

SOUTHWEST AIRLINES CO  
Form DEF 14A  
April 06, 2015  
Table of Contents

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

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Southwest Airlines Co.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

## Edgar Filing: SOUTHWEST AIRLINES CO - Form DEF 14A

- (1) Title of each class of securities to which the transaction applies:
  
- (2) Aggregate number of securities to which the transaction applies:
  
- (3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  
- (4) Proposed maximum aggregate value of the transaction:
  
- (5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
  
- (2) Form, Schedule or Registration Statement No.:
  
- (3) Filing Party:
  
- (4) Date Filed:

**Table of Contents**

**SOUTHWEST AIRLINES CO.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**WEDNESDAY, MAY 13, 2015**

To the Shareholders:

The Annual Meeting of the Shareholders of Southwest Airlines Co. will be held at the Hyatt Regency Houston located at 1200 Louisiana Street, Houston, Texas on Wednesday, May 13, 2015, at 10:00 a.m., Central Daylight Time, for the following purposes:

- (1) to elect ten Directors;
- (2) to conduct an advisory (nonbinding) vote to approve named executive officer compensation;
- (3) to approve the Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan;
- (4) to ratify the selection of Ernst & Young LLP as Southwest's independent auditors for the fiscal year ending December 31, 2015; and
- (5) to transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

March 17, 2015, is the date of record for determining Shareholders entitled to receive notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

The Annual Meeting will be broadcast live on the Internet. To listen to the broadcast, log on to <http://southwest.investorroom.com/>.

To attend the meeting in person, you will need to bring (i) a valid government-issued photo identification, such as a driver's license or passport; and (ii) either an Admission Ticket or proof of ownership of Southwest Airlines Co. common stock as of March 17, 2015 (such as an account statement from your broker showing your stock ownership as of March 17, 2015). If you have received a paper copy of your proxy materials, an Admission Ticket is included with your proxy materials. If you have received your proxy materials electronically, you will need proof of ownership to be admitted to the meeting. If you are a proxy holder for a Shareholder of Southwest who owned shares of Southwest's common stock as of March 17, 2015, you must also bring to the meeting the executed proxy naming you as the proxy holder, signed by the Shareholder who owned shares of Southwest's common stock as of March 17, 2015.

**Your vote is important. Please sign and return the enclosed proxy or voting instruction card in the enclosed envelope to enable your shares to be represented at the meeting. Alternatively, you may vote via telephone or the Internet as described in the enclosed proxy or voting instruction card. We encourage you to vote via telephone or the Internet to help us save postage costs. In addition, if you vote via the Internet, you may elect to have next year's Proxy Statement and Annual Report to Shareholders delivered to you electronically. We encourage you to enroll in electronic delivery, as it is a cost-effective way for us to provide you with electronic versions of the proxy materials and annual reports.**

By Order of the Board of Directors,

Mark R. Shaw  
*Corporate Secretary*

*April 6, 2015*

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2015 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 13, 2015**

**Southwest's Proxy Statement for the 2015 Annual Meeting of Shareholders and Annual Report to Shareholders for the fiscal year ended December 31, 2014, are available at**

**<http://southwest.investorroom.com/>**

**Table of Contents****Table of Contents**

	<b>Page</b>
<u>GENERAL INFORMATION</u>	1
<u>Annual Meeting Admission</u>	1
<u>Voting Procedures</u>	1
<u>Quorum; Effect of Abstentions and Broker Non-Votes</u>	2
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	2
<u>CORPORATE GOVERNANCE</u>	7
<u>General</u>	7
<u>Board Membership and Qualifications</u>	7
<u>Board Leadership Structure</u>	8
<u>Executive Sessions and Communications with Non-Management Directors</u>	9
<u>Risk Oversight</u>	9
<u>Committees of the Board</u>	11
<u>Certain Relationships and Related Transactions, and Director Independence</u>	13
<u>VOTING SECURITIES AND PRINCIPAL SHAREHOLDERS</u>	14
<u>Security Ownership of Certain Beneficial Owners</u>	14
<u>Security Ownership of Management</u>	15
<u>COMPENSATION OF EXECUTIVE OFFICERS</u>	17
<u>Compensation Discussion and Analysis</u>	17
<u>Compensation Committee Report</u>	36
<u>Summary Compensation Table</u>	37
<u>Grants of Plan-Based Awards in Fiscal 2014</u>	38
<u>Outstanding Equity Awards at Fiscal 2014 Year-End</u>	40
<u>Option Exercises and Stock Vested During Fiscal 2014</u>	41
<u>Nonqualified Deferred Compensation in Fiscal 2014</u>	41
<u>Potential Payments Upon Termination or Change-in-Control</u>	43
<u>COMPENSATION OF DIRECTORS</u>	46
<u>Fiscal 2014 Director Compensation</u>	46
<u>AUDIT COMMITTEE REPORT</u>	48
<u>PROPOSAL 2 ADVISORY VOTE TO APPROVE THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS</u>	49
<u>PROPOSAL 3 APPROVAL OF THE SOUTHWEST AIRLINES CO. AMENDED AND RESTATED 2007 EQUITY INCENTIVE PLAN</u>	51
<u>PROPOSAL 4 RATIFICATION OF THE SELECTION OF INDEPENDENT AUDITORS</u>	62
<u>RELATIONSHIP WITH INDEPENDENT AUDITORS</u>	62
<u>OTHER MATTERS</u>	63
<u>Submission of Shareholder Proposals</u>	63
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	63
<u>Conduct of Meeting and Discretionary Authority</u>	63
<u>Householding</u>	64
<u>Costs of Solicitation</u>	64
<u>APPENDIX A</u>	A-1
<u>Southwest Airlines Co. Audit and Non-Audit Services Preapproval Policy Adopted March 20, 2003</u>	A-1
<u>APPENDIX B</u>	B-1
<u>Southwest Airlines Co. Amended and Restated 2007 Equity Incentive Plan</u>	B-1

