SULLIVAN OWEN J
Form 4
October 05, 2017

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
SULLIVAN OWEN J

(Last) (First) (Middle)

800 DELAWARE AVENUE

(Street)

BUFFALO, NY 14209

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
COMPUTER TASK GROUP INC [CTG]

3. Date of Earliest Transaction (Month/Day/Year)
10/04/2017

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock (1)	10/04/2017		A		3,498	A	$ 5.36	10,115	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SULLIVAN OWEN J 800 DELAWARE AVENUE BUFFALO, NY 14209	X			

Signatures

Peter Radetich attorney for Owen J Sullivan	10/05/2017
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The reporting person acquired restricted stock units (RSUs) under the Company's Non-Employee Director Deferred Compensation Plan. Each RSU is the economic equivalent of one share of common stock. The RSUs are convertible into common stock of the Company on a one-for-one basis upon distribution from the Plan upon termination of service as a director. The decision to acquire RSUs is irrevocable.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Level 3
Pass Through Certificates due 2022 - 6.24%
331

374

Level 2
7.375% Debentures due 2027
131

159

Level 2

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Relevant comparative operating statistics for the three months ended March 31, 2016 and 2015 are included below. The Company provides these operating statistics because they are commonly used in the airline industry and, as such, allow readers to compare the Company’s performance against its results for the prior year period, as well as against the performance of the Company’s peers.

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	Three months ended March 31,		
	2016	2015	Change
Revenue passengers carried	28,603,479	26,442,996	8.2 %
Enplaned passengers	34,628,441	32,098,958	7.9 %
Revenue passenger miles (RPMs) (000s)(1)	28,408,164	25,860,866	9.9 %
Available seat miles (ASMs) (000s)(2)	35,268,149	32,297,465	9.2 %
Load factor(3)	80.5 %	80.1 %	0.4 pts
Average length of passenger haul (miles)	993	978	1.5 %
Average aircraft stage length (miles)	757	739	2.4 %
Trips flown	314,537	296,570	6.1 %
Seats flown(4)	46,101,321	43,244,404	6.6 %
Seats per trip(5)	146.57	145.82	0.5 %
Average passenger fare(11)	$153.75	$158.01	(2.7)%
Passenger revenue yield per RPM (cents)(6)(11)	15.48	16.16	(4.2)%
Operating revenues per ASM (cents)(7)	13.68	13.67	0.1 %
Passenger revenue per ASM (cents)(8)(11)	12.47	12.94	(3.6)%
Operating expenses per ASM (cents)(9)	11.01	11.25	(2.1)%
Operating expenses per ASM, excluding fuel (cents)	8.59	8.53	0.7 %
Operating expenses per ASM, excluding fuel and profitsharing (cents)	8.15	8.14	0.1 %
Fuel costs per gallon, including fuel tax	$1.80	$2.01	(10.4)%
Fuel costs per gallon, including fuel tax, economic	$1.78	$2.00	(11.0)%
Fuel consumed, in gallons (millions)	472	434	8.8 %
Active fulltime equivalent Employees	50,911	47,005	8.3 %
Aircraft at end of period(10)	714	679	5.2 %

(1) A revenue passenger mile is one paying passenger flown one mile. Also referred to as "traffic," which is a measure of demand for a given period.
(2) An available seat mile is one seat (empty or full) flown one mile. Also referred to as "capacity," which is a measure of the space available to carry passengers in a given period.
(3) Revenue passenger miles divided by available seat miles.
(4) Seats flown is calculated using total number of seats available by aircraft type multiplied by the total trips flown by the same aircraft type during a particular period.
(5) Seats per trip is calculated using seats flown divided by trips flown. Also referred to as “gauge.”
(6) Calculated as passenger revenue divided by revenue passenger miles. Also referred to as "yield," this is the average cost paid by a paying passenger to fly one mile, which is a measure of revenue production and fares.
(7) Calculated as operating revenues divided by available seat miles. Also referred to as "operating unit revenues," this is a measure of operating revenue production based on the total available seat miles flown during a particular period.
(8) Calculated as passenger revenue divided by available seat miles. Also referred to as “passenger unit revenues,” this is a measure of passenger revenue production based on the total available seat miles flown during a particular period.
(9) Calculated as operating expenses divided by available seat miles. Also referred to as "unit costs" or "cost per available seat mile," this is the average cost to fly an aircraft seat (empty or full) one mile, which is a measure of cost efficiencies.
(10) Aircraft in the Company's fleet at period end.
(11) Refer to Note 2 to the unaudited Condensed Consolidated Financial Statements for additional information regarding the impact from the July 2015 amended co-branded credit card agreement ("Agreement") with Chase Bank USA, N.A. ("Chase").

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Reconciliation of Reported Amounts to Non-GAAP Financial Measures (unaudited)
(in millions, except per share and per ASM amounts)

	Three months ended March 31, 2016	2015	Percent Change
Fuel and oil expense, unhedged	$577	$830	
Add: Fuel hedge (gains) losses included in Fuel and oil expense	275	47	
Fuel and oil expense, as reported	$852	$877	
Deduct: Net impact from fuel contracts	(8)	(4)	
Fuel and oil expense, non-GAAP (economic)	$844	$873	(3.3)%
Total operating expenses, as reported	$3,882	$3,634	
Deduct: Contracts settling in the current period, but for which gains have been recognized in a prior period*	(8)	(4)	
Deduct: Acquisition and integration costs	—	(23)	
Add: Litigation settlement	—	37	
Total operating expenses, non-GAAP	$3,874	$3,644	6.3%
Operating income, as reported	$944	$780	
Add: Contracts settling in the current period, but for which gains have been recognized in a prior period*	8	4	
Add: Acquisition and integration costs	—	23	
Deduct: Litigation settlement	—	(37)	
Operating income, non-GAAP	$952	$770	23.6%
Net income, as reported	$511	$453	
Add: Mark-to-market impact from fuel contracts settling in future periods	76	19	
Add (Deduct): Ineffectiveness from fuel hedges settling in future periods	4	(13)	
Add: Other net impact of fuel contracts settling in the current or a prior period (excluding reclassifications)	8	4	
Deduct: Income tax impact of fuel contracts	(32)	(3)	
Add: Acquisition and integration costs (a)	—	14	
Deduct: Litigation settlement (a)	—	(23)	
Net income, non-GAAP	$567	$451	25.7%
Net income per share, diluted, as reported	$0.79	$0.66	
Add: Net impact to net income above from fuel contracts divided by dilutive shares (a)	0.09	0.01	
Deduct: Impact of special items (a)	—	(0.01)	
Net income per share, diluted, non-GAAP	$0.88	$0.66	33.3%
Operating expenses per ASM (cents)	11.01¢	11.25¢	
Deduct: Fuel and oil expense divided by ASMs	(2.42)	(2.72)	
Add: Impact of special items	—	0.05	
Operating expenses per ASM, non-GAAP, excluding Fuel and oil and special items (cents)	8.59¢	8.58¢	0.1%

* As a result of prior hedge ineffectiveness and/or contracts marked to market through earnings.
(a) Amounts net of tax.

