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CAUSE NO. 08.08692 FILED

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CARBON COUNTY EMPLOYEES )  
RETIREMENT SYSTEM and MARK )  
CRISTELLO, Derivatively on Behalf of )  
Nominal Defendant SOUTHWEST )  
AIRLINES CO., )

Plaintiffs,

v.

GARY C. KELLY, COLLEEN C. )  
BARRETT, BARRY BROWN, )  
GREGORY N. CRUM, JIM SOKOL, )  
MICHAEL G. VAN DE VEN, DAVID )  
BIEGLER, LOUIS CALDERA, C. WEBB )  
CROCKETT, WILLIAM H. )  
CUNNINGHAM, TRAVIS JOHNSON, )  
HERBERT D. KELLEHER, NANCY )  
LOEFFLER, and JOHN T. MONTFORD, )

Defendants,

and

SOUTHWEST AIRLINES CO., )  
Nominal Defendant. )

GARY F. SIMMONS  
DISTRICT CLERK  
DALLAS CO., TEXAS  
*Ant [Signature]*

IN THE DISTRICT COURT OF  
DALLAS COUNTY, TEXAS  
B-44th JUDICIAL DISTRICT

**SHAREHOLDER DERIVATIVE  
PETITION**

**JURY TRIAL DEMANDED**

Plaintiffs, Carbon County Employees Retirement System and Mark Cristello, by the undersigned attorneys, submit this Shareholder Derivative Petition (the "Petition") against the defendants named herein.

**NATURE OF THE ACTION**

1. This is a shareholder's derivative action brought for the benefit of nominal defendant Southwest Airlines Co. ("Southwest" or the "Company") against certain members of

its Board of Directors (the “Board”) and certain current and former executive officers of the Company seeking to remedy defendants’ breaches of fiduciary duties.

2. The Individual Defendants (defined herein) knowingly approved, or acted in bad faith in failing to oversee and prevent, the Company’s improper practices and noncompliance with federally-mandated inspection requirements, as alleged in detail herein.

3. As a result of the Individual Defendants’ misconduct, on March 6, 2008, the Federal Aviation Administration (“FAA”) initiated an action to collect a ***\$10.2 million civil penalty*** (the “FAA Penalty”) – the largest ever – from Southwest for operating 46 airplanes without performing mandatory inspections for fuselage fatigue cracking.

4. Specifically, from June 18, 2006 to March 14, 2007, Southwest operated 46 Boeing 737 airplanes on 59,791 flights while failing to comply with a September 8, 2004 FAA Airworthiness Directive (“AD”) that required repetitive inspections of certain fuselage areas to detect fatigue cracking.

5. After Southwest Airlines purportedly “discovered” that it had failed to accomplish the required repetitive inspections, it continued to operate those same 46 aircrafts on an additional 1,451 flights between March 15, 2007 and March 23, 2007, after which Southwest found that six of the 46 airplanes had fatigue cracks.

6. As a result of the FAA action, Southwest initiated an internal investigation.

7. Blaming an ambiguity in its documentation regarding mandated inspections, on March 12, 2008, the Company grounded 44 of its jets to perform the required safety inspections for structural damage. As a result of the grounded jets, Southwest cancelled 120 flights, which was four percent of the Company’s flights scheduled for March 12, 2008.

8. The Individual Defendants breached their fiduciary duties by: (i) knowingly approving the Company's improper practices; and/or (ii) abdicating their responsibility to make a good faith effort to oversee the Company's operations and internal controls, including compliance with all federally-mandated inspection requirements of its Boeing 737 fleet.

9. As a result of the foregoing breaches of fiduciary duties, the Company has sustained damages, including, but not limited to, costs and expenses incurred in connection with governmental and regulatory investigations, costs and expenses incurred in connection with the Company's internal investigation into Southwest's maintenance operations and compliance with the safety inspections mandated by the AD, the \$10.2 million civil penalty proposed by the FAA for Southwest's failure to comply with the AD, and the revenue lost as a result of Southwest's grounding of 44 Boeing 737 airliners on March 12, 2008.

#### **PARTIES**

10. Plaintiffs Carbon County Employees Retirement System and Mark Cristello ("Plaintiffs") are shareholders of Southwest, were shareholders of Southwest at the time of the wrongdoing alleged herein, and have been shareholders of Southwest continuously since that time.

11. Nominal Defendant Southwest is a Texas corporation with its principal executive offices located at 2702 Love Field Drive, Dallas, Texas 75235. According to its public filings, Southwest is a major passenger airline that provides scheduled air transportation in the United States.

12. Defendant Gary C. Kelly ("Kelly") has served as the Company's Chief Executive Officer since July 2004, as its President since July 15, 2008, and as Chairman of the Board since May 2008. Kelly also served as Vice Chairman of the Board from July 2004 to May 2008, as the

Company's Executive Vice President - Chief Financial Officer from June 2001 to July 2004, and as its Vice President - Finance and Chief Financial Officer from 1989 to 2001. Kelly joined the Company in 1986 as its Controller.