**Table of Contents**

**Southwest Airlines Co.**

**P.O. Box 36611**

**Dallas, Texas 75235**

**(214) 792-4000**

**PROXY STATEMENT**

**FOR**

**ANNUAL MEETING OF SHAREHOLDERS**

**To be Held May 13, 2015**

**GENERAL INFORMATION**

This Proxy Statement is being furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors of Southwest Airlines Co. (the Company or Southwest ) for use at the Annual Meeting of Shareholders of the Company to be held on May 13, 2015, at 10:00 a.m., Central Daylight Time, at the Hyatt Regency Houston located at 1200 Louisiana Street, Houston, Texas, or at such other time and place to which the meeting may be adjourned or postponed. The approximate date on which this Proxy Statement and accompanying Proxy are first being sent or given to Shareholders is April 6, 2015.

**Annual Meeting Admission**

To attend the meeting in person, you will need to bring (i) a valid government-issued photo identification, such as a driver's license or passport; and (ii) either an Admission Ticket or proof of ownership of Southwest Airlines Co. common stock as of March 17, 2015 (such as an account statement from your broker showing your stock ownership as of March 17, 2015). If you have received a paper copy of your proxy materials, an Admission Ticket is included with your proxy materials. If you have received your proxy materials electronically, you will need proof of ownership to be admitted to the meeting. If you are a proxy holder for a Shareholder of Southwest who owned shares of Southwest's common stock as of March 17, 2015, you must also bring to the meeting the executed proxy naming you as the proxy holder, signed by the Shareholder who owned shares of Southwest's common stock as of March 17, 2015.

**Voting Procedures**

A representative of Broadridge Financial Solutions, Inc. will tabulate votes and serve as Inspector of Election for the meeting. Each Shareholder of record will be entitled to one vote for each share registered in the Shareholder's name with respect to each matter to be voted on at the meeting. A Shareholder of record is a person or entity who holds shares on the record date that are registered in such Shareholder's name on the records of Southwest's transfer agent. A person or entity who holds shares through a broker, bank, or other nominee is considered a beneficial owner of the shares. You may receive more than one set of proxy materials. This means your shares are held in more than one account. Please vote all of your shares.

*Voting by Shareholders of Record.* If you are a Shareholder of record, you may vote by completing and returning the enclosed proxy card. You may also vote by telephone from the United States, using the number on the proxy card, or through the Internet, using the instructions on the proxy card. Shares represented by proxy will be voted at the meeting and may be revoked at any time prior to the time at which they are voted

## Edgar Filing: SOUTHWEST AIRLINES CO - Form DEF 14A

by (i) timely submitting a valid, later-dated proxy; (ii) delivering a written notice of revocation to the Corporate Secretary of the Company; or (iii) voting in person at the meeting. Please note that attending the meeting without completing a ballot will not revoke any previously submitted proxy. If you properly complete and sign your proxy card but do not indicate how your shares should be voted on a matter, the shares represented by your proxy will be voted in accordance with the recommendation of the Company's Board of Directors.

*Voting by Beneficial Owners.* If you are a beneficial owner of shares, these proxy materials are being forwarded to you by your broker (or bank or other nominee) who is considered the Shareholder of record of your

**Table of Contents**

shares. As the beneficial owner of the shares, you are entitled to direct your broker as to how to vote your shares. You may so instruct your broker by completing the voting instruction card the broker provides to you. You may also vote by telephone or through the Internet as described in the applicable instructions your broker has provided with these proxy materials. You may change your vote by submitting new voting instructions to your broker in accordance with such broker's procedures. If you provide voting instructions to your broker, your shares will be voted as you direct. If you do not provide voting instructions, pursuant to the rules of the New York Stock Exchange (the "NYSE"), your broker may vote your shares only with respect to proposals as to which it has discretion to vote under the NYSE's rules. For any other proposals, the broker may not vote your shares at all, which is referred to as a broker non-vote. **Please note that, in the absence of your specific instructions as to how to vote, your broker may not vote your shares with respect to any of the proposals included in this Proxy Statement except for Proposal 4 (Ratification of the Selection of Independent Auditors), so please provide instructions to your broker regarding the voting of your shares.** As the beneficial owner of shares, you are invited to attend the meeting; however, you may not vote your shares in person at the meeting unless you obtain a legal proxy from the Shareholder of record of your shares.