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

	Twelve Months Ended March 31, 2016	Twelve Months Ended March 31, 2015
Operating income, as reported	$4,280	$2,790
Deduct: Special revenue adjustment (1)	(172)	—
Add: Union contract bonuses	334	9
Add (Deduct): Net impact from fuel contracts	(319)	23
Add: Acquisition and integration costs	16	132
Deduct: Litigation settlement	—	(37)
Operating income, non-GAAP	$4,139	$2,917
Net adjustment for aircraft leases (2)	115	123
Adjustment for fuel hedge accounting	(133)	(71)
Adjusted Operating income, non-GAAP	$4,121	$2,969
Average invested capital (3)	$11,250	$11,288
Equity adjustment for hedge accounting	1,082	289
Adjusted average invested capital	$12,332	$11,577
ROIC, pre-tax	33.4 %	25.6 %

(1) One-time adjustment related to the execution of the Agreement with Chase and the resulting change in accounting methodology. See Note 2 to the unaudited Condensed Consolidated Financial Statements for further information.
(2) Net adjustment related to presumption that all aircraft in fleet are owned (i.e., the impact of eliminating aircraft rent expense and replacing with estimated depreciation expense for those same aircraft).
(3) Average invested capital is an average of the five most recent quarter end balances of debt, net present value of aircraft leases, and equity adjusted for hedge accounting.

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Note Regarding Use of Non-GAAP Financial Measures

The Company's unaudited Condensed Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). These GAAP financial statements include (i) unrealized non-cash adjustments and reclassifications, which can be significant, as a result of accounting requirements and elections made under accounting pronouncements relating to derivative instruments and hedging and (ii) other charges the Company believes are not indicative of its ongoing operational performance.

As a result, the Company also provides financial information in this filing that was not prepared in accordance with GAAP and should not be considered as an alternative to the information prepared in accordance with GAAP. The Company provides supplemental non-GAAP financial information, including results that it refers to as "economic," which the Company's management utilizes to evaluate its ongoing financial performance and the Company believes provides greater transparency to investors as supplemental information to its GAAP results. The Company's economic financial results differ from GAAP results in that they only include the actual cash settlements from fuel hedge contracts - all reflected within Fuel and oil expense in the period of settlement. Thus, Fuel and oil expense on an economic basis reflects the Company’s actual net cash outlays for fuel during the applicable period, inclusive of settled fuel derivative contracts. Any net premium costs paid related to option contracts are reflected as a component of Other (gains) losses, net, for both GAAP and non-GAAP (including economic) purposes in the period of contract settlement. The Company believes these economic results provide a better measure of the impact of the Company's fuel hedges on its operating performance and liquidity since they exclude the unrealized, non-cash adjustments and reclassifications that are recorded in GAAP results in accordance with accounting guidance relating to derivative instruments, and they reflect all cash settlements related to fuel derivative contracts within Fuel and oil expense. This enables the Company's management, as well as investors, to consistently assess the Company's operating performance on a year-over-year or quarter-over-quarter basis after considering all efforts in place to manage fuel expense. However, because these measures are not determined in accordance with GAAP, such measures are susceptible to varying calculations, and not all companies calculate the measures in the same manner. As a result, the aforementioned measures, as presented, may not be directly comparable to similarly titled measures presented by other companies.

Further information on (i) the Company's fuel hedging program, (ii) the requirements of accounting for derivative instruments, and (iii) the causes of hedge ineffectiveness and/or mark-to-market gains or losses from derivative instruments is included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, and Note 3 to the unaudited Condensed Consolidated Financial Statements.

In addition to its “economic” financial measures, as defined above, the Company has also provided other non-GAAP financial measures, including results that it refers to as “excluding special items,” as a result of items that the Company believes are not indicative of its ongoing operations. These include a one-time special revenue adjustment due to the Agreement with Chase and the resulting change in accounting methodology, union contract bonuses recorded for certain workgroups, expenses associated with the Company's acquisition and integration of AirTran incurred in 2015, and a gain resulting from a litigation settlement received in January 2015. The Company believes that evaluation of its financial performance can be enhanced by a presentation of results that exclude the impact of these items in order to evaluate the results on a comparative basis with results in prior periods that do not include such items and as a basis for evaluating operating results in future periods. The Company does not expect to incur any further Acquisition and integration costs related to the AirTran acquisition.
The Company has also provided return on invested capital, which is a non-GAAP financial measure. The Company believes return on invested capital is a meaningful measure because it quantifies how well the Company generates operating income relative to the capital it has invested in its business. Although return on invested capital is commonly used as a measure of capital efficiency, definitions of return on invested capital may differ; therefore, the Company is providing an explanation of its calculation for return on invested capital (before taxes and excluding

special items) in the accompanying reconciliation.

Financial Overview

The Company recorded first quarter GAAP and non-GAAP results for 2016 and 2015 as follows:

(in millions, except per share amounts)	Three months ended March 31,		
GAAP	2016	2015	Percent Change
Operating income	$944	$780	21.0 %
Net income	$511	$453	12.8 %
Net income per share, diluted	$0.79	$0.66	19.7 %
Non-GAAP			
Operating income	$952	$770	23.6 %
Net income	$567	$451	25.7 %
Net income per share, diluted	$0.88	$0.66	33.3 %

First quarter 2016 Net income was a Company first quarter record of $511 million, a 12.8 percent increase year-over-year, or $0.79 per diluted share. This increase was primarily attributable to a 9.3 percent increase in Operating revenues, driven by year-over-year capacity growth, strong demand for low-fare air travel, and the impact of the Agreement with Chase and a resulting change in accounting methodology. See Note 2 to the unaudited Condensed Consolidated Financial Statements for further information. Also contributing to this first quarter record Net income was a 2.9 percent reduction in fuel expense as a result of lower market prices. Excluding special items in both years, first quarter 2016 non-GAAP Net income was a Company first quarter record of $567 million, a 25.7 percent increase year-over-year, or $0.88 per diluted share. This marked the twelfth consecutive quarter during which the Company produced record non-GAAP Net income for the applicable fiscal quarter. First quarter 2016 Operating income was $944 million and first quarter 2016 non-GAAP Operating income was $952 million. Both GAAP and non-GAAP Operating income results were also Company first quarter records and significantly surpassed the prior year performance.

