

Southwest Airlines Co.

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	2004	2003	2002
Revenue:	\$6.5 B	\$5.9 B	\$5.5 B
Net Inc:	\$313 M	\$442 M	\$241 M
EPS:	\$0.38	\$0.54	\$0.30
DOW:	10,641.94	NASDAQ: 2,160.35	S&P: 1,237.91

Date: Sept 16, 2005  
 Time: 6:03 pm  
 Stock Price: \$14.60  
 52Wk: \$13.05-\$16.75  
 Dividend: --

Company Info	Operating Drivers																																																				
<p>Southwest Airlines (LUV) was founded on the principle of providing short haul domestic airline travel with superior service and discount pricing. LUV operates 417 Boeing 747 aircraft and provides service to 60 airports in 59 cities in 31 domestic states. Southwest Airlines implemented a low cost strategy that has placed a strangle hold on competition from the major airlines such as US Airways, American Airlines and Delta.</p> <p><b>Competitive Strengths</b></p> <ul style="list-style-type: none"> <li>-Use of "1" type of airplane limits maintenance cost</li> <li>-Efficient point to point route structure</li> <li>-High flight utilization</li> </ul> <table border="1"> <thead> <tr> <th colspan="3">Southwest Oil Future Hedge Outlook</th> </tr> <tr> <th>Year</th> <th>Price</th> <th>% Hedged</th> </tr> </thead> <tbody> <tr> <td>2005</td> <td>\$26</td> <td>80%</td> </tr> <tr> <td>2006</td> <td>\$32</td> <td>65%</td> </tr> <tr> <td>2007</td> <td>\$31</td> <td>45%</td> </tr> <tr> <td>2008</td> <td>\$33</td> <td>30%</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>CEO</th> <th>Pay</th> <th>Employees</th> <th>Profit</th> <th>ROE</th> </tr> </thead> <tbody> <tr> <td>Gary C. Kelly</td> <td>\$542K</td> <td>31,000</td> <td>5.90%</td> <td>7.07%</td> </tr> </tbody> </table>	Southwest Oil Future Hedge Outlook			Year	Price	% Hedged	2005	\$26	80%	2006	\$32	65%	2007	\$31	45%	2008	\$33	30%	CEO	Pay	Employees	Profit	ROE	Gary C. Kelly	\$542K	31,000	5.90%	7.07%	<div data-bbox="909 394 1510 709"> <p><b>Revenues Per Available Seat Mile</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Revenue</th> </tr> </thead> <tbody> <tr> <td>2000</td> <td>\$0.094</td> </tr> <tr> <td>2001</td> <td>\$0.085</td> </tr> <tr> <td>2002</td> <td>\$0.080</td> </tr> <tr> <td>2003</td> <td>\$0.083</td> </tr> <tr> <td>2004</td> <td>\$0.085</td> </tr> </tbody> </table> </div> <div data-bbox="909 766 1510 1102"> <p><b>Expenses Per Available Seat Mile</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Expense</th> </tr> </thead> <tbody> <tr> <td>2000</td> <td>\$0.077</td> </tr> <tr> <td>2001</td> <td>\$0.075</td> </tr> <tr> <td>2002</td> <td>\$0.074</td> </tr> <tr> <td>2003</td> <td>\$0.076</td> </tr> <tr> <td>2004</td> <td>\$0.077</td> </tr> </tbody> </table> </div>	Year	Revenue	2000	\$0.094	2001	\$0.085	2002	\$0.080	2003	\$0.083	2004	\$0.085	Year	Expense	2000	\$0.077	2001	\$0.075	2002	\$0.074	2003	\$0.076	2004	\$0.077
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**News**

- Resuming travel to Louis Armstrong New Orleans International Airport as of 9/14/2005
- LUV may expand service if Delta and Northwest roll back service during bankruptcy filings
- RAPID-CHECK IN Self Service kiosks at airline terminals
- Increase market awareness with the A&E reality show, AIRLINE
- New bankruptcy rules that shorten the time airlines have to reorganize go into effect October 17<sup>th</sup>

**Weaknesses**

- The airline industry has suffered massive losses for the past 4 years
- LUV does not have international flights like larger domestic airlines American and Continental
- Dependent on Boeing for all airplane orders
- Increased competition from low cost carrier JetBlue Airlines

**Why it's a good buy**

- Well recognized brand for its excellent service at discounted prices
- Fly's only Boeing 737 planes to cut down on pilot training and maintenance
- Entered the Philadelphia market in May 2004 and Pittsburg this past May, capitalizing on Delta's dismantling of their Pittsburg hub
- 80% of customers fly direct bypassing the hub and spoke system
- Operating expenses per seat mile have increase 4% from .74 in 2002 to .77 in 2004  
 \*Delta's per seat mile cost was \$.12 in 2004
- Rapid Rewards program grants passengers a free round trip ticket after 16 flights in a 12 month span

**Personal Position**

- I currently own shares of (LUV) in my personal account