EDITED TRANSCRIPT

LUV - Q4 2014 Southwest Airlines Co Earnings Conference Call

EVENT DATE/TIME: JANUARY 22, 2015 / 5:30PM GMT

OVERVIEW:

Co. reported 4Q14 revenues of $4.6b. 2014 GAAP net income was $1.1b and diluted EPS was $1.64. 4Q14 GAAP net income was $190m and 4Q14 EPS excluding special items was $0.59.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Marcy Brand *Southwest Airlines Co - Sr. Director, IR*

Gary Kelly *Southwest Airlines Co - Chairman, President, and CEO*

Tammy Romo *Southwest Airlines Co - SVP Finance, CFO*

Linda Rutherford *Southwest Airlines Co. - VP, Communications and Outreach*

CONFERENCE CALL PARTICIPANTS

Hunter Keay *Wolfe Research - Analyst*

Julie Yates *Credit Suisse - Analyst*

Savi Syth *Raymond James & Associates, Inc. - Analyst*

Michael Linenberg *Deutsche Bank - Analyst*

Helane Becker *Cowen Securities LLC - Analyst*

David Fintzen *Barclays Capital - Analyst*

Jamie Baker *JPMorgan - Analyst*

Tom Kim *Goldman Sachs - Analyst*

William Greene *Morgan Stanley - Analyst*

Terry Maxon *Dallas Morning News - Analyst*

Jack Nicas *Wall Street Journal - Analyst*

Mary Schlangenstein *Bloomberg News - Analyst*

Jeffrey Dastin *Thomson Reuters - Analyst*

PRESENTATION

Operator

Welcome to the Southwest Airlines fourth quarter 2014 conference call. My name is Matthew and I'll be moderating today's call. This call is being recorded and the replay will be available on southwest.com in the Investor Relations section. At this time, I'd like to turn the conference over to Ms. Marcy Brand, Senior Director of Investor Relations. Please go ahead, ma'am.

Marcy Brand - *Southwest Airlines Co - Sr. Director, IR*

Thank you, Matthew, and good morning, everyone. Welcome to today's call to discuss our fourth quarter and annual 2014 results. Joining me on the call is Gary Kelly, our Chairman, President and CEO; Tammy Romo, Senior Vice President of Finance and CFO; Bob Jordan, Executive Vice President and Chief Commercial Officer; Mike Van De Ven, Executive Vice President and Chief Operating Officer; and Ron Ricks, Executive Vice President and Chief Legal and Regulatory Officer.

We will begin with opening remarks from Gary, followed by Tammy providing a review of our results and our current outlook. We will move to the Q&A portion of the call following Tammy's remarks. Today's call will include forward-looking statements and because these statements are based on the Company's current intent, expectations and projections, they are not guarantees of future performance and a variety of factors could cause actual results to differ materially.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

As this call will include references to non-GAAP results excluding special items, please reference this morning's press release in the Investor Relations section of southwest.com for further information regarding forward-looking statements and reconciliations of non-GAAP results to GAAP results. And now I'd like to turn the call over to Gary.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Thank you, Marcy, and good morning, everybody. Thank you very much for joining our fourth quarter earnings call. Our fourth quarter earnings excluding items were a record, dramatically surpassing last year's previous record by 79%. Our revenues were up $200 million, and interestingly enough, fuel was down $200 million and the result was a beautiful thing. So for the first time in 14 years, we achieved our ROIC target, and in this case, we exceeded it with a 21.2% return on invested capital.

The operating performance was propelled by the successful deployment of our strategic initiatives. Very pleased with the Rapid Rewards for the year. That was an almost $400 million revenue contribution. The fleet modernization effort for 2014 was $0.5 billion, as was the AirTran integration synergies of $500 million for the year, so we're very pleased with all of that.

Without any one of those, of course, we would not have had the stellar results that we did, but our people have done a magnificent job managing all the transformational change over the last five to 10 years. They are passionate about Southwest, passionate about serving our customers, better than our competitors and with a reliable and low cost operation. And I could not be more proud of them, strategic initiatives aside, we would not have Southwest as we know it without these incredible people.

So my thanks to all of them, but also my congratulations to them because they have been richly rewarded. We've had tremendous stock price appreciation. Last year we increased the dividend by 50% and then, of course, we had record profit sharing for 2014. So just turning as to what happens next in our business. Our earnings outlook is superb, if for no other reason than fuel costs are down dramatically year over year.

Our business remains steady, although I would alert everyone to be mindful of the distortions in analyzing our performance on a unit basis. And as we point out, that's caused by the increased utilization of the fleet, the increased stage length, the increase in the gauge, all leading to very healthy ASM growth. I also want to remind everyone again of the large percentage of our route system that is under development and that translates primarily to international markets that have been converted from AirTran, the Dallas Love Field expansion with the repeal of the Wright Amendment on October 13. Dallas available seat mile capacity, by the way, is up over 80% in the fourth quarter year over year, and also Reagan National, which with the slots we acquired, that capacity growth is 180%. So our business has been strong and steady despite all of this large percentage under development.

The collapse in oil prices since September, of course, is very big news. I think it's safe to say that we're still trying to digest all of the news and the ramifications for us. Of course, in the meantime, we have significantly lower fuel costs and it drops straight to the bottom line for the most part, but we have been and will continue to actively manage our hedging program given this significant change.

We've made no changes to our growth plans for this year. We will, of course, factor in the latest and greatest news into our fall planning for 2016 and 2017, but at this point, we've made no changes to those years either. From a cash flow perspective, we're assuming energy cost will be lower than what our fall plan for this year initially showed, and therefore, operating cash flow will be higher. That's a high quality problem.

We'll be thoughtful as to our uses of that additional cash. But as a footnote, I would add that given the extreme volatility that we're experiencing in the oil markets, it's anybody's guess what will happen next. So we will manage as best we can factoring in that very high level of uncertainty with energy prices going forward.

Again, overall, I think wherever we end up here over the next several years is going to be lower than what we thought before September. So with that, Tammy will take us through our stellar results for the quarter, and I want to thank her for her superb financial leadership and just enjoy the review here, Tammy.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

Thank you, Gary, and thanks to everyone for joining us. We are thrilled to report today on an outstanding finish to what has been a record year of accomplishment. Our annual net income excluding special items was a record $1.4 billion, or $2.01 per diluted share, which is an exceptional 80% increase year over year. Our 2014 GAAP net income was also a record, $1.1 billion, or $1.64 per diluted share.