13. Defendant Colleen C. Barrett ("Barrett") served as Southwest's President from June 2001 to July 15, 2008, as its Corporation Secretary from March 1978 to July 15, 2008, and as Chairman of the Board from June 2001 to May 2008. Barrett also served as the Company's Executive Vice President - Customers from 1990 to 2001 and Vice President - Administration from 1986 to 1990.

14. Defendant Barry Brown ("Brown") is the Company's Vice President, Safety and Security. Brown joined Southwest in June 1990.

15. Defendant Gregory N. Crum ("Crum") is the Company's Vice President, Director of Operations. Crum joined Southwest in 1979.

16. Defendant Jim Sokol ("Sokol") is the Company's Vice President, Maintenance and Engineering. Sokol joined Southwest in September 1994.

17. Defendant Michael G. Van De Ven ("Van De Ven") has served as the Company's Chief Operating Officer since May 2008 and previously served as its Executive Vice President and Chief of Operations from September 2006 to May 2008. Van De Ven also served as the Company's Executive Vice President - Aircraft Operations from November 2005 to August 2006, as its Senior Vice President - Planning from August 2004 to November 2005, and as its Vice President - Financial Planning & Analysis from June 2001 to August 2004. Van de Ven joined the Company in 1993 as Director of Internal Audit and also served as Senior Director - Financial Planning & Analysis.

18. Defendant David Biegler (“Biegler”) has served as a director of the Company and as a member of the Audit Committee of the Board (the “Audit Committee”) since 2006.

19. Defendant Louis Caldera (“Caldera”) has served as a director of the Company since 2003 and as a member of the Audit Committee at all relevant times hereto.

20. Defendant C. Webb Crockett (“Crockett”) has served as a director of the Company since 1994.

21. Defendant William H. Cunningham (“Cunningham”) has served as a director of the Company since 2000 and as the chairman of the Audit Committee at all relevant times hereto.

22. Defendant Travis Johnson (“Johnson”) has served as a director of the Company since 1978 and as a member of the Audit Committee at all relevant times hereto.

23. Defendant Herbert D. Kelleher (“Kelleher”) is the co-founder of Southwest and served as Chairman of the Board from March 1978 to May 2008 and as director from 1967 to May 2008. Kelleher served as President and Chief Executive Officer of the Company from February 1982 to June 2001.

24. Defendant Nancy Loeffler (“Loeffler”) has served as a director of the Company since 2003.

25. Defendant John T. Montford (“Montford”) has served as a director of the Company since 2002 and as a member of the Audit Committee at all relevant times hereto.

26. Collectively, defendants Kelly, Barrett, Brown, Crum, Sokol, Van De Ven, Biegler, Caldera, Crockett, Cunningham, Johnson, Kelleher, Loeffler and Montford are hereinafter referred to as the “Individual Defendants.”

**JURISDICTION AND VENUE**

27. The court has jurisdiction over defendants because Southwest is a Texas corporation headquartered in Dallas, Texas and the individual defendants are officers and/or directors of Southwest. The court has jurisdiction over the controversy because the damages are within the jurisdictional limits of the court.

28. Venue is proper in Dallas County, Texas pursuant to Civil Practice & Remedies Code sections 15.002(a) and 15.005 because Dallas County is the county in which all or a substantial part of the events or omissions giving rise to this action occurred and is the county of Southwest's principal office.

**DUTIES OF THE INDIVIDUAL DEFENDANTS**

29. By reason of their positions as officers, directors, and/or fiduciaries of Southwest and because of their ability to control the business and corporate affairs of Southwest, the Individual Defendants owed Southwest and its shareholders fiduciary obligations of good faith, loyalty, and candor, and were and are required to use their utmost ability to control and manage Southwest in a fair, just, honest, and equitable manner. The Individual Defendants were and are required to act in furtherance of the best interests of Southwest and its shareholders so as to benefit all shareholders equally and not in furtherance of their personal interest or benefit. Each director and officer of the Company owes to Southwest and its shareholders the fiduciary duty to exercise good faith and diligence in the administration of the affairs of the Company and in the use and preservation of its property and assets, and the highest obligations of fair dealing.

30. The Individual Defendants, because of their positions of control and authority as directors and/or officers of Southwest, were able to and did, directly and/or indirectly, exercise control over the wrongful acts complained of herein, as well as the contents of the various public

statements issued by the Company. Because of their advisory, executive, managerial, and directorial positions with Southwest, each of the Individual Defendants had knowledge of material non-public information regarding the Company.

31. To discharge their duties, the officers and directors of Southwest were required to exercise reasonable and prudent supervision over the management, policies, practices and controls of the Company. By virtue of such duties, the officers and directors of Southwest were required to, among other things:

- a. exercise good faith to ensure that the affairs of the Company were conducted in an efficient, business-like manner so as to make it possible to provide the highest quality performance of its business;
- b. exercise good faith to ensure that the Company was operated in a diligent, honest and prudent manner and complied with all applicable federal and state laws, rules, regulations and requirements, and all contractual obligations, including acting only within the scope of its legal authority;
- c. when put on notice of problems with the Company's business practices and operations, exercise good faith in taking appropriate action to correct the misconduct and prevent its recurrence; and
- d. refrain from acting upon material inside corporate information to benefit themselves.

