

THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO,
Acting Insurance Commissioner of the
Commonwealth of Pennsylvania,
in his Official Capacity as Liquidator of
Reliance Insurance Company,

Plaintiff

v.

RELIANCE INSURANCE COMPANY,

Defendant

No. 269 M.D. 2001

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FILED
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**In re Southwest Airlines Co.
Retrospective Premium Obligation**

JOEL S. ARIO,
Acting Insurance Commissioner of the
Commonwealth of Pennsylvania,
in his Official Capacity as Liquidator of
Reliance Insurance Company,

Petitioner

v.

SOUTHWEST AIRLINES CO.,

Respondent.

JOINT STATUS REPORT

In accordance with the Court's March 6, 2008 Order, Petitioner Joel S. Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in his official capacity as Liquidator (the "Liquidator") of Reliance Insurance Company ("Reliance"), and Respondent

Southwest Airlines Co. ("Southwest"), by their respective undersigned counsel, submit this Joint Report on the Status of the above-captioned matter.

1. **Status of the Litigation**

The parties have completed written discovery and, to date, each side has taken two depositions. Southwest deposed (1) William G. Watson, a former Reliance employee who, at different times, served as the head of marketing for the Risk Management division of Reliance, head of the underwriting sector of the Risk Management division, and head of Risk Management; and (2) Jack O'Connell, a former Reliance employee who served as a Vice President and Senior Vice President specializing in large accounts. The Liquidator deposed (1) William Douglass, former head of Loss Control and Corporate Safety at Southwest; and (2) Ralph Kimmich, who formerly served as Director of Benefits and Compensation and Director of Compensation and Strategic Initiatives at Southwest.

At this time, the parties have agreed to defer any further depositions pending the outcome of ongoing settlement negotiations, but have reserved the right to pursue additional depositions if a settlement is not reached and it is determined that further depositions are necessary. In the absence of a settlement, the parties anticipate that the case may be decided on cross-motions for summary judgment.

2. **Status of Settlement Negotiations**

The parties are currently exploring the settlement of this matter and anticipate that it will be resolved by a settlement offer by Reliance that is based on current loss information and takes into account the historical calculation methodology of the retrospective premium owed under Southwest's policies. The first step in this premium calculation process requires that Reliance receive current loss information, including claim detail for all open and closed claims under the

Southwest policies. The transmission of current loss information by Southwest (or its third party administrator or broker) to Reliance is currently pending. Southwest expects that current loss information as of the end of the first quarter of 2008 will be transmitted to Reliance in early April, and the parties anticipate that the retrospective premium calculation can be concluded within approximately ninety (90) days thereafter.

In view of the ongoing settlement dialogue, the parties agree that it is unnecessary to set a trial date at this time.

Respectfully submitted,

BLANK ROME LLP

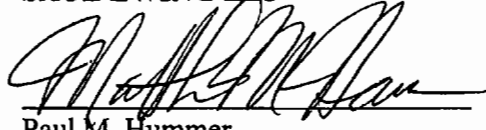
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Dated: March 13, 2008

CERTIFICATE OF SERVICE

I, Sheila E. Branyan, hereby certify that on or about this day, a copy of the foregoing
Joint Status Report was served by first-class mail and email upon the following:

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