Gary walked you through all of the benefits from our strategic initiatives and, of course, those were strong contributors to these wonderful results. Overall, our annual profits resulted in pre-tax ROIC excluding special items of 21.2% for 2014. We are delighted and we handily surpassed our minimum target of 15%, and as Gary mentioned, that represented our highest ROIC since 1981. Our fourth quarter performance was also exceptional.

Fourth quarter net income excluding special items was a record $404 million, or $0.59 per share, which also increased nearly 80% year over year and represented our seventh consecutive quarter of record profits. Fourth quarter GAAP net income was $190 million and operating income excluding special items was also a fourth quarter record of $621 million, and we expanded our operating margin by more than 500 basis points to 14.7%. These strong results were driven by record revenues, significantly lower fuel prices, and our ongoing cost control effort.

Our 2014 profits earned our employees a well deserved record $355 million in profit sharing, and I just want to congratulate all of our wonderful employees on just the fabulous results which also represents our 42nd consecutive year of profit. I'll turn to revenues now. Our revenue results were strong and better than expected.

Our fourth quarter revenues reached record levels increasing 4.5% year over year to $4.6 billion, driven largely by record passenger revenues of $4.4 billion. Strong demand for travel resulted in record traffic and load factors on 2.6% fewer trips year over year. Overall, we are pleased with the revenue strength across our network and we saw strength in both our business and leisure travel demand. On a unit basis, total operating revenues increased 2% compared with fourth quarter last year on a 2.4% increase in available seat miles.

Our passenger unit revenues increased 2.6% compared with last year's record fourth quarter which is outstanding considering the 2.6% increase in stage length and the 2.4% increase in seats per trip. Furthermore, nearly 20% of our capacity was in developing markets and that includes our new Dallas non-stop markets which took off very strong with the majority of the new markets meeting or exceeding a 90% load factor. And our international markets also continue to ramp up nicely and performed in line or ahead of our expectations.

Our fourth quarter passenger revenues included an additional $55 million related to the amount of spoilage expected for points sold to business partners. And as our new Frequent Flier program has matured, we have continued to monitor member redemption activity and behavior, and during 2014 with a few years under our belt with the new program, we obtained enough historical data under the new program to develop a predictive statistical model and the model indicated an increase of spoilage which was recorded prospectively as a change in estimate.

The higher spoilage rate is expected to continue in 2015, however, the revenue impact will not be known until the actual number of points redemption for the period is known. Therefore, the fourth quarter revenue increase does not necessarily represent a steady state quarterly impact through 2015, and without the change in estimate, our fourth quarter passenger unit revenues would have fallen within our guidance of the increase of 1% to 2%. But the rate that we expect going forward, of course, are factored into the guidance that we provided in the earnings release.

Thus far in January, the travel demand remains strong, and based on current bookings and revenue trends, we expect first quarter 2015 passenger revenues to increase year over year in line with our 6% capacity growth which suggests a flat PRASM. While it's too early to provide revenue guidance for full year 2015, as we communicated at Investor Day, our goal is to keep pace with our capacity growth compared with 2014. Keep in mind, our year-over-year first quarter PRASM results will reflect the impact of an estimated 3.5% increase in stage length and 2.4% increase in seats per trip, both compared with first quarter 2014 and 20% of the market remain under development.

For January, we expect strong passenger revenue growth and when coupled with approximately 10% ASM growth, we currently expect PRASM to be down slightly year over year, but just as a reminder of the 10% ASM growth, 3 percentage points was due to last year's polar vortex winter storms. This slightly down expectation for January PRASM also reflects about a 2- to 3-point headwind from increased stage engage and maintains approximately 20% of our capacity under development, which reinforces the fact that we're seeing underlying strength in January's performance.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Moving to freight and other revenues. Freight revenues grew 12% year over year primarily benefiting from new and maturing markets as a result of the AirTran integration, and we currently expect first quarter 2015 freight revenues to increase from first quarter 2014 in the 6% range. Other revenues decreased almost 9% year over year, primarily due to the decline of the AirTran fees as expected with the transition of the AirTran network over to Southwest.

We currently expect the year-over-year decline to continue through the fourth quarter of 2015 as a result of the completion of the integration process which occurred during fourth quarter. For first quarter 2015, we are expecting a year-over-year decline in total revenues similar to the year-over-year decline in fourth quarter 2014. The fourth quarter 2014 decline in AirTran related fees was partially offset by an increase in certain ancillary revenues such as Early Bird check-in and our A1 through A15 select boarding positions which are sold at the gate. Our Early Bird revenues continued to be very strong at $56 million for the fourth quarter.

So with that revenue update, I'll turn now and speak to our cost performance. Our fourth quarter unit costs excluding special items decreased 3.8% on a year-over-year basis largely due to the significant drop in fuel prices. Our fourth quarter economic jet fuel price per gallon declined 14% which also reflects a $0.03 hedging [loss] which was about $15 million.

Our fuel prices have plunged nearly 50% in recent months, as Gary mentioned, and in response to the collapse in fuel prices we effectively unhedged our 2015 fuel consumption. For the first quarter, we neutralized our hedge with offsetting hedges which essentially resulted in a $0.10 watch and loss and we are now participating in 90% of the market drop as a result. So very proud of how our Treasury group has managed this really steep decline in market prices.

Based on our hedge position and market prices as of last Friday, we expect our first quarter fuel price per gallon to be in the $1.90 range which is significantly below first quarter $3.08. From mid-September to today's market price, we have participated in 80% of the decline for 2015. For the full year, based on our fuel derivative contracts and current market prices, we estimate our 2015 economic jet fuel price per gallon to be in the $1.95 to $2.05 range which would represent $1.7 billion in year-over-year fuel cost savings; so, obviously, very substantial.