32. The Individual Defendants, particularly Audit Committee members Cunningham (chairman), Biegler, Caldera, Johnson and Montford, were responsible for maintaining and establishing adequate internal accounting controls for the Company and to ensure that the Company's financial statements were based on accurate financial information.

33. According to the Audit Committee Charter, the Audit Committee (Cunningham (chairman), Biegler, Caldera, Johnson and Montford) "assist the Board of Directors in oversight of (1) the integrity of Southwest's financial statements, (2) *Southwest's compliance with legal and regulatory requirements*, (3) the independent auditor's qualification and independence, and

(4) the performance of Southwest's internal audit function and independent auditors." (emphasis added). Specifically, the Audit Committee shall perform, among others, the following functions:

- a. Review with the independent auditors and the Company's internal auditor the adequacy of the Company's accounting, financial and internal operating controls, including those designed to insure that Company payments and other transactions are properly made and recorded in compliance with all applicable statutes and regulations, including the Foreign Corrupt Practices Act of 1977.
- b. Establish and maintain procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by Employees of concerns regarding questionable accounting or auditing matters. Set clear policies for the hiring of employees or former employees of the independent auditors.
- c. Meet five times a year in regular meetings, and additional meetings that may be deemed appropriate by the Chairman of the Audit Committee or the Board of Directors; meet separately, periodically, with management, with internal auditors, and with independent auditors.

#### **FACTUAL ALLEGATIONS**

34. On September 8, 2004, the FAA issued AD 2004-18-06, which required repetitive inspections of certain fuselage areas of Boeing 737 jets. As stated by the FAA, the AD, applicable to certain Boeing Model 737-200, -200C, -300, -400, and -500 series airplanes, requires repetitive inspections to find fatigue cracking of certain upper and lower skin panels of the fuselage, and follow-on and corrective actions, if necessary. The AD also includes terminating action for the repetitive inspections of certain modified or repaired areas only. This action is necessary to find and fix fatigue cracking of the skin panels, which could result in sudden fracture and failure of the skin panels of the fuselage, and consequent rapid decompression of the airplane. This action is intended to address the identified unsafe condition.

35. However, the Individual Defendants knowingly failed to ensure Southwest's compliance with the AD requirements, particularly Audit Committee members Biegler, Caldera,

Cummingham, Johnson and Montford, who are specifically charged with overseeing compliance with such regulations.

36. Indeed, from June 18, 2006 to March 14, 2007, the Individual Defendants permitted 46 of Southwest's Boeing 737 airliners to continue operations on 59,791 flights while knowing that these airliners had not received the required safety inspections for fuselage damage.

37. On March 15, 2007, Southwest informed the FAA that it was not in full compliance with the inspection requirements of the AD. Southwest purportedly "discovered" the error when preparing for an audit by the FAA of Southwest's procedures for following airworthiness directives.

38. However, despite their purported "discovery," the Individual Defendants knowingly allowed Southwest to operate these same 46 airliners on 1,451 flights between March 15, 2007 and March 23, 2007.

39. As stated by the FAA, the aircrafts were not airworthy when they were operated on all 61,242 flights during the relevant period because required AD inspection had not been performed.

40. On March 6, 2008, the FAA issued a press releasing announcing a proposed \$10.2 million civil penalty against Southwest:

The Federal Aviation Administration (FAA) today initiated an action to collect a \$10.2 million civil penalty from Southwest Airlines for operating 46 airplanes without performing mandatory inspections for fuselage fatigue cracking. Subsequently, the airline found that six of the 46 airplanes had fatigue cracks.

"The FAA is taking action against Southwest Airlines for a failing to follow rules that are designed to protect passengers and crew," said FAA Associate Administrator for Aviation Safety Nicholas A. Sabatini. "We expect the airline industry to fully comply with all FAA directives and take corrective action."

From June 18, 2006 to March 14, 2007, the FAA alleges that Southwest Airlines operated 46 Boeing 737 airplanes on 59,791 flights while failing to comply with a

September 8, 2004 FAA Airworthiness Directive (AD) that required repetitive inspections of certain fuselage areas to detect fatigue cracking.

The FAA alleges that after Southwest Airlines discovered that it had failed to accomplish the required repetitive inspections, between March 15, 2007 and March 23, 2007, it continued to operate those same 46 airplanes on an additional 1,451 flights. The amount of the civil penalty reflects the serious nature of those deliberate violations.

An AD is a legally enforceable rule issued by the FAA to correct an unsafe condition in an aviation product. In this case, the FAA's AD mandated repetitive external detailed and eddy-current inspections at intervals of no more than 4,500 flight cycles to detect fatigue cracking in areas of the fuselage skin on some Boeing 737 models.