For the twelve months ended March 31, 2016, the Company's exceptional earnings performance, combined with its actions to prudently manage invested capital, produced a 33.4 percent pre-tax Return on invested capital, excluding special items ("ROIC"), exceeding the Company's pre-tax ROIC of 25.6 percent for the twelve months ended March 31, 2015.

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

Company Overview

During first quarter 2016, the Company was awarded four slot pairs and added scheduled service to Long Beach, California (a "slot" is the right of an air carrier, pursuant to regulations of the FAA, to operate a takeoff or landing at a specific time at certain airports). Long Beach marked the fifth airport in the Los Angeles Basin with Southwest service. Additionally, during March 2016, the Company filed an application with the U.S. Department of Transportation requesting governmental approval to serve Havana, Cuba with daily nonstop flights from Ft. Lauderdale-Hollywood International Airport, Tampa Bay International Airport, and Orlando International Airport. The Company also applied to serve Varadero and Santa Clara, Cuba from Ft. Lauderdale. Subject to governmental approval, the Company intends to initiate service to Cuba later this year.

During February 2016, the Company's approximately 12,000 Ramp, Operations, Provisioning, and Cargo Agents, represented by the Transport Workers Union ("TWU") Local 555, ratified a new collective bargaining agreement with the Company. The newly ratified contract becomes amendable in 2021. Additionally, during February 2016, the

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Company's Flight Instructors, represented by TWU Local 557, ratified a new collective bargaining agreement with the Company. The newly ratified contract becomes amendable December 31, 2019.

The Company plans to continue its route network and schedule optimization efforts through the addition of new markets and itineraries, while also pruning less profitable flights from its schedule. For 2016, the Company plans to grow the fleet to approximately 720 aircraft, and increase ASMs five to six percent year-over-year. The Company currently expects its second quarter 2016 ASMs to increase four to five percent, compared with second quarter 2015. During first quarter 2016, the Company took delivery of seven new Boeing 737-800 aircraft and 13 pre-owned Boeing 737-700 aircraft. The Company also retired ten Boeing 737 Classic (737-300 and 737-500) aircraft. Additionally, the Company currently expects to take delivery of 31 new 737-800 aircraft and eight pre-owned 737-700 aircraft during the remainder of 2016. As of March 31, 2016, all of AirTran's 88 Boeing 717-200 aircraft ("B717s") had been delivered to Delta pursuant to a lease/sublease agreement.
During first quarter 2016, the Company continued to return significant value to its Shareholders through a $500 million accelerated share repurchase program, which was launched in January 2016 with a financial institution in a privately negotiated transaction ("First Quarter 2016 ASR Program"), and dividend payments totaling $96 million. In total, the Company received 11.9 million shares under the First Quarter 2016 ASR Program, which was completed in April 2016. The purchase was recorded as a treasury share purchase for purposes of calculating earnings per share. As of March 31, 2016, the Company had $200 million remaining under its existing $1.5 billion share repurchase program, which was approved by the Company's Board of Directors in May 2015.

On April 26, 2016, the Company launched a new accelerated share repurchase program by advancing $200 million to a financial institution in a privately negotiated transaction ("Second Quarter 2016 ASR Program"). The Company received an initial delivery of 3.2 million shares, representing an estimated 75 percent of the shares to be purchased by the Company under the Second Quarter 2016 ASR Program. The specific number of shares that the Company ultimately will repurchase under the Second Quarter 2016 ASR Program will be determined based generally on a discount to the volume-weighted average price per share of the Company's common stock during a calculation period to be completed no later than May 2016. The purchase will be recorded as a treasury share purchase for purposes of calculating earnings per share. Subsequent to the launch of the Second Quarter 2016 ASR Program, the Company had no amounts remaining under its existing $1.5 billion share repurchase program. See Part II, Item 2 for further information on the Company's share repurchase authorizations.

Material Changes in Results of Operations

Comparison of three months ended March 31, 2016 and March 31, 2015

Operating revenues

Passenger revenues for first quarter 2016 increased $220 million, or 5.3 percent, year-over-year. Holding all other factors constant, the increase was primarily attributable to a 9.2 percent increase in capacity, as strong Customer demand for low-fare air travel enabled the Company to fill the additional seats, as evidenced by a Company first quarter record Load factor of 80.5 percent. On a unit basis, Passenger revenue decreased 3.6 percent, year-over-year, largely driven by a 4.2 percent decrease in Passenger revenue yield, year-over-year, which includes the $54 million impact of the Agreement with Chase and the resulting change in accounting in Passenger revenues.

Freight revenues for first quarter 2016 decreased by $2 million, or 4.5 percent, compared with first quarter 2015, primarily due to sluggish demand. Based on current trends, the Company expects second quarter 2016 Freight revenues to increase compared with second quarter 2015.

Other revenues for first quarter 2016 increased 101.0 percent year-over-year, primarily as a result of the Agreement with Chase and the resulting change in accounting methodology. The Agreement resulted in an acceleration of the timing of Operating revenues on a prospective basis beginning as of July 1, 2015. The transportation element of the

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consideration received is now allocated a lower relative value, resulting in a reduction in the revenues classified as Passenger on a prospective basis, and the higher relative value associated with the non-transportation elements results in an increase in the portion of revenues classified as Other within the unaudited Condensed Consolidated Statement of Comprehensive Income. See Note 2 to the unaudited Condensed Consolidated Financial Statements for further information. Excluding the impact of the Agreement with Chase, Other revenues increased primarily due to higher ancillary revenues associated with EarlyBird Check-in® and A1-15 select boarding positions sold at the gate. The Company currently expects Other revenues in second quarter 2016 to increase, compared with second quarter 2015, largely as a result of the Agreement with Chase.

While some yield softness has continued into April, demand for low-fare air travel, thus far, remains strong. Based on current booking and revenue trends, and including the approximate $125 million estimated second quarter 2016 effect of the co-branded credit card agreements, including the resulting change in accounting methodology, the Company is currently expecting a modest increase in its second quarter 2016 operating unit revenues as compared with second quarter 2015.