**Quorum; Effect of Abstentions and Broker Non-Votes**

The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of the Company's common stock entitled to vote at the meeting is necessary to constitute a quorum. Shareholders of record at the close of business on March 17, 2015, are entitled to vote at the meeting. As of that date, the Company had issued and outstanding 669,974,804 shares of common stock. Abstentions and broker non-votes are each included in the determination of the number of shares present and entitled to vote at the meeting for purposes of determining the presence or absence of a quorum for the transaction of business at the meeting; however, neither abstentions nor broker non-votes are counted as voted either for or against a proposal and, as such, will not affect the outcome of the vote on any proposal. If you are a beneficial owner of shares and do not provide voting instructions to your broker, your broker will only be entitled to vote your shares in its discretion with respect to Proposal 4 (Ratification of the Selection of Independent Auditors). Your broker will not be able to vote your shares in its discretion with respect to Proposals 1, 2, or 3, and your vote will be counted as a broker non-vote on those proposals.

**PROPOSAL 1 ELECTION OF DIRECTORS**

At the Annual Meeting of Shareholders, ten Directors are to be elected for one-year terms expiring in 2016. Gary C. Kelly, Ron Ricks, and Mark R. Shaw have been selected as a proxy committee by the Board of Directors, and it is the intention of the proxy committee that, unless otherwise directed therein, proxies will be voted for the election of all of the nominees listed below. Although it is not contemplated that any of the nominees will be unable to serve, if such a situation arises prior to the meeting, the proxy committee will act in accordance with its best judgment. Each of the nominees has indicated his or her willingness to serve as a member of the Board of Directors, if elected.

The following sets forth certain information for each nominee for Director of the Company.

Name	Director Since	Age*
David W. Biegler	2006	68
J. Veronica Biggins	2011	68
Douglas H. Brooks	2010	62
William H. Cunningham	2000	71
John G. Denison	2008	70
Gary C. Kelly	2004	59
Nancy B. Loeffler	2003	68
John T. Montford	2002	71
Thomas M. Nealon	2010	54
Daniel D. Villanueva	2008	77

\* As of February 28, 2015.



**Table of Contents**

*David W. Biegler* has served as Chairman of Southcross Energy Partners GP, LLC ( Southcross GP ) since August 2011. Mr. Biegler served as Southcross GP's Chief Executive Officer from August 2011 to December 2014 and as its President from October 2012 to March 2014. Southcross GP is the general partner of Southcross Energy Partners, L.P., a limited partnership that was formed to own, operate, develop, and acquire midstream energy assets. Since August 2014, Mr. Biegler has served as Chairman and Chief Executive Officer of Southcross Holdings LP, which is currently the sole owner of Southcross GP. From July 2009 to August 2014, Mr. Biegler served as Chairman and Chief Executive Officer of Southcross Energy LLC, formerly the sole owner of Southcross GP. From 2003 to 2012, Mr. Biegler served as Chairman and Chief Executive Officer of Estrella Energy LP, a former investor in Southcross Energy, LLC. Mr. Biegler also served as interim President and Chief Executive Officer of Dynege Inc., a provider of wholesale power, capacity, and ancillary services, from March 12, 2011, to April 11, 2011. He retired as Vice Chairman of TXU Corp. at the end of 2001, having served TXU Corp. as President and Chief Operating Officer from 1997 until 2001. He previously served as Chairman, President, and Chief Executive Officer of ENSERCH Corporation from 1993 to 1997. During the past five years, Mr. Biegler has served as a Director of the following companies that are or were publicly traded: Trinity Industries, Inc. (since 1992); Animal Health International, Inc. (2007-2011); and Dynege Inc. (2003-2011). Mr. Biegler also serves as a Director for Austin Industries. In November 2011, after Mr. Biegler had resigned from the Dynege Inc. Board, certain subsidiaries of Dynege Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code.

The Board has concluded that Mr. Biegler should continue to serve as a Director for the Company for the following reasons, among others: (i) Mr. Biegler's extensive experience as a Chief Executive Officer and Chief Operating Officer enable him to contribute significantly to the Board's oversight responsibilities on matters relating to operational and financial strategies and risks, particularly in his roles as a member of the Board's Audit Committee and Safety and Compliance Oversight Committee; (ii) Mr. Biegler's senior management experience, as well as his experience from serving on multiple public company boards, enable him to contribute significantly with respect to the Board's oversight of matters relating to executive compensation and compensation strategies, particularly in his role as Chair of the Board's Compensation Committee; and (iii) Mr. Biegler's broad-based knowledge in energy marketing is particularly pertinent in assisting the Board with its oversight of the Company's fuel hedging program.

*J. Veronica Biggins* is a Managing Partner in the Atlanta office of Diversified Search LLC, an executive and board search firm. Ms. Biggins was Managing Partner of the Atlanta office of Hodge Partners from 2007 until 2011 when Hodge Partners, also an executive and board search firm, became a part of Diversified Search. Ms. Biggins served as Assistant to the President of the United States and Director of Presidential Personnel under President William Jefferson Clinton and has also served as Chair of the Czech Slovak American Enterprise Fund. Ms. Biggins' background includes 20 years' experience with NationsBank (now Bank of America) and its predecessor. Prior to joining the White House, Ms. Biggins was one of the highest ranking women in the banking industry. During the past five years, Ms. Biggins has served as a Director of the following companies that are or were publicly traded: Avnet, Inc. (since 1997); Zep, Inc. (2007-2012); and AirTran Holdings, Inc. (2001-2011). Ms. Biggins has also served on a number of non-profit boards.