Southwest Airlines has 30 days from receipt of the FAA's civil penalty letter to respond to the agency.

41. The \$10.2 million penalty represents two separate findings by the FAA. The Company was fined \$200,000 for missing the deadline to inspect 46 jets for fatigue cracks, flying 59,751 flights. The FAA recommended a larger penalty of \$10 million for 1,451 flights by 38 jets that were operated after Southwest knew the planes had to be checked.

42. On March 6, 2008 Southwest received a letter from the FAA outlining its allegations.

43. On March 7, 2008, Kelly issued a statement regarding the FAA penalty and announced that Southwest was conducting an ongoing investigation regarding its failure to comply with the AD from June 18, 2006 to March 23, 2007.

44. On March 11, 2008, the Company announced the preliminary findings of the investigation:

Southwest Airlines (NYSE: LUV) CEO Gary Kelly said today the airline is taking action on preliminary findings of its own internal investigation into allegations that it violated FAA regulations in March 2007.

Kelly has vowed to make any changes necessary to assure that the airline is in full compliance with FAA Airworthiness Directives and all of its own maintenance programs, policies, and procedures.

“Upon learning last month of an investigation with respect to our handling of this inspection and an Airworthiness Directive, I immediately ordered an independent and comprehensive investigation by outside counsel,” Kelly said.

Last week, we accelerated the internal investigation after Southwest received details from the FAA’s letter of civil penalty. On March 10, Kelly was given preliminary findings from the internal investigation.

“I am concerned with some of our findings as to our controls over procedures within our maintenance airworthiness directive and regulatory compliance processes,” Kelly said. “I have insisted that we have the appropriate maintenance organizational and governance structure in place to ensure that the right decisions are being made.”

Based on those findings, Southwest has:

- Placed three Employees on administrative leave. Those Employees are cooperating with the investigation.
- Hired a respected outside consultant with proven experience to help review its maintenance program controls, especially Airworthiness Directive (AD) compliance.
- Fully engaged with the FAA on its current audit of Southwest and committed to FAA leadership that it will investigate and address any deficiencies in its maintenance controls.

“These are important and necessary steps,” Kelly said. “At the same time, we are mindful that during Southwest’s 37-year proud history, we have safely transported the population of the United States -- every man, woman, and child -- four and a half times over. This is a fact. We have been a safe Company. I believe we are a safe Company. I am committed to making sure we become safer still.”

45. On March 12, 2008, the Company issued a press release providing an update of the internal investigation:

Yesterday, Southwest Airlines (NYSE: LUV) CEO Gary Kelly said the airline is taking action on preliminary findings of its own internal investigation into allegations that it violated FAA regulations in March 2007. Kelly vowed to make any changes necessary to ensure that the airline is in full compliance with FAA Airworthiness Directives and all of its own maintenance programs, policies, and procedures.

***During last night’s review by Southwest of its maintenance records, the airline discovered an ambiguity related to required testing.*** Southwest made the decision to take a conservative approach and remove aircraft out of scheduled service. Southwest immediately began reinspecting those aircraft. A total of 44 aircraft

were affected -- one was already retired, five were in maintenance for scheduled checks, and the remaining 38 were removed from scheduled service.

*Southwest's decision to remove aircraft from service resulted in approximately four percent of today's Southwest flights being canceled.* Due to good weather conditions, the decision caused minimal schedule disruptions and the airline is running more than 90 percent ontime.

A portion of the aircraft have been inspected, cleared, and returned to service. The airline expects to have all of these aircraft inspected by early this evening. The ongoing internal review of Southwest's maintenance programs, policies, and procedures could potentially create other operational changes if the airline needs to swap or reroute aircraft as the internal investigation and audit unfolds.

"Again, we are mindful that during Southwest's 37-year proud history, we have safely transported the population of the United States -- every man, woman, and child -- four and a half times over. This is a fact. We have been a safe Company. I believe we are a safe Company. I am committed to making sure we become safer still," said Southwest CEO Gary Kelly.

46. On April 3, 2008, the House Transportation and Infrastructure Committee held a hearing lead by Rep. James Oberstar, D-Minn., chairman, regarding the problems at Southwest, in addition to the broad issue of FAA airline safety regulatory abuses.

47. At the hearing, the co-founder of Southwest, Kelleher, admitted that "there was clearly a mistake with our regulatory compliance." Kelleher further stated that "I apologize to this committee. I realize these planes should not have flown."

48. Kelleher told the committee that Southwest "screwed up" by continuing to fly planes that should have been grounded. He admitted that "[w]e should not have [continued the flights], and we have learned our lesson"

#### **The Individual Defendants Abdicate Their Fiduciary Duties**

49. Between June 2006 and March 2007, the Individual Defendants knew that the Company's internal regulatory and maintenance controls were ineffective. The Individual Defendants' failure to ensure effective internal controls at Southwest resulted in the Company's non-compliance with federally-mandated inspection requirements.