Turning to non-fuel costs. Our unit costs excluding special items and fuels increased 2.3% year over year and that was largely driven by the 52% increase in profit sharing expense. If you take out profit sharing and special items, our non-fuel unit costs increased a modest 1.2% year over year. So we're very pleased with the ongoing benefits from our fleet modernization and just overall cost control effort. This was slightly better than expected due to lower than expected costs such as advertising.

Based on current cost trends, we expect first quarter 2015 unit costs excluding fuel, special items, and profit-sharing, to decrease year over year in the 1% to 2% range compared with first quarter 2014, 8.5 [bps]. And our full year 2015 unit costs excluding fuel, special items and profit sharing remains unchanged from Investor Day where we provided an outlook of also down in the 1% to 2% range year over year.

Moving to our strong balance sheet and cash flow. We ended the year with $3 billion in cash and short-term investments and we also have our $1 billion revolving credit line fully available. We continue to generate strong free cash flow. Our free cash flow for 2014 was $1.1 billion which we returned to our shareholders through $955 million in share repurchases and $139 million in dividend payments.

In fourth quarter, we repurchased $200 million in shares under an accelerated stock repurchase program and we have $380 million remaining under our $1 billion share repurchase authorization. In 2014, we repaid $561 million in debt and capital lease obligations which includes a bullet repayment of $350 million on notes that were due October 1. During the fourth quarter, we refinanced with $300 million in unsecured notes at 2.75% coupon rate which is a historic low rate for us.

Based on -- and in 2015 we intend to repay $182 million in scheduled debt and capital lease payments. Our leverage including off balance sheet aircraft leases at the end of the year was 35%. And as you all probably read, we were upgraded by S&P during fourth quarter to a BBB rating, and we are the only investment grade US airline for all three credit agencies. We also continue to manage our CapEx with 2014 spend of $1.7 billion plus $80 million of assets constructed for others which was right in line with our expectations.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

For 2015, we currently expect our CapEx spending to decline from 2014 levels and fall in the $1.6 billion to $1.7 billion range, excluding assets constructed for others, which is estimated to be about, fall in the $50 million to $100 million range. And that brings me to a quick recap of our 2014 fleet activity. We took delivery of 33 Dash 800s from Boeing and 22 pre-owned Dash 700s, and on the retirement side we retired five Classics this year. We have removed all of the AirTran 717s from service and as of the end of the fourth quarter, we had transitioned 52 717s to Delta, and have since transitioned an additional two, which brings us to a total of 34 remaining 717s that will be transitioned to Delta in 2015.

In addition, thus far we've transitioned 48 of the 52 AirTran 700s to Southwest with the last four currently in conversion. We continue to manage our fleet plans to a relatively flat fleet through the end of 2015 which is in line with what we've said previously. So as Gary stated, no change in plans there. So we're managing to roughly 700 aircraft, which as a reminder, was the combined fleet, roughly the combined fleet count at the time of the AirTran acquisition.

We expect our first quarter 2015 ASMs to increase year over year in the 6% range and our guidance for full year 2015 year-over-year capacity growth remains unchanged at approximately 6%. Our first quarter capacity growth is driven by an expected 3% to 4% increase in stage length, 2% to 3% increase in seats per trip, and flat trips all compared with first quarter 2014. The additional seats per trip are driven by, of course, our fleet modernization effort and are being produced at a minimal cost, so very cost effective growth for us here in 2015.

In addition, with the aircraft conversion activity and the phase out of the AirTran fleet behind us, we now have the ability to utilize our fleet more; again, generating a low cost capacity that will fund our exciting growth opportunities in 2015 focused on Dallas Love Field, Reagan and LaGuardia and also International. In closing, we couldn't be more thrilled with the very strong end to 2014 and our record performance for the year. The successful execution of our strategic initiatives have positioned us well for future success and our 2015 is off to a great start. We are pleased with our current revenue trends, and as we said at Investor Day, we're intently focused on maintaining our competitive low cost structure.

So far in 2015, we are continuing to benefit from low jet fuel prices, ongoing fleet modernization and rigorous cost control efforts, and are well-positioned to take advantage of our exciting growth opportunities. Our balance sheet and cash flows are very strong as evidenced by upgrades in 2014 by both S&P and Moody's, and we're very proud of our solid investment grade rating. We've demonstrated that we are focused on prudent capital deployment and we're committed to taking care of our employees, customers, and shareholders. And before we open the call up for questions, I'd like to congratulate and thank all of our employees once again for these truly remarkable results and an amazing year. So, Matthew, I'll turn it back to you.

QUESTIONS AND ANSWERS

Operator

Thank you, ma'am.

(Operator Instructions)

Thank you for waiting. We'll begin by taking our first question from Hunter Keay from Wolfe Research.

Hunter Keay - *Wolfe Research - Analyst*

Hi, everybody. Thank you very much.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Hunter.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Hunter Keay - *Wolfe Research - Analyst*

Tammy just a point of clarification, on the spoilage, I think you said it was not included in the roughly flat PRASM guide. Should I assume that could only, if anything, be a good guide or because it's an off peak carry potentially could it break the other way, or is that already in that flat number?

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

It's already contemplated in there. We do our best to forecast what we expect the rate to be. Now as always, as part of our close process, we review all of that, but it is contemplated in our guidance.

Hunter Keay - *Wolfe Research - Analyst*

Okay, thank you. And please correct me if I'm wrong here, Gary, but I thought maybe in the past when you guys made changes to your hedging program that could sometimes be interpreted as sort of an implied commentary in what you're seeing in your bookings given that there was an underlying assumption that the changes in oil prices over time would be changes -- would be correlated to changes and driven by demand, I should say.

So when you take off your hedges for the rest of 2015, I know you're seeing strong bookings right now, you made that very clear, but are you doing that because you potentially anticipate some degree of softening in demand as we move through the year? Or is this strictly something different because of what you're seeing in the overall global supply of oil?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Hunter, I don't know that we've tried to match our hedging to demand in the way you described, so if you've gotten that from us I apologize. I think the main thing I would say is we have a hedging program in place as insurance, so it's to protect us against primarily catastrophic, but increases in energy costs. So in doing that we're well protected with that.

Coming into 2015 with the hedging program that we had in place, 2015, 2016 and 2017, we're well protected. And in an environment where energy prices drop and especially when they collapse, the hedging program was going to cost us.

