMPANY

By /s/ Jeff Solomon

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: November 4, 2013

SOUTHWEST AIRLINES CO.

By /s/ Chris Monroe

Its Chris Monroe VP, Treasurer

Exhibit 21

Southwest Airlines Co.
Subsidiaries

Name	State or Other Jurisdiction of Incorporation or Organization
AirTran Airways 717 Leasing Corporation	Delaware
AirTran Airways, Inc.	Delaware
AirTran Fuel Services, Inc.	Delaware
AirTran Holdings, LLC	Texas
AirTran Risk Management, Inc.	Delaware
Southwest Jet Fuel Co.	Texas
Triple Crown Insurance Co., Ltd.	Bermuda

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Forms S-8, Nos. 33-20275, 33-57327, 33-40652, 33-40653, 333-64431, 333-67627, 333-67631, 333-82735, 333-89303, 333-52388, 333-52390, 333-53610, 333-53616, 333-57478, 333-46560, 333-98761, 333-100862, 333-104245, 333-117802, 333-139362, 333-146891, 333-160762, 333-166980, 333-190268, Forms S-3 Nos. 333-158397, 333-180969 and Form S-4 No. 333-170742) of Southwest Airlines Co. and in the related Prospectuses of our reports dated February 3, 2014, with respect to the consolidated financial statements of Southwest Airlines Co., and the effectiveness of internal control over financial reporting of Southwest Airlines Co., included in this Annual Report (Form 10-K) for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Dallas, Texas
February 3, 2014

CERTIFICATION

I, Gary C. Kelly, Chairman of the Board, President, & Chief Executive Officer of Southwest Airlines Co., certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2013 of Southwest Airlines Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: February 3, 2014

By: /s/ Gary C. Kelly
Gary C. Kelly
Chairman of the Board, President, & Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Tammy Romo, Senior Vice President Finance & Chief Financial Officer of Southwest Airlines Co., certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2013, of Southwest Airlines Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: February 3, 2014

By: /s/ Tammy Romo
Tammy Romo
Senior Vice President Finance & Chief Financial Officer

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Southwest Airlines Co. (the “Company”) for the period ended December 31, 2013, as filed with the Securities and Exchange Commission (the “Report”), Gary C. Kelly, Chairman of the Board, President, & Chief Executive Officer of the Company, and Tammy Romo, Senior Vice President Finance & Chief Financial Officer of the Company, each certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2014

By: /s/ Gary C. Kelly
Gary C. Kelly
Chairman of the Board, President, & Chief Executive Officer

By: /s/ Tammy Romo
Tammy Romo
Senior Vice President Finance & Chief Financial Officer