50. In breach of their fiduciary duty of good faith and loyalty, the Individual Defendants willfully ignored the obvious and pervasive problems with Southwest's internal control practices and procedures and failed to make a good faith effort to correct the problems or prevent their recurrence. The information discussed above was or should have been well-known among Southwest insiders, including the Individual Defendants, who comprise the entire executive corps of the Company and its entire Board, and was discussed formally and informally during Southwest Board and committee meetings, management meetings, and other meetings attended by the Individual Defendants. Indeed, the Individual Defendants were keenly aware that the Company was engaging in improper practices, which resulted in the \$10.2 million penalty against Southwest.

51. Furthermore, Audit Committee members Biegler, Caldera, Cunningham, Johnson and Montford breached their fiduciary duties by failing to oversee and ensure Southwest's compliance with legal and regulatory requirements, as required by the Audit Committee Charter. From 2004 to 2007, the Audit Committee held five meetings each year where the FAA regulations, including the AD, were or should have been discussed. Despite this, the Audit Committee failed in preventing or correcting Southwest's failure to inspect the 46 aircrafts that are the subject of the FAA action.

52. As a result of the foregoing breach of fiduciary duties, the Company has sustained damages, including, but not limited to, costs and expenses incurred in connection with governmental and regulatory investigations, costs and expenses incurred in connection with the Company's internal investigation into Southwest's maintenance operations and compliance with the safety inspections mandated by the AD, the \$10.2 million civil penalty proposed by the FAA

for Southwest's failure to comply with the FAA's directives, and the revenue lost as a result of Southwest's grounding of 44 Boeing 737 airliners on March 12, 2008.

**DERIVATIVE AND DEMAND ALLEGATIONS**

53. Plaintiffs incorporate by reference and reallege each and every allegation set forth above, as though fully set forth herein.

54. Plaintiffs bring this action derivatively in the right and for the benefit of the Company to redress the Individual Defendants' breaches of fiduciary duties.

55. Plaintiffs are owners of Southwest common stock and were owners of Southwest common stock at all times relevant hereto.

56. Plaintiffs will adequately and fairly represent the interests of the Company and its shareholders in enforcing and prosecuting its rights.

57. On March 27, 2008 and April 3, 2008, Plaintiffs made demands on the Board to commence an action against the Individual Defendants (the "Demands"). Copies of the Demands are attached hereto, and incorporated herein, as Exhibits A and B.

58. On June 20, 2008, outside counsel for the Company sent to Plaintiffs' counsel two letters acknowledging receipt of the Demands. Copies of the June 20, 2008 letters are attached hereto, and incorporated herein, as Exhibits C and D.

59. As of the filing of this Petition, neither the Board nor a committee of the Board has responded to the Demands.

**COUNT I**

**AGAINST ALL INDIVIDUAL DEFENDANTS  
FOR BREACH OF FIDUCIARY DUTY OF GOOD FAITH**

60. Plaintiffs incorporate by reference all preceding and subsequent paragraphs as if fully set forth herein.

61. As alleged herein, each of the Individual Defendants had a fiduciary duty to, among other things, exercise good faith to ensure that the Company was operated in a diligent, honest and prudent manner and complied with all applicable federal and state laws, rules, regulations and requirements, and, when put on notice of problems with the Company's practices and operations, exercise good faith in taking appropriate action to correct the misconduct and prevent its recurrence.

62. The Individual Defendants knowingly implemented and engaged in the Company's improper business practices, breaching their fiduciary duties.

63. Furthermore, despite their actual knowledge of the Company's improper business practices, the Individual Defendants made no effort to correct the problems or prevent their recurrence; thus, they abdicated their fiduciary duty of good faith.

64. As a direct and proximate result of the Individual Defendants' foregoing breaches of fiduciary duties, the Company has sustained damages, including, but not limited to, costs and expenses incurred in connection with governmental and regulatory investigations, costs and expenses incurred in connection with the Company's internal investigation into Southwest's maintenance operations and compliance with the safety inspections mandated by the AD, the \$10.2 million civil penalty proposed by the FAA for Southwest's failure to comply with the FAA's directives, and the revenue lost as a result of Southwest's grounding of 44 Boeing 737 airliners on March 12, 2008.

WHEREFORE, Plaintiffs demand judgment as follows:

- A. Against all of the Individual Defendants and in favor of the Company for the amount of damages sustained by the Company as a result of the Individual Defendants' breaches of fiduciary duties;

- B. Awarding to Plaintiffs the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees and costs and expenses; and
- C. Granting such other and further relief as the Court deems just and proper.