Now all-in, of course we're realizing a significant reduction in energy cost. And for us that's, of course, all airlines would wish for this, but for us, a low cost producer, it enhances our competitive position because it allows the rest of our cost structure to have a more significant proportion of the total. So it helps to widen our cost advantage, so this is all a good thing.

I think the only point about the hedging program is we want to manage the cost of it, so we have unhedged in 2015 because we had a view that prices were headed south and fortunately our folks were right and managed that I think very, very well. So we're not, we're essentially unhedged for 2015. We do have positions in 2016 and 2017, and there is a mark-to-market with the portfolio for those two periods, as well, that we'll have to continue to manage. But to me, if you were to ask us, well, what do you think we should do next?

I think we should simply continue to manage our portfolio and not try to speculate on what prices are going to be over the next three months, six months, 18 months. That is anybody's guess.

We've got a scenario where we have very handsome margins. We can put in hedging protection for the future to avoid a catastrophic increase in fuel prices which is well beyond the $45 to $50 range that we're trading in right now and just approach this in a way where the cost of the hedging program is sensible. So with the volatility the way it is, hedging is very expensive, and hopefully that gives you a comprehensive answer to your question.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Hunter Keay - *Wolfe Research - Analyst*

Yes, very good. Thanks a lot, guys.

Operator

We'll go next to Julie Yates with Credit Suisse.

Julie Yates - *Credit Suisse - Analyst*

Good morning. Thanks for taking my question.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Good morning.

Julie Yates - *Credit Suisse - Analyst*

Tammy, just going back to Hunter's question, can you provide any color on what the Q1 PRASM guide would be excluding the benefit from the accounting change?

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

So that's really baked in going forward. We've calculated the rates, and they aren't that far out of line with what we've been seeing historically. So, no, we haven't provided that in the estimates, but that's just part of our normal special steps revenue and that's our best estimate at this time. So, no, we haven't, we aren't going to provide that for the first quarter going forward.

And, again, a lot of that depends on how many rewards ultimately get redeemed, as well, so keep that in mind. It's very tough to give you an exact forecast on that, but actually going forward as we get more history with the program, we should be able to predict that with more accuracy. But it's within the normal range of what we've kind of seen historically.

Julie Yates - *Credit Suisse - Analyst*

Understood. And then, just the other carriers of -- other US carriers have noted some softness in domestic customs towards the end of Q4. Do you have any comments on that, or did you see a similar dynamic in any of your markets?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

I wouldn't call it softness. Again, I think the thing that makes us different is the reallocation of all of the AirTran capacity that we acquired back in 2011. That's what's creating this large percentage of quote development markets for us. Because, as you know, we haven't grown, on a combined basis we haven't grown the fleet. We haven't grown capacity since 2011.

So what you're seeing in Dallas, what you're seeing in International, what you're seeing in Washington Reagan is simply redeployed, not literally AirTran capacity, but that's a big source of it. So those markets are in development. That's not a euphemism. It's just simply saying they don't typically perform at system average. And beyond that, no, I don't think we have, I would not describe softness to anything that we're seeing.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

I would agree, Gary. We spent a lot of time looking at our results here in the fourth quarter, and when you adjust for the development markets, we have PRASM gains realized really across all haul lengths.

We saw strength in both leisure and our business passengers, and really, if you back all that out and just look at our base of business on a same-store, if you will, it was a very strong performance. So very delighted with our overall revenue performance.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

And, of course, we keep emphasizing this, and you all can factor it in how you choose, but if you adjust, as I like to do, for the stage length change and for the gauge change, that's a 2-point adjustment. So it really takes the year, which was up 4.6%, it takes us up to 6.6%, and the fourth quarter was a very strong performance, as well. So, no, softness is not a word that makes any kind of sense.

Now the change in energy prices is no doubt going to ripple through the oil and gas economy, and we serve Texas in a big way. So I did share earlier this morning in some media interviews that we've not seen any change in the travel in those markets either, but, obviously, we're going to keep a close eye on that. But so far everything is steady and we feel really good about the business.

Julie Yates - *Credit Suisse - Analyst*

Okay, very helpful, thank you.

Operator

We'll take our next question from Savi Syth with Raymond James.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

Hi, good morning, or good afternoon, actually. So on the international side now that you have had more experience flying with Southwest, I was just wondering what the experience has been and if there's any sense of maybe wanting to accelerate the growth in international or just is the opportunity in the domestic market that much better?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Well, yes. We are in the wonderful position of having numerous alternatives for future growth. So we, just as a reminder at this point, beyond the 48 states we've got close to 50 additional destinations that we can consider.

I'll just use 2015 as a proxy to answer your question. We're growing capacity 6%, 5 of the 6 points are domestic and it's driven by Dallas and Reagan, so all familiar themes that you've heard. So we have 1.1% of our capacity today that is deployed internationally. It's 1.6% if you include Puerto Rico. 1 point of our growth next year will be international, that's pretty measured, that's pretty modest, and I think you should expect that's going to continue for some time.

The markets are developing rapidly. We've got a pretty significant increase in capacity compared to what AirTran was flying because we're flying daily and they were flying less than daily, so we factored all that into our expansion plans. But we've announced three more destinations for 2015. We're excited about all three of those.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

It won't be -- again, it won't add up to a huge amount of capacity, but we just want to walk before we run. Operationally, we want to be cautious and conservative here and make sure that we're comfortable with flying into different countries and different cultures and different languages. So no change to what we've shared with you all earlier.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

All right, thanks, and if I could ask one more. On the cash side, if you do have this excess cash when a few price declines comes up temporarily, is there any kind of non-aircraft CapEx program that you're looking at or how should we think about the use of cash?

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

We really don't have any change in plans based on the drop in fuel. We're going to continue to manage our CapEx and do what makes sense for Southwest Airlines, more or less and irrespective of what fuel is doing. So we feel comfortable with our CapEx plans here for 2015, so at least at this point there's been no change in plans.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

I'd add one more thing there which is we are, I would say, we have an ambitious investment plan already. We've worked hard to transform Southwest over the past five to 10 years. We've invested a tremendous amount in technology already.

We have big plans, of course, to replace our reservation system and that will be an expensive project. And then Mike Van De Ven is also leading an effort to invest heavily into our operations technology over the next five years.