The Board has concluded that Ms. Biggins should continue to serve as a Director for the Company for the following reasons, among others: (i) Ms. Biggins brings to the Board extensive financial expertise as well as knowledge of the airline industry through her experience as a Director of AirTran; (ii) Ms. Biggins has extensive knowledge of compensation and governance matters as a result of her service on the compensation and nominating and corporate governance committees for other publicly-traded companies; and (iii) Ms. Biggins' knowledge of the Atlanta market, along with her community involvement and charitable work, is valuable because of the Company's significant focus in these areas.

*Douglas H. Brooks* served as Chairman of the Board of Brinker International, Inc., a casual dining restaurant company, from November 2004 to December 2013, as its Chief Executive Officer from January 2004 to January 2013, and as its President from January 1999 to January 2013. Mr. Brooks also served in other capacities for Brinker including as its Chief Operating Officer and as President of Chili's Grill & Bar. During the past five years, Mr. Brooks has served as a Director of the following companies that are or were publicly traded:

---

**Table of Contents**

Brinker International, Inc. (1999-2013); AutoZone, Inc. (since 2013); and ClubCorp Holdings, Inc. (since 2013). Mr. Brooks also serves on the Board of Directors of Limbs for Life and is a member of the Professional Advisory Board for St. Jude Children's Research Hospital.

The Board has concluded that Mr. Brooks should continue to serve as a Director for the Company for the following reasons, among others: (i) Mr. Brooks adds a unique skill set to the Board because of his lengthy service as a Chief Executive Officer of a company with tens of thousands of employees and operations in the United States, its territories, and numerous other countries outside of the United States; (ii) Mr. Brooks' skill set is particularly valuable to the Board and the Company in connection with the Company's international operations and its exploration of additional international opportunities; (iii) Mr. Brooks' experience managing a company with a large employee base is particularly beneficial to the Board because of the importance to the Company of strong employee relations; and (iv) Mr. Brooks' experience managing a company with a focus on customer service is particularly beneficial to the Board because of the importance of customer service to the Company.

*William H. Cunningham, Ph.D.* has been a professor at The University of Texas at Austin since 2000 and holds the James L. Bayless Chair for Free Enterprise at the University's Red McCombs School of Business. Dr. Cunningham served as Chancellor and Chief Executive Officer of The University of Texas System from 1992 to 2000 and as President of The University of Texas at Austin from 1985 to 1992. During the past five years, Dr. Cunningham has served as a Director of the following companies that are or were publicly traded: Lincoln National Corporation (since 2006); Resolute Energy Corporation (formerly Hicks Acquisition Company I, Inc., from 2007 to 2015); and LIN Media LLC, successor registrant to LIN TV Corp. (from 2009 to 2014). Dr. Cunningham is also a disinterested Director of John Hancock Funds, III, a registered investment company.

The Board has concluded that Dr. Cunningham should continue to serve as a Director for the Company for the following reasons, among others: (i) Dr. Cunningham holds a Ph.D. and a Masters of Business Administration in Business, which, combined with his experience as an executive, brings valuable financial and strategic expertise and perspectives to the Board, particularly in his roles as Presiding Director and as a member of the Audit Committee; and (ii) Dr. Cunningham has served on over 25 corporate boards and teaches corporate governance at The University of Texas Schools of Law and Business, which enables him to bring valuable and current governance expertise to the Board, particularly in his roles as Presiding Director and Chair of the Nominating and Corporate Governance Committee.

*John G. Denison* served as Chairman of the Board for Global Aero Logistics Inc. ( Global ), a diversified passenger airline, from January 2006 until April 2008. Mr. Denison came out of retirement in January 2005 to join Global as its Co-Chief Restructuring Officer. He also served as President and Chief Executive Officer of ATA Airlines Inc. ( ATA ), a subsidiary of Global, from February 2005 until December 2006. In his capacities with Global and ATA, Mr. Denison's responsibilities included, among others, managing or supervising business plans, collective bargaining negotiations, restructurings, financings, and major contract negotiations. ATA filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code in April 2008.

The Board has concluded that Mr. Denison should continue to serve as a Director for the Company for the following reasons, among others: (i) Mr. Denison holds a Masters of Business Administration in Finance and has previously served as a Chief Financial Officer; (ii) Mr. Denison's extensive experience in the airline industry, combined with his extensive experience in the area of financial reporting, brings a unique and valuable perspective to the Board with respect to the Company's operations and risks, particularly in his roles as a member of the Company's Audit Committee and Chair of the Safety and Compliance Oversight Committee; and (iii) Mr. Denison's experience with business plans, collective bargaining negotiations, and major contract negotiations are extremely valuable to the Board's strategic discussions.