**JURY DEMAND**

DATED: July 31, 2008

Respectfully submitted,

NIX PATTERSON & ROACH LLP



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D. Neil Smith Tx: 00797450  
Jeffrey J. Angelovich Tx: 00786988  
Bradley E. Beckworth Tx: 24001710  
5215 North O'Connor Blvd., Suite 1900  
Irving, TX 75039  
Telephone: (972) 831-1188  
Facsimile: (972) 444-0716

NIX PATTERSON & ROACH LLP  
Brad E. Seidel Tx: 24008008  
Susan R. Whatley Tx: 24047420  
205 Linda Drive  
Daingerfield, TX 75638  
Telephone: (903) 645-7333

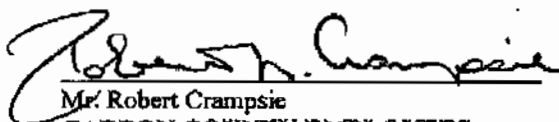
SCHIFFRIN BARROWAY  
TOPAZ & KESSLER, LLP  
Eric L. Zagar  
Robin Winchester  
Alison Clark  
280 King of Prussia Road  
Radnor, PA 19087  
Telephone: (610) 667-7706

Counsel for Plaintiffs

**VERIFICATION**

I, Robert Crampsie, Carbon County Controller, on behalf of Carbon County Employees Retirement System, hereby verify that I have authorized the filing of the attached Complaint, that I have reviewed the Complaint, and that the facts therein are true and correct to the best of my knowledge, information and belief. I declare under penalty of perjury that the foregoing is true and correct.

Date: This 24<sup>th</sup> Day of July, 2008

  
Mr. Robert Crampsie  
**CARBON COUNTY EMPLOYEES  
RETIREMENT SYSTEM**



**SCHIFFRIN BARROWAY  
TOPAZ & KESSLER, LLP**  
Attorneys at Law

[www.sbtklaw.com](http://www.sbtklaw.com)

280 King of Prussia Road • Radnor, Pennsylvania 19087 • (610) 667-7706 • Fax: (610) 667-7056  
2125 Oak Grove Road, Suite 120 • Walnut Creek, California 94598 • (925) 945-0200 • Fax: (925) 945-8792

Writer's Direct Dial: (610) 822-2209  
E-Mail: [ezagar@sbtklaw.com](mailto:ezagar@sbtklaw.com)

March 27, 2008

**VIA FEDERAL EXPRESS**

Herbert D. Kelleher  
Chairman of the Board  
Southwest Airlines Co.  
2702 Love Field Drive  
Dallas, Texas 75235

**Re: Shareholder Demand**

Dear Mr. Kelleher:

This firm represents Mark Cristello (the "Stockholder"), a holder of shares of common stock of Southwest Airlines Co. ("Southwest" or the "Company"). I write on behalf of the Stockholder to demand that the Board of Directors of Southwest (the "Board") take action to remedy breaches of fiduciary duties by certain directors and officers of the Company, as described herein.

As you are aware, by reason of their positions as officers and/or directors of the Company and because of their ability to control the business and corporate affairs of the Company, the officers and directors of Southwest owe the Company and its shareholders the fiduciary obligations of good faith, loyalty, and due care, and are required to use their utmost ability to control and manage the Company in a fair, just, honest, and equitable manner. The Stockholder believes that current officers and directors of the Company, including President and Corporate Secretary Colleen C. Barrett ("Barrett"), Vice Chairman and Chief Executive Officer Gary C. Kelly ("Kelly"), Executive Vice President and Chief of Operations Michael G. Van De Ven ("Van De Ven"), Vice President, Director of Operations Greg Crum ("Crum"), Vice President, Maintenance and Engineering Jim Sokol ("Sokol"), Vice President, Safety and Security Barry Brown ("Brown"), and current outside directors David Biegler ("Biegler"), Louis Caldera ("Caldera"), C. Webb. Crockett ("Crockett"), William H. Cunningham ("Cunningham"), Travis Johnson ("Johnson"), Herbert D. Kelleher ("Kelleher"), Nancy Loeffler ("Loeffler") and John T. Montford ("Montford") (collectively, the "Officers and Directors") violated these core fiduciary duty principles, causing the Company to suffer damages.

Herbert D. Kelleher  
March 27, 2008  
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On September 8, 2004, the Federal Aviation Administration (the "FAA") issued an FAA Airworthiness Directive which required repetitive inspections of certain fuselage areas of Boeing 737 jets (the "AD"). From June 18, 2006 to March 14, 2007, Southwest permitted 46 of its Boeing 737 airliners to continue operations despite the knowledge that these airliners had not received the required safety inspections for fuselage damage. On or about March 15, 2007, Southwest purportedly "discovered" that the Company had not conducted the inspections required by the AD. However, even armed with this knowledge, Southwest continued to allow these same 46 airliners to operate between March 15, 2007 and March 23, 2007.

On March 12, 2008, Southwest revealed that the Company had grounded 44 of its jets to perform the required safety inspections for structural damage. As a result of the grounded jets, Southwest cancelled 120 flights, or four percent of the Company's flights scheduled for March 12, 2008.