Operating expenses

Operating expenses for first quarter 2016 increased by $248 million, or 6.8 percent, compared with first quarter 2015, while capacity increased 9.2 percent over the same period. Historically, except for changes in the price of fuel, changes in Operating expenses for airlines have been driven by changes in capacity, or ASMs. The following table presents the Company's Operating expenses per ASM for the first quarter of 2016 and 2015, followed by explanations of these changes on a per ASM basis and dollar basis:

	Three months ended March 31,		Per ASM	Percent
(in cents, except for percentages)	2016	2015	change	change
Salaries, wages, and benefits	4.36 ¢	4.39 ¢	(0.03)¢	(0.7)%
Fuel and oil	2.42	2.72	(0.30)	(11.0)
Maintenance materials and repairs	0.74	0.71	0.03	4.2
Aircraft rentals	0.17	0.19	(0.02)	(10.5)
Landing fees and other rentals	0.86	0.88	(0.02)	(2.3)
Depreciation and amortization	0.82	0.76	0.06	7.9
Acquisition and integration	—	0.07	(0.07)	n.m.
Other operating expenses	1.64	1.53	0.11	7.2
Total	11.01¢	11.25¢	(0.24)¢	(2.1)%

Operating expenses per ASM for first quarter 2016 decreased 2.1 percent compared with first quarter 2015, primarily due to lower jet fuel prices. Operating expenses per ASM for first quarter 2016, excluding fuel and special items (a non-GAAP financial measure), were relatively flat year-over-year. Based on current cost trends, the Company expects its unit costs, excluding fuel and oil expense, profitsharing expense, and special items for second quarter 2016 and full year 2016, to increase approximately two percent, and approximately one percent, respectively, as compared with the same year-ago periods and largely due to accelerated depreciation expense associated with the planned early retirement of the Classic 737-300 fleet. See Note Regarding Use of Non-GAAP Financial Measures and the Reconciliation of Reported Amounts to Non-GAAP Financial Measures for additional detail regarding non-GAAP financial measures.

Salaries, wages, and benefits expense for first quarter 2016 increased by $120 million, or 8.5 percent, compared with first quarter 2015. On a per ASM basis, first quarter 2016 Salaries, wages, and benefits expense decreased 0.7 percent, compared with first quarter 2015, as the dollar increases were more than offset by the 9.2 percent increase in capacity.

On a dollar basis, approximately 55 percent of the increase was the result of higher salaries and wages, primarily due to increased trips flown, additional headcount, and contractual increases. On a dollar basis, approximately 25 percent of the year-over-year increase was due to higher profitsharing expense due to increased profits in first quarter 2016. The Company’s profitsharing expense is based on profits that exclude the unrealized gains and/or losses the Company

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records for its fuel hedging program. Additionally, pursuant to the terms of the Company's ProfitSharing Plan (the "Plan"), acquisition and integration costs were excluded from the calculation of profitsharing expense from April 1, 2011, through December 31, 2013. These costs, totaling $385 million, are being amortized on a pro rata basis as a reduction of operating profits, as defined by the Plan, from 2014 through 2018. In addition, Acquisition and integration costs incurred during 2014 and 2015 reduced operating profits, as defined, in the calculation of profitsharing expense. The remainder of the increase on a dollar basis was due to increased health and welfare benefits paid as a result of the increase in headcount. Based on current cost trends and anticipated capacity, the Company expects second quarter 2016 Salaries, wages, and benefits expense per ASM, excluding profitsharing expense and special items, to increase compared with second quarter 2015.

Fuel and oil expense for first quarter 2016 decreased by $25 million, or 2.9 percent, compared with first quarter 2015. On a per ASM basis, first quarter 2016 Fuel and oil expense decreased 11.0 percent, compared with first quarter 2015. Excluding the impact of hedging, both the dollar and unit cost decreases were attributable to lower jet fuel prices. The Company's average economic jet fuel cost per gallon decreased 11.0 percent year-over-year, from $2.00 for first quarter 2015 to $1.78 for first quarter 2016. The Company also slightly improved its fuel efficiency in first quarter 2016, compared with the same prior year period, when measured on the basis of ASMs generated per gallon of fuel, as a result of fleet modernization and a 2.4 percent increase in Average stage length. Fuel gallons consumed increased 8.8 percent as compared with first quarter 2015, while year-over-year capacity increased 9.2 percent. As a result of the Company's fuel hedging program, the Company recognized net losses totaling $275 million in Fuel and oil expense for first quarter 2016, compared with net losses totaling $47 million for first quarter 2015. These totals include cash settlements realized from the settlement of fuel derivative contracts, associated with the Company's "economic" fuel hedge, totaling $267 million provided to counterparties for first quarter 2016, compared with $43 million provided to counterparties for first quarter 2015. Additionally, these totals exclude gains and/or losses from hedge ineffectiveness and from derivatives that do not qualify for hedge accounting. Those items are recorded as a component of Other (gains) losses, net. See Note 3 to the unaudited Condensed Consolidated Financial Statements.

As of April 18, 2016, on an economic basis, the Company had derivative contracts in place related to expected future fuel consumption as follows:

Period	Maximum percent of estimated fuel consumption covered by fuel derivative contracts at varying WTI/Brent Crude Oil, Heating Oil, and Gulf Coast Jet Fuel-equivalent price levels (1)
2017	62%
2018	35%

(1) The Company’s hedge position can vary significantly at different price levels, including prices at which the Company considers “catastrophic” coverage. The percentages provided are not indicative of its hedge coverage at every price, but represent the highest level of coverage at a single price. The Company believes its coverage related to 2016

is best reflected within the jet fuel forecast price sensitivity table provided below. See Note 3 to the unaudited Condensed Consolidated Financial Statements for further information.

As a result of applying hedge accounting in prior periods, including related to hedge positions that have either been offset or settled early on a cash basis, the Company has amounts “frozen” in Accumulated other comprehensive income (loss) (“AOCI”), and these amounts will be recognized in earnings in future periods when the underlying fuel derivative contracts settle. The following table displays the Company's estimated fair value of remaining fuel derivative contracts (not considering the impact of the cash collateral provided to or received from counterparties—see Note 3 to the unaudited Condensed Consolidated Financial Statements for further information), as well as the amount of deferred gains/losses in AOCI at March 31, 2016, and the expected future periods in which these items are expected to settle and/or be recognized in earnings (in millions):

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Year	Fair value (liability) of fuel derivative contracts at March 31, 2016	Amount of gains (losses) deferred in AOCI at March 31, 2016 (net of tax)
Remainder of 2016	$ (755)	$ (432)
2017	(676)	(436)
2018	23	(21)
Total	$ (1,408)	$ (889)

Based on forward market prices and the amounts in the above table (and excluding any other subsequent changes to the fuel hedge portfolio), the Company's jet fuel costs per gallon could exceed market (i.e., unhedged) prices during some of these future periods. This is based primarily on expected future cash settlements associated with fuel derivatives, but excludes any impact associated with the ineffectiveness of fuel hedges or fuel derivatives that are marked to market because they do not qualify for hedge accounting. See Note 3 to the unaudited Condensed Consolidated Financial Statements for further information. Assuming no changes to the Company's current fuel derivative portfolio, but including all previous hedge activity for fuel derivatives that have not yet settled, and considering only the expected net cash payments related to hedges that will settle, the Company is providing a sensitivity table for second quarter 2016 and full year 2016 jet fuel prices at different crude oil assumptions as of April 18, 2016, and for expected premium costs associated with settling contracts each period.