So even without this additional, if it turns out this way, this additional cash, we are investing heavily and what I would consider to be aggressively in about as much as I think the Company can manage. So I don't see an opportunity there that would be wise. So we'll have other discussions about how we could use the cash, but like I said earlier, it's a high quality problem.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

That makes sense. Sorry, is it debt or are you returning cash to shareholders on the excess cash?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

All of the above. So we'll look at those opportunities, and I'm not saying that we're going to change our growth plans, so don't miss read what I'm saying. But, obviously, that is an opportunity for us to refresh those for, after 2015, and we'll take a look at that, or we'll just run a higher cash balance.

But if nothing else, it will preempt the need to do any debt financings that we might have been contemplating over the next several years, and we do have a fair amount of debt that's coming due over the next 36 months.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

All right, very helpful, thank you.

Operator

We'll go next to Michael Linenberg with Deutsche Bank.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Michael Linenberg - *Deutsche Bank - Analyst*

Yes, two questions here. Tammy, did you, in your commentary, did you provide how much cash collateral you posted with your hedge counter parties for your, I guess, 2015, 2016 positions?

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

Yes, I'd be happy to go over that with you. Let me pull up our exact amounts here. So our collateral as of, I guess, it's roughly $270 million in cash, roughly $200 million in aircraft, and so that's the cash in aircraft and $250 million in a letter of credit. So if I didn't provide that, I can't remember, but those are the numbers.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, great. And then, when you give us your cash position, does that include the cash collateral that is held by the counter parties or is that?

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

[Basically, yes.]

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, great. And then just my second question. Gary, it came across this morning on the headlines, I think you were doing the CNBC interview and I think you'd mentioned something about competition being the greatest in a generation. And I just, I look at what your ROIC was for the quarter and what other carriers are doing and I didn't know if maybe it was taken out of context, if it meant that you and the rest of the industry was all competing to generate the highest returns and the best margins. Like what did you mean by that?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Well, it was intended to be just a straightforward commentary. Our competitors are at lower relative costs than they have had in a generation. They are producing handsome profits unlike they have done in a generation. They're running better operations than they have historically.

At least from our view of the world, they're stronger competitors, period. And we're mindful of that, and it's incumbent upon us to step up our game accordingly. So it was just an acknowledgment that the competitive landscape has changed where you go back 10 years ago and they were floundering. They aren't floundering now, so -- and that's good. That's good for us and it makes us better. So all I was trying to point out is that we're up to that task and I'll put my money on the Southwest People any day.

Michael Linenberg - *Deutsche Bank - Analyst*

Perfect, great. Thanks, Gary.

Operator

We go next to Helane Becker with Cowen and Company.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Helane Becker - *Cowen Securities LLC - Analyst*

Thanks very much, operator. Hi, everybody. Thanks for your time. Gary, can you just give us an update on where you stand with all your labor agreements and your negotiations and how that should work through 2015?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

I'll give you the headline, and then I'll ask Mike and Tammy if they want to fill in some gaps here. But we had three labor agreements reached in 2014, so Tammy can share what the cost effects of those are. We have six others that we have been working on and now a seventh contract has become amendable. So we currently have seven open contracts and it is my hope that we hit all of those negotiated and ratified in 2015.

Tammy, anything you want to?

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

No, we've included, again, anything that's been ratified and they are included in the results and guidance, but the guidance that we provided.

Helane Becker - *Cowen Securities LLC - Analyst*

I think, though, you have some big ones that are in negotiation and have been in for a long time, right? Has there been movement made on, like pilots, for example?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Well, I consider each one to be big, and in terms of numbers of employees, yes, we had a number of employees covered, again, with our contracts that we reached last year. But, well, they are all different, so I can't give you a blanket answer for seven negotiations, and one is just getting underway.

But we have opportunities to do two fundamental things. One is to reward our employees for the very hard work and the stellar results, and I'm most anxious to do that. And, secondly, we have wonderful opportunities to better position Southwest to maintain our low cost position and our low fare brand, and that's a blessing that we can achieve both of those things. We've done that with some of our labor groups and I am optimistic that we'll be able to do it with these remaining seven.

Helane Becker - *Cowen Securities LLC - Analyst*

Great, okay, thanks, guys.

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

Thanks, Helane.

Operator

We go next to David Fintzen with Barclays.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

David Fintzen - *Barclays Capital - Analyst*

Good morning, or good afternoon, everyone. If I think back to the Investor Day, as I recall, in the fixed ASM growth there's still some that you weren't bringing back all of the slack aircraft utilization right away, if I recall. I'm just curious, given the volatility in fuel, is there some room at the margin either in those aircraft or in some of the off-peak flying that you've cut over the last few years to tweak the schedule a little bit in the short term?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

I don't think so, not really for 2015. I think in theory you might be right, but, again, like both Tammy and I have tried to reiterate we're not changing any of our plans, at least in 2015. We're still very focused on the reliability of the operation, that has some impact on the utilization of the fleet. But at least as it stands right now, some of this is constrained, so there are aircraft out of service.

The way I did the math, guys, was I counted up 88% of our fleet is in service, in other words, available to fly. And quote, normally, unquote that should be more in the 93% to 95% range. So some of this is just taking the 717s out of service, some is finishing up the AirTran 737 conversions into Southwest. So, David, you just have a higher number of aircraft than usual out of service in 2013, even more in 2014, and still in 2015. We can't do anything about that right now.

When you get through all of that this year into the fourth quarter, it is theoretically possible we could do a little bit more flying but, again, none of us are thinking that that's anything that we want to do. We don't have really any thoughts of changing our fleet plans for this year.

If you include the 717s at the end of 2014, we had 701 aircraft, and that is literally where we plan to end this year, 701 airplanes. So now, again, we'll give some thought to what we might want to do in 2016, but I would just quickly add that whatever we do will be just fine tuning. I don't see us making any dramatic departures from our plans that we had previously.