*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 the Company's Executive Vice President and as its Chief Financial Officer from June 2001 to July 2004 and Vice President Finance and Chief Financial Officer from 1989 to 2001. Mr. Kelly joined the Company in 1986 as its Controller. During the past five years, Mr. Kelly has served as a Director of one publicly traded company other than Southwest: Lincoln

---

**Table of Contents**

National Corporation (since November 2009). Mr. Kelly recently completed a two year term as Chairman of the Board of Directors for Airlines for America.

The Board has concluded that Mr. Kelly should continue to serve as a Director for the Company for the following reasons, among others: (i) he is the Company's Chief Executive Officer and has been with the Company for over 25 years; (ii) his role and his experience enable him to bring invaluable operational, financial, regulatory, governance, and cultural perspectives to the Board; and (iii) his role and his experience enable him to continually educate and advise the Board on the Company's industry and related opportunities, issues, and challenges.

*Nancy B. Loeffler* has served as a consultant for Frost Bank since July 2009 and as a member of the Frost Bank Advisory Board since October 2008. A long-time advocate of volunteerism, Ms. Loeffler currently serves on the boards of The Briscoe Western Art Museum and The National Cowgirl Museum. In addition, she serves on the Executive Committee of The San Antonio Stock Show and Rodeo, on the Executive Committee of The University of Texas System Chancellor's Council, as a Board member of The Cancer Therapy and Research Center, and as Chair of the Advisory Board of the School of Nursing at The University of Texas Health Science Center of San Antonio. Ms. Loeffler is also a member of the prestigious Kripke Legend Award Selection Committee for Women in Cancer Research. She has served as Chair of The University of Texas MD Anderson Cancer Center Foundation, as well as on the Board of Trustees for the Vice President's Residence Foundation in Washington, D.C.

The Board has concluded that Ms. Loeffler should continue to serve as a Director for the Company for the following reasons, among others: (i) Ms. Loeffler's background provides the Board with valuable perspectives on governmental affairs and the legislative process; and (ii) her extensive experience with community service and cultural affairs is valuable to the Board because of the Company's significant focus on these areas.

*John T. Montford* has been President and Chief Executive Officer of JTM Consulting, LLC, a state and federal governmental relations firm, since January 2010. Mr. Montford was retained by General Motors in January 2010 as a consultant and served in the capacity of Senior Advisor of Government Relations and Global Public Policy until January 2012. In his consulting role, Mr. Montford also served on the Executive Committee of General Motors. From 2001 through 2009, Mr. Montford served in a number of positions in the telecommunications industry. These included: President of Southwestern Bell and Southern New England Company, External Affairs (2001-2005); Senior Vice President for Legislative and Regulatory Affairs for SBC and AT&T (2005-2007); and President, Western Region, AT&T Services (2008-2009). Mr. Montford was Chancellor of the Texas Tech University System from 1996 to 2001 and also served in the Texas Senate from 1983 to 1996, where he served as both Chairman of the Senate Finance Committee and Chairman of the Senate State Affairs Committee. In 2002, Mr. Montford was named Chancellor Emeritus of the Texas Tech University System. He is a former active duty U.S. Marine Officer and an elected District Attorney.

The Board has concluded that Mr. Montford should continue to serve as a Director for the Company for the following reasons, among others: (i) Mr. Montford's extensive executive experience in the areas of governmental relations, regulatory affairs, and public policy is valuable to a heavily-regulated company like Southwest; (ii) this same experience enables Mr. Montford to provide valuable perspectives and input on governance matters, particularly in his roles as a member of the Board's Nominating and Corporate Governance Committee and Compensation Committee; and (iii) his experience as Chairman of the Senate Finance Committee (for example, his role in drafting a budget of over \$100 billion for the State of Texas) brings valuable perspectives to the Company in connection with its financial strategies and reporting, particularly in his role as Chair of the Board's Audit Committee.

*Thomas M. Nealon* served as Group Executive Vice President of J.C. Penney Company, Inc., a retail company, from August 2010 until December 2011. Mr. Nealon also served as J.C. Penney's Executive Vice President & Chief Information Officer from September 2006 until August 2010. Prior to joining J.C. Penney, Mr. Nealon was a partner with The Feld Group, a provider of information technology consulting services, where he served in a consultant capacity as Senior Vice President & Chief Information Officer for the Company from 2001 to 2006. Mr. Nealon also served as Chief Information Officer for Frito-Lay, a division of PepsiCo, Inc.,

---

**Table of Contents**

from 1996 to 2000, and in various software engineering, systems engineering, and management positions for Frito-Lay from 1983 to 1996. Mr. Nealon received the 2010 MIT Sloan School of Business Award for Innovation Leadership and was recognized by Information Week as a Premiere 100 CIO in 2006 and 2010. During the past five years, Mr. Nealon has served as a Director of one publicly traded company other than Southwest: Fossil, Inc. (since April 2012).