	Estimated economic jet fuel price per gallon, including taxes	
Average Brent Crude Oil price per barrel	2Q 2016 (2)	Full Year 2016 (2)
$20	$1.20 - $1.25	$1.45 - $1.50
$30	$1.40 - $1.45	$1.60 - $1.65
Current Market (1)	$1.75 - $1.80	$1.85 - $1.90
$50	$1.90 - $1.95	$1.95 - $2.00
$60	$2.05 - $2.10	$2.05 - $2.10
Estimated Premium Costs (3)	$45 - $50 million	$150 - $160 million

(1) Brent crude oil average market price as of April 18, 2016, was approximately $43 per barrel for second quarter 2016 and $41 per barrel for full year 2016.
(2) The economic fuel price per gallon sensitivities provided assume the relationship between Brent crude oil and refined products based on market prices as of April 18, 2016.
(3) Fuel hedge premium expense is recognized as a component of Other (gains) losses, net.

Maintenance materials and repairs expense for first quarter 2016 increased by $33 million, or 14.4 percent, compared with first quarter 2015. On a per ASM basis, Maintenance materials and repairs expense increased 4.2 percent, compared with first quarter 2015. On both a dollar and per ASM basis, the majority of the increase was attributable to the timing of regular airframe maintenance checks and cabin refresh projects. The Company currently expects Maintenance materials and repairs expense per ASM for second quarter 2016 to increase compared with second quarter 2015.

Aircraft rentals expense for first quarter 2016 decreased by $1 million, or 1.7 percent, compared with first quarter 2015. On a per ASM basis, Aircraft rentals expense decreased by 10.5 percent, compared with first quarter 2015. On both a dollar and a per ASM basis, the decrease was primarily due to the return of two 737-300 leased aircraft and two 737-500 leased aircraft, as well as the purchase of four 737-300 aircraft and one 737-500 aircraft, that were previously on operating leases, since first quarter 2015. The Company currently expects Aircraft rentals expense per ASM for second quarter 2016 to be comparable with second quarter 2015.

Landing fees and other rentals expense for first quarter 2016 increased by $17 million, or 6.0 percent, compared with first quarter 2015. On a per ASM basis, Landing fees and other rentals expense decreased 2.3 percent, compared with first quarter 2015, due to the 9.2 percent increase in capacity exceeding higher year-over-year rates in landing fees and fixed rentals at certain airports. On a dollar basis, the majority of the increase was due to a 6.1 percent increase in Trips flown coupled by heavier landing weights for the Company's higher capacity 737-800 aircraft, which now make up a larger portion of the Company's fleet than a year ago. The Company currently expects Landing fees and other rentals expense per ASM for second quarter 2016 to be comparable with second quarter 2015.

Depreciation and amortization expense for first quarter 2016 increased by $46 million, or 18.9 percent, compared with first quarter 2015. On a per ASM basis, Depreciation and amortization expense increased 7.9 percent, compared with first quarter 2015. On both a dollar and per ASM basis, the majority of the increase was due to the accelerated depreciation expense resulting from a change in the estimated retirement dates of many of the Company's owned 737-300 aircraft from mid-2021 to mid-2018. See Note 2 of the unaudited Condensed Consolidated Financial Statements for further information. The remainder was due to the purchase and capital lease of new and used aircraft since first quarter 2015. The Company currently expects Depreciation and amortization expense per ASM for second quarter 2016 to increase compared with second quarter 2015, as a result of the changes in the estimated retirement dates of many of the Company's owned 737-300 from mid-2021 to no later than third quarter 2017. All of the Company's 737-500 aircraft are expected to be retired during 2016. See Note 2 to the unaudited Condensed Consolidated Financial Statements for further information.

The Company incurred no Acquisition and integration costs during first quarter 2016 related to the AirTran integration, compared with $23 million in first quarter 2015. The first quarter 2015 costs primarily consisted of Employee training, fleet integration, and certain expenses associated with the grounding and conversion costs resulting from the transition of B717s to Delta. The Company does not expect to incur any further Acquisition and integration costs related to the AirTran integration.

Other operating expenses for first quarter 2016 increased by $81 million, or 16.3 percent, compared with first quarter 2015. On a per ASM basis, Other operating expenses increased 7.2 percent, compared with first quarter 2015. On a dollar basis, approximately 45 percent of the increase was the result of a $37 million litigation settlement received during first quarter 2015, which reduced first quarter 2015 operating expenses, and approximately 30 percent of the increase was attributable to higher contract programming and consulting expenses associated with large technology projects. The remainder of the increase was due to higher personnel expenses associated with travel costs of the Company's flight crews. On a per ASM basis, approximately 70 percent of the increase was a result of the $37 million litigation settlement received during first quarter 2015 and 30 percent was attributable to increased consulting fees. The Company currently expects Other operating expenses per ASM for second quarter 2016 to increase compared with second quarter 2015.

Other

Other expenses (income) include interest expense, capitalized interest, interest income, and other gains and losses.

Other (gains) losses, net, primarily includes amounts recorded as a result of the Company's hedging activities. See Note 3 to the unaudited Condensed Consolidated Financial Statements for further information on the Company's hedging activities. The following table displays the components of Other (gains) losses, net, for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,	
(in millions)	2016	2015
Mark-to-market impact from fuel contracts settling in future periods	$76	$19
Ineffectiveness from fuel hedges settling in future periods	4	(13)

Premium cost of fuel contracts	35	26
Other	(1)	—
	$114	$32

Income Taxes

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The Company's effective tax rate was approximately 37.3 percent in first quarter 2016, compared with 37.3 percent in first quarter 2015. The Company projects a full year 2016 effective tax rate of 37 to 38 percent based on currently forecasted financial results.

Liquidity and Capital Resources

Net cash provided by operating activities was $1.6 billion for the three months ended March 31, 2016, compared with $1.5 billion provided by operating activities in the same prior year period. The operating cash flows for the three months ended March 31, 2016, were largely impacted by the Company's net income (as adjusted for noncash items), a $685 million increase in Air traffic liability as a result of bookings for future travel, sales of frequent flyer points to business partners, and a $313 million increase in Accounts payable and accrued liabilities. Also, the Company had chosen to provide an additional $231 million in cash collateral to fuel derivative counterparties during the three months ended March 31, 2016. See Note 3 to the unaudited Condensed Consolidated Financial Statements for additional information on the Company's ability to substitute different forms of collateral to its fuel hedge counterparties. For the three months ended March 31, 2015, in addition to the Company's net income (as adjusted for noncash items), there was a $717 million increase in Air traffic liability as a result of bookings for future travel and sales of frequent flyer points to business partners, and $17 million in cash collateral was provided to fuel derivative counterparties. Net cash provided by operating activities is primarily used to finance capital expenditures, repay debt, fund stock repurchases, pay dividends, and provide working capital.