David Fintzen - *Barclays Capital - Analyst*

Okay, that's very helpful. And then, just going back to the comments on the energy related business, do you know sort of how much you've benefited from some of the shale, et cetera, in Texas over the last few years? Do you have a sense of what the pool of potential traffic might be that you'll have to watch or is that just hard to know?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

That's kind of an interesting question. I don't know that we really looked at it that way. I think it would be appropriate to do that. I can pick on a couple cities where it's pretty obvious that there's been a dramatic boost, but off the top of my head, no, David, I don't have a sense of that.

And, obviously, we're going to be watching very carefully for any change in trends, and as I mentioned earlier, I'm sure -- all of us can do the theory here, but consumers are going to have a lot more money in their pockets to travel, so that's a fact, and my prediction is that we'll get some of that. Obviously, oil and gas businesses are going to cut back and that will result in some reduced travel inevitably, but my bet is that the consumers are going to outweigh the cutbacks and you'll still see a very strong revenue environment.

I think what is more worrisome about the future is just what's going on around the world and what impact that might have on the US economy, and what impact that might have on consumers and businesses and travel demand. And, again, as we've reported over and over this morning, there's just absolutely no evidence of anything changing on that front. So we're trying to keep our eyes on that and plan for the future accordingly.

There's just a lot of uncertainty in the world. Right now things are really good for us, and we just want to continue to be prepared for tough times if that is what emerges.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

David Fintzen - *Barclays Capital - Analyst*

All right, great. Appreciate that.

Operator

We'll take our next question from Jamie Baker with JPMorgan.

Jamie Baker - *JPMorgan - Analyst*

Hi, good afternoon. Tammy, you identified the number of moving pieces behind the rise in guide. I understand Love Field, I understand that's the case, even new routes like National, but I'd also expect some reasonable tailwinds from integrating AirTran. I'm not looking for an absolute guide, but is there a particular point in 2015 where you start to normalize and you'd expect your RASM trends to start moving a little bit closer to the A4A domestic average?

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

Well, we are going to see really the increases that we've gone through in stage length and gauge and that's going to continue here in 2015. I think that's one of the, that's not going to change here in 2015. So I think really kind of getting out beyond 2015 which, of course, a lot of that largely depends on what our plans are at that point in time.

But, yes, we would expect our, I think the best is to point you back to the percentage of our markets that are in development. I really think that's the key is how quickly are those going to develop. So I do think that we should see a pick up as those development markets continue to improve.

So, and as we said, or I think we said in the past, is that those are developing very rapidly. And so we're actually seeing our development markets reach maturity here more recently in, call it a year, historically it could take up to three years.

So to your point, if we see that trend continue here in 2015, I think that's reasonable, I think there might be some pick up. But I would really attribute it to the development markets.

Jamie Baker - *JPMorgan - Analyst*

Okay, that helps. And, Gary, a follow-up to Helane's question, particularly as it relates to the pilots. We know what the new rates are, or at least they are out for ratification at American, obviously. We know what is implies in terms of the pressure on Delta's next contract.

It seems to me that the longer it takes at Southwest, the potentially more expensive the contract ultimately becomes, or is this a naive way for me to think about things? And, obviously, feel free to insult me, we've known each other a long time. (laughter)

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Jamie, I would never insult you. (laughter)

Jamie Baker - *JPMorgan - Analyst*

Well, not to my face.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Well, no, first of all, on your previous question, by the way, I agree with you that as time goes by we ought to continue to see a better performance by the developing markets. You have a large increase in flying in late 2014, so, Tammy, to me, it's late this year before we should expect to begin to see a remarkable improvement and expect maybe too strong a word there.

Well, the labor question is really, it's a fair one, but the fact of the matter is it is a negotiation. And the circumstances change and that can change the color of negotiations, but the main thing -- and I'll just repeat our two goals. Our two goals are to continue to reward our employees who have been very handsomely rewarded with by far the best job security in the industry for a long period of time. So that is an objective and I'm grateful that we have an opportunity to do that.

Number two is we must keep Southwest Airlines competitive, and this is now an involved environment where our legacy competitors are stronger than ever and it's more important for us than ever to maintain our low cost position and preserve our low fare brand. So that has been under attack, as the other airlines have gone through bankruptcy.

I just point that out, again, just to reiterate that that's as much a component of the current environment as anything else, and if it takes time to get the right contract negotiated for the parties, it takes time. So we're determined to do the right thing by our people and by the Company and my hope is that we can get that done this year.

Jamie Baker - *JPMorgan - Analyst*

Got it. I really appreciate it. Take care.

Operator

We'll take our next question from Tom Kim with Goldman Sachs.

Tom Kim - *Goldman Sachs - Analyst*

Hi. I just wanted to ask, just going back to your Analyst Day, you talked about striving for cost leadership which, obviously, to us is certainly the right way to approach things. I'm wondering is that implicitly suggesting that you're aiming for margin leadership?

And then, just along those lines of thinking, I'm wondering how do you benchmark your financial performance versus your peers? And, I guess, just given the fact that you are going to be going towards cost leadership which should imply that you're going to be topping your best pre-tax margin, way back in the 90s this year, just given where things are with fuel and pricing discipline.

So I'm wondering like how important for you is it to be the most profitable airline? And then, in that vein, will you be thinking, would it be looking at margin as the sort of key metric to be focusing on or would it be the pre-tax ROIC? I just would love to understand how you're thinking about how you're really sort of comparing yourself to your peers and how important it is for you to be the margin leader in the industry? Thanks.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Well, and, Tammy, you should chime in too. I think that we can achieve both, and, in fact, I think this is one of those industries in particular where low cost equals superior financial performance. So it is critically important that we strive to be the low cost producer. That's who we are, that's who we have been for 44 years, and we cannot give up on that objective, and we won't give up on that objective.

The way to measure the financial performance is return on invested capital. We do it pre-tax for various reasons. It doesn't matter whether it's pre- or after- and all that can be normalized.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

But the P&L margins can be a little bit misleading, so between carriers, between years, that was the point I was making earlier, we're in a better competitive position with lower energy cost. And I'm glad that that's where we are because that helps us dramatically, but it would be -- so, yes, I do think it's important for us to have as a goal to have the best return on capital of all of our peers.

Tom Kim - *Goldman Sachs - Analyst*

Great. And then, if I could just switch gears and, Tammy, it maybe a bit more specific with regard to the strategy behind fuel hedging. I'm just wondering at what point do you think it would make sense to maybe revisit the 2016, 2017 fuel hedging positions?