The Stockholder contends that the Officers and Directors knowingly approved, or were grossly negligent in failing to prevent and correct, the Company's improper practices and noncompliance with federally-mandated inspection requirements. The Stockholder maintains that each of the Officers and Directors breached their fiduciary duties by: (i) knowingly approving the Company's improper practices; and/or (ii) abdicating their responsibility to make a good faith effort to oversee the Company's operations and internal controls, including compliance with all federally-mandated inspection requirements of its Boeing 737 fleet. The Stockholder believes that the acts (and failures to act) described above represent a systematic failure of the Officers and Directors to effectively manage the affairs of the Company. Among other things, it is apparent that the Officers and Directors have failed to implement necessary oversight procedures and controls to effectively manage the Company. The Officers' and Directors' systematic failure to properly manage the Company violates their fiduciary duties of loyalty and good faith.

As a result of the foregoing breaches of duty, the Company has sustained damages, including, but not limited to, costs and expenses incurred in connection with governmental and regulatory investigations, costs and expenses incurred in connection with the Company's internal investigation into Southwest's maintenance operations and compliance with the safety inspections mandated by the AD, the \$10.2 million civil penalty proposed by the FAA for Southwest's failure to comply with the FAA's directives, and the revenue lost as a result of Southwest's grounding of 44 Boeing 737 airliners on March 12, 2008.

On behalf of the Stockholder, I hereby demand that the Board take action to recover from the Officers and Directors the amount of damages sustained by the Company as a result of the misconduct alleged herein, and to correct deficiencies in the Company's internal controls that enabled the misconduct alleged herein to occur.

If within a reasonable period of time after receipt of this letter the Board has not taken action as demanded herein, the Stockholder will commence a shareholder derivative action on behalf of the Company seeking appropriate relief.

Herbert D. Kelleher  
March 27, 2008  
Page 3

Very truly yours,

SCHIFFRIN BARROWAY TOPAZ  
& KESSLER, LLP



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Eric L. Zagar

cc: Richard A. Maniskas, Esq.  
Robin Winchester, Esq.  
Alison Clark, Esq.



**SCHIFFRIN BARROWAY  
TOPAZ & KESSLER, LLP**  
Attorneys at Law

[www.sbtklaw.com](http://www.sbtklaw.com)

280 King of Prussia Road • Radnor, Pennsylvania 19087 • (610) 667-7706 • Fax: (610) 667-7056  
2125 Oak Grove Road, Suite 120 • Walnut Creek, California 94598 • (925) 945-0200 • Fax: (925) 945-8792

Writer's Direct Dial: (610) 822-2209  
E-Mail: [ezagar@sbtklaw.com](mailto:ezagar@sbtklaw.com)

April 3, 2008

**VIA FEDERAL EXPRESS**

Herbert D. Kelleher  
Chairman of the Board  
Southwest Airlines Co.  
2702 Love Field Drive  
Dallas, Texas 75235

**Re: Shareholder Demand**

Dear Mr. Kelleher:

This firm represents Carbon County Employees Retirement System (the "Stockholder"), a holder of shares of common stock of Southwest Airlines Co. ("Southwest" or the "Company"). I write on behalf of the Stockholder to demand that the Board of Directors of Southwest (the "Board") take action to remedy breaches of fiduciary duties by certain directors and officers of the Company, as described herein.

As you are aware, by reason of their positions as officers and/or directors of the Company and because of their ability to control the business and corporate affairs of the Company, the officers and directors of Southwest owe the Company and its shareholders the fiduciary obligations of good faith, loyalty, and due care, and are required to use their utmost ability to control and manage the Company in a fair, just, honest, and equitable manner. The Stockholder believes that current officers and directors of the Company, including President and Corporate Secretary Colleen C. Barrett ("Barrett"), Vice Chairman and Chief Executive Officer Gary C. Kelly ("Kelly"), Executive Vice President and Chief of Operations Michael G. Van De Ven ("Van De Ven"), Vice President, Director of Operations Greg Crum ("Crum"), Vice President, Maintenance and Engineering Jim Sokol ("Sokol"), Vice President, Safety and Security Barry Brown ("Brown"), and current outside directors David Biegler ("Biegler"), Louis Caldera ("Caldera"), C. Webb. Crockett ("Crockett"), William H. Cunningham ("Cunningham"), Travis Johnson ("Johnson"), Herbert D. Kelleher ("Kelleher"), Nancy Loeffler ("Loeffler") and John T. Montford ("Montford") (collectively, the "Officers and Directors") violated these core fiduciary duty principles, causing the Company to suffer damages.

Herbert D. Kelleher  
April 3, 2008  
Page 2

On September 8, 2004, the Federal Aviation Administration (the "FAA") issued an FAA Airworthiness Directive which required repetitive inspections of certain fuselage areas of Boeing 737 jets (the "AD"). From June 18, 2006 to March 14, 2007, Southwest permitted 46 of its Boeing 737 airliners to continue operations despite the knowledge that these airliners had not received the required safety inspections for fuselage damage. On or about March 15, 2007, Southwest purportedly "discovered" that the Company had not conducted the inspections required by the AD. However, even armed with this knowledge, Southwest continued to allow these same 46 airliners to operate between March 15, 2007 and March 23, 2007.