The Board has concluded that Mr. Nealon should continue to serve as a Director for the Company for the following reasons, among others: (i) Mr. Nealon brings a technology dimension to the Board: in his roles with J.C. Penney, Mr. Nealon oversaw J.C. Penney's Internet site, jcp.com, as well as other information technology, including the design and development of systems and infrastructure to support J.C. Penney's strategic business objectives; (ii) Mr. Nealon's technology expertise is particularly significant to the Company and the Board, particularly in his role as a member of the Company's Audit Committee, because of the continually increasing importance of technology and security to the success of the Company's strategic initiatives; and (iii) in his roles with J.C. Penney, Mr. Nealon was also responsible for corporate planning and strategy, which enables him to offer practical insight with respect to the Company's strategic initiatives and long-term operating plans.

*Daniel D. Villanueva* has been a partner in Rustic Canyon/Fontis Partners, LP, a California-based private equity firm, since 2005 and has been President of The Villanueva Companies since 2012. Mr. Villanueva previously was Managing Partner of Bastion Capital Corporation, a private equity investment fund, from 1993 to 2005. Mr. Villanueva also has over 25 years' experience as a television executive, having served as Senior Vice President, Partner, and Director at Spanish International Communications Corp. and its successor company Univision Group over the period from 1964 to 1990. Mr. Villanueva has also developed and sold numerous broadcasting properties across the United States. Mr. Villanueva's civic activities have included board memberships of the American Red Cross, the National Association of Broadcasters, National Junior Achievement, National YMCA, the National Hispanic Education Fund, the California Broadcasters Association, the California Economic Development Corporation, the Greater Los Angeles Chamber of Commerce, KCET Public Television, the United Way, Stanford Graduate School of Business, the Ventura County Community Foundation, and the Museum of Contemporary Art. Mr. Villanueva was also a Commissioner of the 1984 Summer Olympic Games in Los Angeles.

The Board has concluded that Mr. Villanueva should continue to serve as a Director for the Company for the following reasons, among others: (i) Mr. Villanueva brings valuable entrepreneurial experience to the Board, particularly at a time at which the Company continues to execute many significant strategic initiatives; (ii) his expertise in the communications space is valuable to the Board as the Company addresses technological initiatives and challenges; (iii) his geographic presence on the West coast is valuable in connection with the Company's significant operations in that area; and (iv) his strong commitment to civic service is relevant in connection with the Company's similar commitment.

**Vote Required**

Provided a quorum is present at the meeting, the affirmative vote of a majority of the votes cast by the holders of shares entitled to vote in the election of Directors is required to elect Directors. A majority of the votes cast means the number of votes cast for a Director must exceed the number of votes cast against that Director.

**Recommendation of the Board of Directors**

**The Board of Directors unanimously recommends a vote FOR the election of each of the nominees for Director named above. Proxies solicited by the Board of Directors will be so voted unless Shareholders specify a different choice.**

**Table of Contents****CORPORATE GOVERNANCE****General**

The business of the Company is managed under the direction of the Board of Directors. Pursuant to the requirements of the NYSE, a majority of the members of the Board must be independent, as defined by NYSE rules. The Board of Directors meets on a regularly scheduled basis to review significant developments affecting the Company, to act on matters requiring approval by the Board, and to otherwise fulfill its responsibilities. The Board of Directors has adopted Corporate Governance Guidelines, based on the recommendation of its Nominating and Corporate Governance Committee, to further its goal of providing effective governance of the Company's business for the long-term benefit of the Company's Shareholders, Employees, and Customers. These guidelines set forth policies concerning overall governance practices for the Company, including the following:

Qualifications of Directors	Board Self-Evaluation
Board Meetings	Ethics
Director Responsibilities	Director and Senior Management Compensation
Independence of Directors	Direct Stock Ownership
Size of Board and Selection Process	Access to Management
Resignation Policy	Access to Independent Advisors
Board Committees	Director Orientation and Continuing Education
Executive Sessions; Communications with Non-Management	Public Communications
Directors	Other Practices

The Company's Corporate Governance Guidelines, along with its Code of Ethics and the Charters for its Audit, Compensation, Nominating and Corporate Governance, Safety and Compliance Oversight, and Executive Committees, are available on the Company's website, [www.southwest.com](http://www.southwest.com). Shareholders may also obtain copies of these documents upon written request to Southwest Airlines Co., Investor Relations, HDQ-6IR, P.O. Box 36611, Dallas, Texas 75235.

**Board Membership and Qualifications**

*General Qualification Requirements; Diversity Considerations.* The Company's Nominating and Corporate Governance Committee is responsible for recommending to the Board the criteria for Board membership, as set forth in the Company's Corporate Governance Guidelines. The Corporate Governance Guidelines require that members of the Board (i) possess the highest personal and professional ethics, integrity, and values; (ii) possess practical wisdom and mature judgment; (iii) be committed to the best long-term interests of the Company's Employees, Customers, and Shareholders; (iv) be willing to devote sufficient time to fulfill their responsibilities; and (v) be willing to serve on the Board for an extended period of time. The Corporate Governance Guidelines also require the following factors to be considered in connection with the nomination or appointment of new Board members: (i) finance, marketing, government, education, and other professional experience or knowledge relevant to the success of the Company in the current business environment; (ii) independence (for non-management Directors); (iii) in the case of current Directors being considered for re-nomination, a Director's past attendance at Board and committee meetings and participation in and contributions to such meetings; and (iv) diversity. Each individual is evaluated in the context of the Board as a whole, with the objective of recommending to Shareholders a group that collectively can best serve the long-term interests of the Company's Employees, Customers, and Shareholders. The Board does not have a formal policy with regard to Board member diversity. Rather, diversity is one of many factors considered by the Board in assessing the qualifications of Board candidates. Furthermore, in considering diversity, the Board takes into account various types of diversity, such as diversity of experience, geography, gender, ethnicity, color, and age, with the goal of obtaining diverse perspectives. The Board's primary consideration is to identify candidates with the background, experience, and skills that will best fulfill the Board's and the Company's needs at the time a search is being conducted. Therefore, the Board does not believe it is appropriate to either nominate or exclude from nomination an individual based on gender, ethnicity, color, age, or similar factors.