Net cash used in investing activities was $175 million during the three months ended March 31, 2016, compared with $302 million used in investing activities in the same prior year period. Investing activities in both years included capital expenditures, primarily related to aircraft and other equipment, payments associated with airport construction projects, denoted as Assets constructed for others, and changes in the balance of the Company's short-term and noncurrent investments. During the three months ended March 31, 2016, capital expenditures were $438 million, consisting primarily of payments for new and previously owned aircraft delivered to the Company. This compared with $573 million in Capital expenditures during the same prior year period. During the three months ended March 31, 2016, the Company's transactions in short-term and noncurrent investments resulted in a net cash inflow of $274 million, compared with a net cash inflow of $293 million during the same prior year period.

Net cash used in financing activities was $636 million during the three months ended March 31, 2016, compared with $407 million used in financing activities for the same prior year period. During the three months ended March 31, 2016, the Company repaid $56 million in debt and capital lease obligations, repurchased $500 million of its outstanding common stock through a share repurchase program, and paid $96 million in dividends to Shareholders. During the three months ended March 31, 2015, the Company repaid $51 million in debt and capital lease obligations, repurchased approximately $300 million of its outstanding common stock through a share repurchase program, and paid $81 million in dividends to Shareholders.

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

The Company has access to a $1 billion unsecured revolving credit facility, which expires in April 2018. Interest on the facility is based on the Company's credit ratings at the time of borrowing. At the Company's current ratings, the interest cost would be LIBOR plus a spread of 112.5 basis points. The facility contains a financial covenant, requiring a minimum coverage ratio of adjusted pre-tax income to fixed obligations, as defined. As of March 31, 2016, the Company was in compliance with this covenant and there were no amounts outstanding under the revolving credit facility.

On May 13, 2015, the Company’s Board of Directors authorized the repurchase of up to $1.5 billion of the Company’s common stock. Under this $1.5 billion share repurchase program, in January 2016, the Company launched the First Quarter 2016 ASR Program and advanced $500 million to a financial institution in a privately negotiated transaction,

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and received 9.6 million shares representing an estimated 75 percent of the shares to be purchased by the Company under the First Quarter 2016 ASR Program. The purchase was recorded as a treasury share purchase for purposes of calculating earnings per share. As of March 31, 2016, the Company's cumulative repurchases under the May 2015 $1.5 billion Board authorization have totaled $1.3 billion, or 30.6 million shares of common stock (excluding the additional 2.3 million shares delivered in April 2016 upon settlement of the First Quarter 2016 ASR Program). Subsequently, in April 2016, the Company launched the Second Quarter 2016 ASR Program and advanced $200 million to a financial institution in a privately negotiated transaction, and received an initial delivery of 3.2 million shares, representing an estimated 75 percent of the shares to be purchased by the Company under the Second Quarter 2016 ASR Program. Subsequent to the launch of the Second Quarter 2016 ASR Program, the Company has no amounts remaining under its $1.5 billion share repurchase program. See Part II, Item 2 for further information on the Company's share repurchase authorization. A summary of the Company's $1.5 billion share repurchase program as of March 31, 2016, is as follows:

Share repurchases	Shares received	Cash paid
Second Quarter 2015 Accelerated Share Repurchase Program	8,085,077	$300,000,000
Third Quarter 2015 Accelerated Share Repurchase Program	12,892,204	500,000,000
First Quarter 2016 Accelerated Share Repurchase Program (a)	9,615,384	500,000,000
Remaining share repurchase authorization (b)	—	200,000,000
Total	30,592,665	$1,500,000,000

(a) Excludes 2.3 million shares received upon settlement in April 2016.
(b) In April 2016, the Company launched the Second Quarter 2016 ASR Program and advanced $200 million to a financial institution in a privately negotiated transaction, and received an initial delivery of 3.2 million shares, representing an estimated 75 percent of the shares to be purchased by the Company under the Second Quarter 2016 ASR Program.

The Company believes that its current liquidity position, including unrestricted cash and short-term investments of $3.6 billion as of March 31, 2016, anticipated future internally generated funds from operations, and its fully available, unsecured revolving credit facility of $1 billion that expires in April 2018, will enable it to meet its future known obligations in the ordinary course of business. However, if a liquidity need were to arise, the Company believes it has access to financing arrangements because of its investment grade credit ratings, large value of unencumbered assets, and modest leverage, which should enable it to meet its ongoing capital, operating, and other liquidity requirements. The Company will continue to consider various borrowing or leasing options to maximize liquidity and supplement cash requirements, as necessary.

Contractual Obligations and Contingent Liabilities and Commitments

The Company has contractual obligations and commitments primarily with regard to future purchases of aircraft, repayment of debt, and lease arrangements. As of March 31, 2016, the Company had firm deliveries and options for Boeing 737-700, 737-800, 737-7, and 737-8 aircraft as follows:

The Boeing Company
737

	-800 Firm Orders	-800 Options	-7 Firm Orders	-8 Firm Orders	-8 Options	Additional -700s	Total
2016	38	—	—	—	—	21	59 (2)
2017	33	—	—	14	—	14	61
2018	18	18	—	13	—	4	53
2019	—	—	15	10	—	—	25
2020	—	—	14	22	—	—	36
2021	—	—	1	33	18	—	52
2022	—	—	—	30	19	—	49
2023	—	—	—	24	23	—	47
2024	—	—	—	24	23	—	47
2025	—	—	—	—	36	—	36
2026	—	—	—	—	36	—	36
2027	—	—	—	—	36	—	36
Total	89	18	30	170 (1)	191 (1)	39	537

(1) The Company has flexibility to substitute 737-7 in lieu of 737-8 firm orders beginning in 2019 and options beginning in 2021.
(2) Includes seven 737-800s and thirteen 737-700s delivered as of March 31, 2016.

The Company's capital commitments associated with the firm orders and additional aircraft in the above aircraft table are as follows: $850 million remaining in 2016, $1.3 billion in 2017, $1.1 billion in 2018, $1.2 billion in 2019, $1.5 billion in 2020, and $4.4 billion thereafter.

For aircraft commitments with Boeing, the Company is required to make cash deposits towards the purchase of aircraft. These deposits are classified as Deposits on flight equipment purchase contracts in the unaudited Condensed Consolidated Balance Sheet until the aircraft is delivered, at which time deposits previously made are deducted from the final purchase price of the aircraft and are reclassified as Flight equipment.

The following table details information on the aircraft in the Company's fleet as of March 31, 2016:

Type	Seats	Average Age (Yrs)	Number of Aircraft	Number Owned	Number Leased
737-300	137 or 143	22	111 (1)	73	38
737-500	122	24	8	8	—
737-700	143	12	484	397	87
737-800	175	2	111	104	7
TOTALS		12	714	582	132

(1) Of the total, 77 737-300 aircraft have 143 seats and 34 have 137 seats.