Obviously, you took a view on 2015 and certainly then very positive. I'm wondering with regard to the 2016, 2017 positions, is it possible as the year progresses that you could be, or we could be looking at those hedges also being unwound too? Thank you.

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

Yes, we have been, just to be clear, we've been very aggressively managing our entire portfolio. So we're focused on it in the entirety, and we provided the hedge percentages in the earnings release. 2016, we just have a 10% hedge position now and 2017 about 30%. So I think the numbers we reported previously were in the 40% range.

And then we did have a small sliver out in 2018 and we've actually unwound that, as well. So we are looking at our whole portfolio and we do that every day, so we will continue to manage that going forward.

Tom Kim - *Goldman Sachs - Analyst*

Excellent. Thanks very much.

Operator

We have time for one more question, and we'll take our last question from William Greene, Morgan Stanley.

William Greene - *Morgan Stanley - Analyst*

Hello, Gary, hello, Tammy.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Bill. Welcome back.

William Greene - *Morgan Stanley - Analyst*

Yes, thank you. I had a question for you, Gary, on how you think about what it means to exceed the hurdle rate on ROIC, because you're nicely above it? Your goal is to be most profitable as defined by that in the industry, as you mentioned, so what does that mean?

Does that mean you should be revisiting your growth rate assumptions or does it mean you should target bigger payouts to shareholders, or what does this actually mean now that you're exceeding it?

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Well, I think that you've hit on the key questions. I don't think we have anything new to report today. First of all, its just been September since we've had this change, and I'm not predicting it, but for all I know we'll be back to, at $100 here in three quarters. There are some that are out there predicting that.

So we just need to make sure that we have a sensible view of what the future offers, first of all. And then I think once we get comfortable with that, we can decide what we, again, high quality problem, we can decide what we want to do with that excess cash.

Tammy, I don't know if you have anything that you want to add, but those would be logical considerations. And right now, we're not thinking that we're going to make any dramatic change to any of our plans that we've laid out for you all.

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

I agree, Gary. I think we need to see some consistency. It's only been a few months and so -- but we'll, obviously, carefully and thoughtfully evaluate all of our options, but really nothing more to add.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

And we'll do those what if scenarios too. Now the other thing I would quickly add is that, yes, 2014, we are above our target. We didn't meet our target for 13 years, so this is a long-term game and we do want to hit our target over a long period of time.

So another answer to your question is, yes, I know it was above our target, and by the way, we've got some catching up to do here. So we'll want to sustain these very strong returns on capital for as long as we possibly can because we've got some catching up to do.

William Greene - *Morgan Stanley - Analyst*

That makes a lot of sense, thank you. Let me ask you one other question.

When I used to look at the industry I would often talk to you about the fact that you'd referred to Southwest Airlines as a growth Company. And now that the industry structure has changed quite a bit and you're talking about sort of limited ability to sort of change your near-term plans here and what not, which is all good news, what does it mean to be a growth Company? Is that still how you think of Southwest and how do you define growth, if so?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

I think we're very much still a growth Company. What is fun for us, Bill, and, again, we haven't talked in awhile, but we have in really a four-year period of time changed the opportunity set dramatically. So we have tremendous opportunities to add destinations, add non-stop destinations within the 48 states, add frequencies within the 48 states, destinations that, of course, are a vast majority are outside of the 48 states,. But we have tremendous opportunities to grow. But as with any Company, we grow only if we bring a competitive advantage to that opportunity.

Lower fares, lower costs, better service, whatever it might be. So I think that that's a very material aspect about the way we think about our growth. So I think that we can grow. I think that we can grow every year in this kind of an environment as long as we are a low cost producer with great service, and in 2010 we had kind of run out of growth opportunities. In 2015, we have a tremendous amount of growth opportunities and it is very exciting.

That doesn't mean that we're going to grow 10% a year. We won't. We're going to grow at an amount that we think is sensible for us given our balance sheet, given our free cash flow, given our relative competitive position.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

William Greene - *Morgan Stanley - Analyst*

Very helpful, thanks for the time, guys.

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

Thank you.

Operator

At this time, I'd like to turn the call back to Ms. Brand for any additional or closing remarks.

Marcy Brand - *Southwest Airlines Co - Sr. Director, IR*

Thank you, Matthew, and thank you, again, to everyone for joining us today, and please feel free to call this afternoon if you have any follow-up questions. Have a great day.

Operator

Ladies and gentlemen, we'll now begin with our media portion of today's call. I'd like to first introduce Ms. Linda Rutherford, Vice President, Communications and Outreach.

Linda Rutherford - *Southwest Airlines Co. - VP, Communications and Outreach*

Good afternoon, everyone. Thank you, Matthew. We would be happy to entertain your questions at this time, so if you would, Matthew, give everyone the prompt on how they can queue up for questions we'll get started.

Operator

Thank you.

(Operator Instructions)

Thank you for waiting. We'll take our first question from Terry Maxon with the Dallas Morning News.

Terry Maxon - *Dallas Morning News - Analyst*

Good afternoon. I have, of course, Dallas Love Field questions. You have 153 daily departures, weekday departures, there now. Do you see that increasing during 2015 with the load factors you're getting, or is there room to grow at Dallas Love Field?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

That's a great question. Well, we're at the point where we need more than 16 gates, so we have a use agreement with United that allows us access to a 17th gate to support this level of flight activity. So, hopefully, we can add some more flights, but I'm not willing to commit to that yet. So the

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

operation we're happy with, we're real busy, load factors are where they need to be and love to be able to have more capacity at the airport, obviously, within the 20 gates. So we're working on that.

Terry Maxon - *Dallas Morning News - Analyst*

Your parking has been constrained at Love Field. Has that, do you believe, affected your bookings, your traffic, or even though it's very tight it hasn't reduced your amount of traffic?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Terry, are you talking about customer parking?

Terry Maxon - *Dallas Morning News - Analyst*

Automobile parking, yes.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Yes, that's a rarer issue. It's certainly, at peak times over the Thanksgiving holiday it was an issue, but the city said they are building a parking garage. We're in support of that and, again, it's a function of growth.