On March 12, 2008, Southwest revealed that the Company had grounded 44 of its jets to perform the required safety inspections for structural damage. As a result of the grounded jets, Southwest cancelled 120 flights, or four percent of the Company's flights scheduled for March 12, 2008.

The Stockholder contends that the Officers and Directors knowingly approved, or were grossly negligent in failing to prevent and correct, the Company's improper practices and noncompliance with federally-mandated inspection requirements. The Stockholder maintains that each of the Officers and Directors breached their fiduciary duties by: (i) knowingly approving the Company's improper practices; and/or (ii) abdicating their responsibility to make a good faith effort to oversee the Company's operations and internal controls, including compliance with all federally-mandated inspection requirements of its Boeing 737 fleet. The Stockholder believes that the acts (and failures to act) described above represent a systematic failure of the Officers and Directors to effectively manage the affairs of the Company. Among other things, it is apparent that the Officers and Directors have failed to implement necessary oversight procedures and controls to effectively manage the Company. The Officers' and Directors' systematic failure to properly manage the Company violates their fiduciary duties of loyalty and good faith.

As a result of the foregoing breaches of duty, the Company has sustained damages, including, but not limited to, costs and expenses incurred in connection with governmental and regulatory investigations, costs and expenses incurred in connection with the Company's internal investigation into Southwest's maintenance operations and compliance with the safety inspections mandated by the AD, the \$10.2 million civil penalty proposed by the FAA for Southwest's failure to comply with the FAA's directives, and the revenue lost as a result of Southwest's grounding of 44 Boeing 737 airliners on March 12, 2008.

On behalf of the Stockholder, I hereby demand that the Board take action to recover from the Officers and Directors the amount of damages sustained by the Company as a result of the misconduct alleged herein, and to correct deficiencies in the Company's internal controls that enabled the misconduct alleged herein to occur.

If within a reasonable period of time after receipt of this letter the Board has not taken action as demanded herein, the Stockholder will commence a shareholder derivative action on behalf of the Company seeking appropriate relief.

Herbert D. Kelleher  
April 3, 2008  
Page 3

Very truly yours,

SCHIFFRIN BARROWAY TOPAZ  
& KESSLER, LLP



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Eric L. Zagar

cc: Darren Check, Esq.  
Robin Winchester, Esq.  
Alison Clark, Esq.

# Vinson&Elkins

Gary Ewell gewell@velaw.com  
Tel 512.542.8526 Fax 512.238.3243

June 20, 2008

Mr. Eric L. Zagar  
Schiffirin Barroway Topaz  
& Kessler, LLP  
280 King of Prussia Road  
Radnor, Pennsylvania 19087

Re: Shareholder Demand

Dear Mr. Zagar:

This firm represents Southwest Airlines Co. in connection with the matters raised in your letter dated March 27, 2008.

The members of the Board of Directors have received your letter and in response to the demands contained therein will act in accordance with the laws and procedures of the State of Texas that apply to such demands.

In this regard, the Board has designated a committee to review your demands and authorized the formation of a group who will conduct an inquiry and make determinations with respect to the demands contained in your letter.

Please contact me if you wish to discuss this further.

Very truly yours,

A handwritten signature in black ink, appearing to be "Gary Ewell", with a stylized flourish to the right that looks like "EP".

Gary Ewell

Vinson & Elkins LLP Attorneys at Law  
Abu Dhabi Austin Beijing Dallas Dubai Hong Kong Houston  
London Moscow New York Shanghai Tokyo Washington

2801 Via Fortuna, Suite 100  
Austin, TX 78746-7568  
Tel 512.542.8400 Fax 512.542.8612 [www.velaw.com](http://www.velaw.com)  
Exhibit C

Austin 996188v.1

# Vinson & Elkins

Gary Ewell gewell@velaw.com  
Tel 512.542.8526 Fax 512.236.3243

June 20, 2008

Mr. Eric L. Zagar  
Schiffirin Barroway Topaz  
& Kessler, LLP  
280 King of Prussia Road  
Radnor, Pennsylvania 19087

Re: Shareholder Demand

Dear Mr. Zagar:

This firm represents Southwest Airlines Co. in connection with the matters raised in your letter dated April 3, 2008.

The members of the Board of Directors have received your letter and in response to the demands contained therein will act in accordance with the laws and procedures of the State of Texas that apply to such demands.

In this regard, the Board has designated a committee to review your demands and authorized the formation of a group who will conduct an inquiry and make determinations with respect to the demands contained in your letter.

Please contact me if you wish to discuss this further.

Very truly yours,

  
Gary Ewell *100*

Vinson & Elkins LLP Attorneys at Law  
Abu Dhabi Austin Beijing Dallas Dubai Hong Kong Houston  
London Moscow New York Shanghai Tokyo Washington

2801 Via Fortuna, Suite 100  
Austin, TX 78746-7568

Tel 512.542.8400 Fax 512.542.8612 [www.velaw.com](http://www.velaw.com)  
Exhibit D

Austin 996190v.1