Cautionary Statement Regarding Forward-Looking Statements

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Explanation of Responses:

This Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on, and include statements about, the Company's estimates, expectations, beliefs, intentions, and strategies for the future, and the assumptions underlying these forward-looking statements. Specific forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, statements related to the following:

- the Company's network, fleet, and capacity plans;
- the Company's financial outlook and projected results of operations, including factors and assumptions underlying the Company's projections;
- the Company's plans and expectations with respect to managing risk associated with changing jet fuel prices;
- the Company's expectations with respect to liquidity and capital expenditures, including anticipated needs for, and sources of, funds;
- the Company's assessment of market risks; and
- the Company's plans and expectations related to legal proceedings.

While management believes these forward-looking statements are reasonable as and when made, forward-looking statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed in or indicated by the Company's forward-looking statements or from historical experience or the Company's present expectations. Factors that could cause these differences include, among others:

- the Company's dependence on third party vendors, in particular with respect to its fleet plans;
- changes in demand for the Company's services and the impact of economic conditions, fuel prices, and actions of competitors (including, without limitation, pricing, scheduling, and capacity decisions and consolidation and alliance activities) and other factors beyond the Company's control on the Company's business decisions, plans, and strategies;
- other changes in consumer behavior, including with respect to the Company's co-branded credit card;
- changes in the price of aircraft fuel, the impact of hedge accounting, and any changes to the Company's fuel hedging strategies and positions; and
- the Company's ability to timely and effectively implement, transition, and maintain the necessary information technology systems and infrastructure to support its operations and initiatives; and
- other factors as set forth in the Company's filings with the Securities and Exchange Commission, including the detailed factors discussed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Caution should be taken not to place undue reliance on the Company's forward-looking statements, which represent the Company's views only as of the date this report is filed. The Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As discussed in Note 3 to the unaudited Condensed Consolidated Financial Statements, the Company endeavors to acquire jet fuel at the lowest possible price and to reduce volatility in operating expenses through its fuel hedging program with the use of financial derivative instruments. At March 31, 2016, the estimated fair value of outstanding contracts, excluding the impact of cash collateral provided to or held by counterparties, was a net liability of $1.4 billion.

The Company's credit exposure related to fuel derivative instruments is represented by the fair value of contracts that are an asset to the Company. At such times, these outstanding instruments expose the Company to credit loss in the

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Explanation of Responses:

event of nonperformance by the counterparties to the agreements. As of March 31, 2016, the Company had three counterparties in which the derivatives held were a net asset. To manage credit risk, the Company selects and periodically reviews counterparties based on credit ratings, limits its exposure with respect to each counterparty, and monitors the market position of the fuel hedging program and its relative market position with each counterparty. However, if one or more of these counterparties were in a liability position to the Company and were unable to meet their obligations, any open derivative contracts with the counterparty could be subject to early termination, which could result in substantial losses for the Company. At March 31, 2016, the Company had agreements with all of its active counterparties containing early termination rights and/or bilateral collateral provisions whereby security is required if market risk exposure exceeds a specified threshold amount based on the counterparty's credit rating. The Company also had agreements with counterparties in which cash deposits, letters of credit, and/or pledged aircraft are required to be posted as collateral whenever the net fair value of derivatives associated with those counterparties exceeds specific thresholds.

At March 31, 2016, $1.1 billion in cash collateral deposits were provided by the Company to counterparties based on its outstanding fuel derivative instrument portfolio. Due to the terms of the Company's current fuel hedging agreements with counterparties and the types of derivatives held, in the Company's judgment, it does not have significant additional cash collateral exposure. Given its investment grade credit rating, the Company can meet any additional significant collateral calls by posting aircraft and/or letters of credit. As an example, if market prices for the commodities used in the Company's fuel hedging activities were to decrease by 25 percent from market prices as of March 31, 2016, given the Company's current fuel derivative portfolio, its aircraft collateral facilities, and its investment grade credit rating, it would likely provide an additional $287 million in collateral. The Company would have the option of providing cash, letters of credit, and/or pledging aircraft in order to meet this collateral requirement. At March 31, 2016, the Company had $1.6 billion of aircraft available to be posted as collateral. In addition, the Company would expect to also benefit from lower market prices paid for fuel used in its operations. See Note 3 to the unaudited Condensed Consolidated Financial Statements.

The Company is also subject to the risk that the fuel derivatives it uses to hedge against fuel price volatility do not provide adequate protection. In recent years, jet fuel prices have been closely correlated with changes in the price of Brent crude oil ("Brent"). The Company has attempted to mitigate some of this risk by entering into more fuel hedges based on Brent crude. In addition, to add further protection, the Company may periodically enter into jet fuel derivatives for short-term timeframes. Jet fuel is not widely traded on an organized futures exchange and, therefore, there are limited opportunities to hedge directly in jet fuel for time horizons longer than approximately 24 months into the future.

See Item 7A “Quantitative and Qualitative Disclosures About Market Risk” in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, for further information about market risk, and Note 3 to the unaudited Condensed Consolidated Financial Statements in this Form 10-Q for further information about the Company's fuel derivative instruments.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2016. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have

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concluded that the Company's disclosure controls and procedures were effective as of March 31, 2016, at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

A complaint alleging violations of federal antitrust laws and seeking certification as a class action was filed against Delta Air Lines, Inc. and AirTran in the United States District Court for the Northern District of Georgia in Atlanta on May 22, 2009. The complaint alleged, among other things, that AirTran attempted to monopolize air travel in violation of Section 2 of the Sherman Act, and conspired with Delta in imposing $15-per-bag fees for the first item of checked luggage in violation of Section 1 of the Sherman Act. The initial complaint sought treble damages on behalf of a putative class of persons or entities in the United States who directly paid Delta and/or AirTran such fees on domestic flights beginning December 5, 2008. After the filing of the May 2009 complaint, various other nearly identical complaints also seeking certification as class actions were filed in federal district courts in Atlanta, Georgia; Orlando, Florida; and Las Vegas, Nevada. All of the cases were consolidated before a single federal district court judge in Atlanta. A Consolidated Amended Complaint was filed in the consolidated action on February 1, 2010, which broadened the allegations to add claims that Delta and AirTran conspired to reduce capacity on competitive routes and to raise prices in violation of Section 1 of the Sherman Act. In addition to treble damages for the amount of first baggage fees paid to AirTran and to Delta, the Consolidated Amended Complaint seeks injunctive relief against a broad range of alleged anticompetitive activities, as well as attorneys' fees. On August 2, 2010, the Court dismissed plaintiffs' claims that AirTran and Delta had violated Section 2 of the Sherman Act; the Court let stand the claims of a conspiracy with respect to the imposition of a first bag fee and the airlines' capacity and pricing decisions. On June 30, 2010, the plaintiffs filed a motion to certify a class, which AirTran and Delta have opposed. The parties engaged in extensive discovery, and discovery has now closed. On June 18, 2012, the parties filed a Stipulation and Order that plaintiffs have abandoned their claim that AirTran and Delta conspired to reduce capacity. On August 31, 2012, AirTran and Delta moved for summary judgment on all of plaintiffs' remaining claims, but discovery disputes between plaintiffs and Delta delayed further briefing on summary judgment. On August 5, 2015, the Court entered an order granting class certification, which was vacated on August 17, 2015, to permit further briefing. Thereafter, the parties filed motions to exclude the opinions of the other parties' experts on class certification and on the merits. On January 8, 2016, the parties completed briefing on defendants' motions for summary judgment, plaintiffs' motion for class certification, and the motions to exclude the opinions of experts, and those motions have been submitted to the Court for decision. AirTran denies all allegations of wrongdoing, including those in the Consolidated Amended Complaint, and intends to defend vigorously any and all such allegations.