We're used to that around the system, and in the meantime, I think, parking is fine. I don't see that that's limiting us at all.

Terry Maxon - *Dallas Morning News - Analyst*

Thank you.

Operator

We'll take our next question from Jack Nicas with the Wall Street Journal.

Jack Nicas - *Wall Street Journal - Analyst*

Hi, folks. Some investors have speculated and feared in some cases that the windfall from cheaper fuel would lead to airlines to add capacity and lower fares. So would your potential $1.7 billion in fuel savings this year change your thinking at all on pricing going forward, particularly in some of our newer and/or more competitive markets?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

That's an easy answer because I can't really tell you anything about our future pricing plans. I wouldn't want to tip off our competitors, and it's also against the law, so I can't really speak to that. With respect to our capacity plans, again, I think we've been very clear this morning to say that we're really not changing our business plan for 2015 with respect to those kinds of topics.

I'm sure when we get to this fall if we are convinced we're in for a low energy prices for awhile we'll revisit 2016, 2017 opportunities. But even with that, I don't think that we will want to do anything that is materially different than the plans we've already laid out. So, yes, we might grow a little

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

bit more after this year. If we are so fortunate that we end up with more cash than we had planned we'll consider the alternatives that we have to put that cash to good use.

Jack Nicas - *Wall Street Journal - Analyst*

Okay, excellent. A quick follow-up. If the US and Cuba agreed to allow scheduled service between the countries again, are you interested serving Cuba?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Yes, but, again, we have almost 50 possible international destinations, well, including Hawaii and Alaska, so not all international. But we have 50 possible destinations beyond the 48, so that will just be one more and it will have to compete for a priority for us. But it's something that, obviously, is intriguing and something that we'll look at, but we've got a lot of those intriguing opportunities.

Jack Nicas - *Wall Street Journal - Analyst*

Okay, great. Thanks very much.

Operator

We'll go next to Mary Shlangenstein with Bloomberg News.

Mary Schlangenstein - *Bloomberg News - Analyst*

Hi. I just wanted to ask quickly was there a price or cost to unwinding your hedges, and if so, can you talk to us about some of the details?

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

Yes, I guess the answer to that is, yes, and we've incorporated that. We had here in the fourth quarter, we actually ended up with a $0.03 loss here in the fourth quarter per gallon, but we actually started unwinding those positions earlier in the quarter which actually minimized the loss that we took here in the fourth quarter.

Our 2015, we've been participating in the majority of the market decline, but, yes, there was a penalty in terms of unwinding those hedges. It's probably averaging somewhere to about $0.20 for the full year, and we reported to you our first quarter guidance which included about a $0.10 locked in loss, if you will, and it's about $0.20 on average for the full year.

Mary Schlangenstein - *Bloomberg News - Analyst*

Great, thank you.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

And then, Mary, within that, yes, there is a transaction cost depending on the technique that Tammy's group uses to trade. So that's all embedded in those numbers that she gave you.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

Yes, and, Mary, just to point you to in our other non-operating costs, the premiums that we pay for our protection are below the line. So the, you can use our first quarter, I can't remember if we provided that, but that's somewhere in the $25 million to $30 million range, and that's probably a good indicator for what it's going to be by quarter for the rest of the year, as well.

Mary Schlangenstein - *Bloomberg News - Analyst*

Okay, great, thank you.

Operator

We have time for one more question and we'll take our last question from Jeffrey Dastin with Thomson Reuters.

Jeffrey Dastin - *Thomson Reuters - Analyst*

Thank you very much. So I take it from this discussion that Southwest is not considering locking in today's low prices with new hedges?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Correct. I think it's -- and first of all, the futures prices are not today's price, so we can't get $45 in 2016 or 2017, it is much higher than that. Second, based on this dramatic collapse in just four months to five months time, it's anybody's speculation as to what prices will be over the next six months to 24 months, and we don't speculate.

So we'll look for opportunities to hedge, understanding that in an environment like this the hedging is very expensive. So, on the other hand, I think, the distance between where we are and catastrophe is quite large and so I do think we'll have very nice opportunities to layer in some catastrophic protection at a reasonable cost, and our folks, obviously, will be looking for those opportunities.

But in terms of just answering your question about locking in these prices, people were saying as prices were collapsing, well, it won't go below $80, and then it won't go below $70, and then it won't go below $60. And here we are at $45, so there are those calling for $35 oil. So you'd hate to lock in at $70 in 2017 and end up paying a really healthy penalty for that. So now is not the time for a Company like Southwest to speculate.

Jeffrey Dastin - *Thomson Reuters - Analyst*

Definitely. And just to clarify, catastrophic protection would be against the upside?

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Yes, sir. So this is a perfect scenario for hedging given where we were, prices decline, as Tammy reported earlier, we'll save $1.7 billion based on current prices in 2015 compared to what we spent in 2014, if I said that accurately.

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

You said it accurately -- and just, it reminded me, going back to Mary's question, the estimated loss from the unwind of our hedge for 2015 is reflected in that $1.7 billion, so I just wanted to clarify that.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

So we save a ton of money when prices fall and what we need with hedging is to prevent us from having to pay prices that put us out of business, I'd est, rising prices, and that's exactly, hedging worked perfectly. So we protected against higher prices in 2015 and, in fact, ended up with significantly lower prices, so that's great.

Tammy Romo - *Southwest Airlines Co - SVP Finance, CFO*

And just to add on, and based on what we've done so far in 2016 and 2017, again, where prices are today, we're participating in the majority of that decline.

Jeffrey Dastin - *Thomson Reuters - Analyst*

Thank you very much.

Operator

At this time, I'd like to turn the call back to Ms. Rutherford for any additional or closing remarks.

Linda Rutherford - *Southwest Airlines Co. - VP, Communications and Outreach*

Thanks a lot, Matthew. Of course, if any of you need further assistance you can reach one of our spokes people at (214)792-4847, or via the media website at swamedia.com. Everyone, have a great afternoon.

Operator

That does conclude today's call. Thank you for joining.

Gary Kelly - *Southwest Airlines Co - Chairman, President, and CEO*

Thank you, Matthew.

Operator

You're welcome, sir, thank you.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.

©2015 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.