## **Table of Contents**

The Corporate Governance Guidelines prohibit non-Employee Directors from serving on more than six public company boards and prohibit Employee Directors from serving on more than three public company boards. The Corporate Governance Guidelines also require that the nature and time involved in a Director's service on other boards be considered in connection with the evaluation of the suitability of that Director. In addition, in accordance with the Corporate Governance Guidelines, Directors should advise the Chairman of the Board and the Chairman of the Nominating and Corporate Governance Committee in advance of accepting an invitation to serve on the board of directors, the audit committee, or the compensation committee of another publicly-traded company.

*Attendance at Meetings.* The Board of Directors held six meetings during 2014 (some of which spanned two days). During 2014, each of the Company's current Directors attended at least 75 percent of the total number of Board and applicable committee meetings. It is the Board's policy that every Director and nominee for Director should make every effort to attend the Company's Annual Meeting of Shareholders. All of the Company's Directors attended the 2014 Annual Meeting of Shareholders.

## **Board Leadership Structure**

Gary C. Kelly, the Company's Chief Executive Officer, also serves as the Company's Chairman of the Board. The Board of Directors believes this is in the best interests of the Company and its Shareholders because Mr. Kelly is in the best position to (i) properly and timely identify matters that should be brought to the Board's attention, (ii) prioritize Board agenda items, and (iii) identify the individuals in the best position to present agenda items. The Board believes this structure is considerably more efficient and effective than (i) requiring an outside Chairman of the Board to duplicate many of the Chief Executive Officer's efforts or (ii) requiring the Chief Executive Officer to relay communications through another member of the Board. In addition, the Board believes the following practices accomplish independent oversight of management without the need to separate the roles of the Chief Executive Officer and the Chairman of the Board:

All members of the Board, other than the Chief Executive Officer, are independent, and each member is elected annually by the Company's Shareholders.

All members of the Board's Audit, Compensation, Nominating and Corporate Governance, and Safety and Compliance Oversight Committees are independent.

The Board meets, at a minimum, six times per year, and at each regular meeting of the Board, the Board is apprised of the Company's operations and strategies through briefings by (i) the Chief Executive Officer, (ii) other members of senior management with key responsibilities for the Company's ongoing operations and current initiatives, and (iii) any other Employees or advisors requested by the Board.

In addition to scheduled updates, the Board and its committees also request updates from management regarding matters deemed significant at any given time.

The independent Board members hold executive sessions outside the presence of the Chief Executive Officer and other management.

The Board and its committees provide regular input regarding items to be covered in future agendas.

In addition, pursuant to the Company's Corporate Governance Guidelines, the Board is required to appoint an independent member of the Board to serve as its Presiding Director. The duties of the Presiding Director, which is the Board's lead independent Director, include the following:

presiding over executive sessions of the non-management Directors;

Edgar Filing: SOUTHWEST AIRLINES CO - Form DEF 14A

consulting with the Chairman of the Board concerning the Board's agendas;

coordinating the activities of the non-management and independent Directors and the agenda for executive sessions;

communicating feedback to the Chief Executive Officer following executive sessions;

## **Table of Contents**

facilitating communications between the Board and the Chief Executive Officer;

at the standing invitation of the Board's committees, attending meetings of Board committees on which the Presiding Director does not already serve;

assisting the Nominating and Corporate Governance Committee with its oversight of the annual evaluation of the Board and its committees and communicating results of individual Director assessments to individual Board members;

consulting with the Nominating and Corporate Governance Committee with respect to recommendations for the assignment of Board members to the Board's committees; and

communicating (along with the Chair of the Compensation Committee) the results of the Board's evaluation of the Chief Executive Officer.

The Board believes all of the foregoing factors provide an appropriate balance between effective and efficient Company leadership and sufficient oversight by non-Employee Directors.

### **Executive Sessions and Communications with Non-Management Directors**

Pursuant to the Company's Corporate Governance Guidelines, the non-management members of the Board of Directors are required to meet at regularly scheduled executive sessions without the presence of management. The Board's Presiding Director, Dr. William H. Cunningham, presides over these executive sessions. Shareholders and any other interested parties may communicate directly with the Presiding Director or any or all of the non-management or other members of the Board by writing to such Director(s), c/o Southwest Airlines Co., Attn: Presiding Director, P. O. Box 36611, Dallas, Texas 75235.