Also, on June 30, 2015, the U.S. Department of Justice (“DOJ”) issued a Civil Investigative Demand (“CID”) to the Company. The CID seeks information and documents about the Company’s capacity from January 2010 to the present including public statements and communications with third parties about capacity. In June 2015, the Company also received a letter from the Connecticut Attorney General requesting information about capacity; and on August 21, 2015, the Attorney General of the State of Ohio issued an investigative demand seeking information and documents about the Company’s capacity from December 2013 to the present. The Company is cooperating fully with the DOJ CID and these two state inquiries.

Further, on July 1, 2015, a complaint was filed in the United States District Court for the Southern District of New York on behalf of putative classes of consumers alleging collusion among the Company, American Airlines, Delta Air Lines, and United Airlines to limit capacity and maintain higher fares in violation of Section 1 of the Sherman Act. Since then, a number of similar class action complaints were filed in the United States District Courts for the Central District of California, the Northern District of California, the District of Columbia, the Middle District of Florida, the Southern District of Florida, the Northern District of Georgia, the Northern District of Illinois, the Southern District of Indiana, the Eastern District of Louisiana, the District of Minnesota, the District of New Jersey, the Eastern District of New York, the Southern District of New York, the Middle District of North Carolina, the District of Oklahoma, the Eastern District of Pennsylvania, the Northern District of Texas, the District of Vermont, and the Eastern District of Wisconsin. On October 13, 2015, the Judicial Panel on Multi-District Litigation centralized the cases to the United

States District Court in the District of Columbia. On March 25, 2016, the plaintiffs filed a Consolidated Amended Complaint in the consolidated cases alleging that the defendants conspired to restrict capacity from 2009 to present. The plaintiffs seek to bring their claims on behalf of a class of persons who purchased tickets for domestic airline travel on the defendants' airlines from July 1, 2011 to present. They seek treble damages, injunctive relief, and attorneys' fees and expenses. The time for defendants to respond to the Consolidated Amended Complaint has not yet expired. The Company denies all allegations of wrongdoing and intends to vigorously defend these civil cases.

In addition, on July 8, 2015, the Company was named as a defendant in a putative class action filed in British Columbia, Canada alleging that the Company, Air Canada, American Airlines, Delta Air Lines, and United Airlines colluded to restrict capacity and maintain higher fares for Canadian citizens traveling in the United States and for travel between the United States and Canada. Similar lawsuits were filed in Ontario, Quebec and Saskatchewan. The time for the Company to respond to the complaints has not yet expired. The Company denies all allegations of wrongdoing and intends to vigorously defend these civil cases in Canada.

The Company is from time to time subject to various legal proceedings and claims arising in the ordinary course of business, including, but not limited to, examinations by the Internal Revenue Service.

The Company’s management does not expect that the outcome in any of its currently ongoing legal proceedings or the outcome of any proposed adjustments presented to date by the Internal Revenue Service, individually or collectively, will have a material adverse effect on the Company’s financial condition, results of operations, or cash flow.

Item 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities (1)

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum dollar value of shares that may yet be purchased under the plans or programs
January 1, 2016 through January 31, 2016	9,615,384	$ —(2)	9,615,384	$200,000,000
February 1, 2016 through February 29, 2016	—	$ —	—	$200,000,000
March 1, 2016 through March 31, 2016	—	$ —	—	$200,000,000
Total	9,615,384		9,615,384	

(1) On May 13, 2015, the Company's Board of Directors authorized the repurchase of up to $1.5 billion of the Company's common stock. Repurchases are made in accordance with applicable securities laws in open market, private, or accelerated repurchase transactions from time to time, depending on market conditions, and may be discontinued at any time.

(2) Under the First Quarter 2016 ASR Program, the Company paid $500 million in January 2016 and received an initial delivery of 9,615,384 shares during first quarter 2016, representing an estimated 75 percent of the shares to be purchased by the Company under the First Quarter 2016 ASR Program based on a price of $39.00 per share, which was the closing price of the Company's common stock on the New York Stock Exchange on January 22, 2016. Final settlement of this First Quarter 2016 ASR Program occurred in April 2016 and was determined based generally on a discount to the volume-weighted average price per share of the Company's common stock during a calculation period completed in April 2016. Upon settlement, the third party financial institution delivered 2,300,423 additional shares of the Company's common stock to the Company. In total, the average purchase price per share for the 11,915,807 shares repurchased under the First Quarter 2016 ASR Program, upon completion of the First Quarter 2016 ASR Program in April 2016, was $41.96.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

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Item 6. Exhibits

3.1	Restated Certificate of Formation of the Company, effective May 18, 2012 (incorporated by reference to Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 1-7259)).
3.2	Amended and Restated Bylaws of the Company, effective November 19, 2009 (incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed November 20, 2009 (File No. 1-7259)).
10.1	Supplemental Agreement No. 93 to Purchase Agreement No. 1810, dated January 19, 1994, between The Boeing Company and the Company. (1)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer. (2)
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.
(2) Furnished, not filed.

SIGNATURES

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

SOUTHWEST AIRLINES CO.

April 28, 2016 By /s/ Tammy Romo

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

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EXHIBIT INDEX

3.1	Restated Certificate of Formation of the Company, effective May 18, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 1-7259)).
3.2	Amended and Restated Bylaws of the Company, effective November 19, 2009 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed November 20, 2009 (File No. 1-7259)).
10.1	Supplemental Agreement No. 93 to Purchase Agreement No. 1810, dated January 19, 1994, between The Boeing Company and the Company. (1)
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer. (2)
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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(1) Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.
(2) Furnished, not filed.

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