### **Risk Oversight**

The Board is responsible for overseeing management's assessments of major risks facing the Company and for reviewing options to mitigate such risks. The Board's oversight of major risks occurs at both the full Board level and at the Board committee level. The Board and its committees use the following procedures to monitor and assess risks.

*The Board.* The Chief Executive Officer, members of senior management, and other personnel and advisors, as requested by the Board, report on the Company's financial and operating strategies, as well as related risks, at every regular meeting of the Board. Based on these reports, the Board requests follow-up data and presentations to address any specific concerns and recommendations.

*The Audit Committee.* In accordance with the requirements of the NYSE, the Audit Committee assists the Board with its oversight responsibilities by discussing the Company's major financial risk exposures, its policies with respect to risk assessment and risk management, and the steps management has taken to monitor and control or mitigate financial risk exposures. The Audit Committee discusses with the Company's management, as well as the Company's Internal Audit Department (including in executive sessions), the Company's policies with respect to risk assessment and risk management and advises management on its risk assessment approach and its prioritization of risks. The Audit Committee also receives regular reports on, and assessments of, the Company's internal controls from the Company's Internal Audit Department and members of management responsible for financial controls. In addition, the Audit Committee receives the independent auditor's assessment of the Company's internal controls and financial risks, which includes the independent auditor's report on its procedures for identifying fraud and addressing any risk of management override. The Audit Committee also receives management reports regarding specific areas of financial risk and discusses strategies to mitigate risk. Further, the Audit Committee reviews with management cyber security and other risks relevant to the Company's computerized information system controls and security.

*The Safety and Compliance Oversight Committee.* The Board's Safety and Compliance Oversight Committee assists the Board with overseeing the Company's activities with respect to safety and operational compliance. Pursuant to its Charter, the Safety and Compliance Oversight Committee is responsible for periodically assessing the Company's safety and operational compliance obligations and associated risks and





**Table of Contents**

performance relative to those standards. In fulfilling this responsibility, the Safety and Compliance Oversight Committee regularly specifies areas to be addressed at its meetings and requires that individuals from a variety of operational levels be available to discuss their areas of responsibility and respond to questions.

*The Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee receives updates and advice from management and outside advisors regarding the Company's procedures for complying with corporate governance regulations, as well as with respect to the Company's governance structure and protections. This Committee also reviews the Company's Corporate Governance Guidelines at least annually to further the Company's goal of providing effective governance.

*The Compensation Committee.* The Compensation Committee receives updates and advice on the ongoing advisability of the Company's compensation practices both from management and from the Compensation Committee's independent consultant. The Compensation Committee also assists the Board with its annual review of succession planning.

The Compensation Committee is aware of the need to routinely assess the Company's compensation policies and practices as they relate to the Company's risk management and whether the structure and administration of the Company's compensation and incentive programs could influence risk-taking throughout the organization. The Compensation Committee has determined that the compensation policies and practices for the Company's Employees are not reasonably likely to have a material adverse effect on the Company for the following reasons, among others:

The Compensation Committee's bonus determinations take into account multiple general performance standards established by the Company to support its overall strategies and goals, rather than a single measure such as stock price performance or earnings. This has served as a multi-dimensional tool for the Compensation Committee to use in awarding bonuses, so that factors that are deemed significant to industry and operational performance are considered in addition to financial measures. This multi-dimensional approach reduces the risk that can be created when financial results are the only drivers of incentive payments. The Compensation Committee believes it is important to take into account multiple measures of financial and operational performance, as well as comparative pay in the market, for the following reasons, among others: (i) using a measure such as the Company's stock price performance at any specified point in time is not necessarily indicative of the Company's overall financial and operational performance, (ii) the Compensation Committee believes that rewarding Employees based solely on a measure such as stock price appreciation could create business risks by effectively encouraging Employees to focus on short-term results at the expense of the long-term financial and operational health of the Company, and (iii) the Compensation Committee believes that basing short-term incentive compensation on a single measure such as stock price performance presents undue retention risks.

The Compensation Committee has historically exercised a certain amount of discretion in awarding bonuses, in part to minimize the risk-taking that can result from a strict application of performance-based awards.

Incentive compensation is used responsibly, with appropriate focus on both Company and individual performance to effectively balance risks and rewards.

The Compensation Committee has adopted a clawback policy, pursuant to which, to the extent permitted by governing law, the Company may seek to recoup certain incentive-based compensation in the event the Company is required to restate its publicly-reported financial statements due to material noncompliance with any financial reporting requirement under the securities laws as a result of misconduct.

The Company's Insider Trading Policy prohibits Employees from entering into hedging transactions with respect to the Company's securities.

**Table of Contents**

**Committees of the Board**

The Board has established the following standing committees to assist it with fulfilling its responsibilities: (i) Audit, (ii) Compensation, (iii) Nominating and Corporate Governance, (iv) Safety and Compliance Oversight, and (v) Executive. The following table provides information on the Board's current committee memberships.

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Safety and Compliance Oversight Committee	Executive Committee
David W. Biegler	X	Chair		X	
J. Veronica Biggins		X			