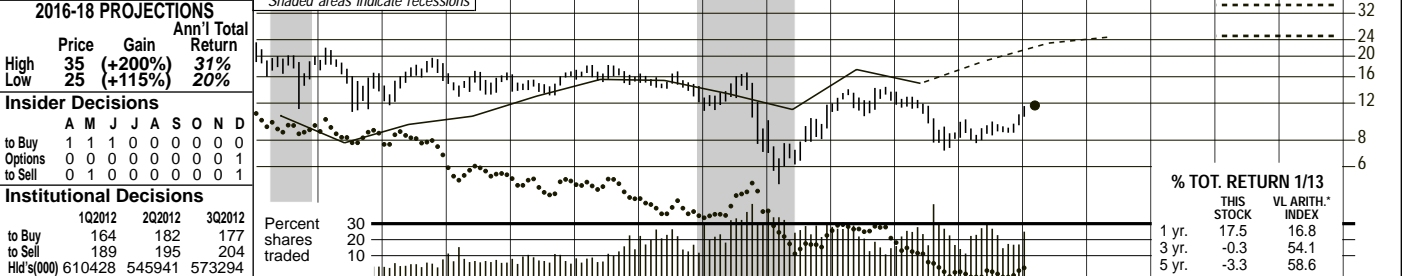


SOUTHWEST AIRLINES NYSE-LUV

RECENT PRICE 11.70
 P/E RATIO 13.9 (Trailing: 20.9; Median: 30.0)
 RELATIVE P/E RATIO 0.84
 DIV'D YLD 0.3%
 VALUE LINE

TIMELINESS 3 Raised 12/21/12 SAFETY 3 New 7/27/90 TECHNICAL 3 Raised 3/1/13 BETA 1.00 (1.00 = Market)	High: 22.0 Low: 10.9 19.7 17.1 17.0 18.2 17.0 16.8 11.8 14.3 11.7 12.9 13.0 14.6 12.1 7.1 4.9 10.4 7.1 7.8 10.4	Target Price Range 2016 2017 2018 64 48 40 32 24 20 16 12 8 6
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2016-18 PROJECTIONS																			
Price		Gain		Ann'l Total															
High	35	(+200%)	31%																
Low	25	(+115%)	20%																

1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014																		© VALUE LINE PUB. LLC 16-18	
5.11	5.51	6.32	7.47	7.24	7.11	7.52	8.32	9.52	11.60	13.42	14.90	13.93	16.19	20.27	23.40	24.70	25.50	Revenues per sh	31.70
.69	.87	.97	1.20	.95	.71	.86	.95	1.18	1.41	1.40	1.21	1.58	1.73	1.35	1.73	2.10	2.25	"Cash Flow" per sh	2.85
.41	.55	.59	.79	.51	.24	.36	.38	.57	.72	.61	.40	.19	.73	.43	.56	.95	1.10	Earnings per sh A	1.55
.01	.01	.01	.02	.02	.02	.02	.02	.02	.02	.02	.02	.02	.02	.02	.03	.04	.04	Div'ds Decl'd per sh B	.04
6.44	7.59	9.14	10.54	11.61	12.17	13.36	15.19	16.22	17.69	20.63	21.45	21.39	21.87	23.84	26.70	27.00	28.00	Gross Equipment per sh	30.00
2.69	3.17	3.79	4.56	5.24	5.69	6.40	7.04	8.38	8.23	9.45	6.69	7.36	8.34	8.90	9.57	10.55	11.60	Book Value per sh	15.60
746.57	755.78	749.14	756.24	766.77	776.66	789.39	784.98	796.44	783.31	734.80	739.99	742.79	747.43	772.56	730.32	725.00	725.00	Common Shs Outst'g C	725.00
13.5	16.1	21.1	19.0	35.8	NMF	44.8	39.2	25.9	22.9	24.2	31.6	41.8	17.0	24.2	16.0	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	20.0
.78	.84	1.20	1.24	1.83	NMF	2.55	2.07	1.38	1.24	1.28	1.90	2.78	1.08	1.52	1.01			Relative P/E Ratio	1.35
.2%	.1%	.1%	.1%	.1%	.1%	.1%	.1%	.1%	.1%	.1%	.2%	.2%	.2%	.2%	.2%			Avg Ann'l Div'd Yield	.2%

CAPITAL STRUCTURE as of 12/31/12																			
Total Debt \$3154 mill. Due in 5 Yrs \$2000 mill.		5937.0	6530.0	7584.0	9086.0	9861.0	11023	10350	12104	15658	17088	17900	18500	Revenues (\$mill)	23000				
LT Debt \$2883 mill. LT Interest \$140 mill.		66.8%	69.5%	70.7%	66.8%	72.6%	71.2%	76.0%	79.3%	80.9%	80.3%	80.5%	80.5%	Load Factor	81.0%				
		14.6%	15.1%	17.0%	15.9%	10.4%	11.2%	8.9%	14.6%	9.9%	9.5%	12.0%	12.5%	Operating Margin	13.0%				
		384.0	431.0	469.0	515.0	555.0	599.0	616.0	628.0	715.0	844.0	850	855	Depreciation (\$mill)	920				
		298.0	313.0	469.0	592.0	471.0	294.0	140.0	550.0	330.0	421.0	690	790	Net Profit (\$mill)	1150				
		37.5%	36.0%	40.2%	36.8%	38.2%	39.3%	31.7%	38.3%	40.9%	38.5%	39.0%	39.0%	Income Tax Rate	39.0%				
		5.0%	4.8%	6.2%	6.5%	4.8%	2.7%	1.4%	4.5%	2.1%	2.5%	3.9%	4.3%	Net Profit Margin	5.0%				
		1332.0	1700.0	1394.0	1567.0	2050.0	3541.0	3325.0	2875.0	3107.0	2883.0	2800	2800	Long-Term Debt (\$mill)	2800				
		5052.0	5524.0	6675.0	6449.0	6941.0	4953.0	5466.0	6237.0	6877.0	6992.0	7650	8400	Shr. Equity (\$mill)	11300				
		5.3%	4.9%	6.5%	8.1%	5.9%	4.1%	2.5%	6.7%	4.1%	4.5%	7.5%	8.0%	Return on Total Cap'l	9.0%				
		5.9%	5.7%	7.0%	9.2%	6.8%	5.9%	2.6%	8.8%	4.8%	6.0%	9.0%	9.5%	Return on Shr. Equity	10.0%				
		5.6%	5.4%	6.8%	9.0%	6.6%	5.7%	2.3%	8.6%	4.6%	5.3%	8.5%	9.0%	Retained to Com Eq	10.0%				
		5%	4%	3%	2%	3%	4%	9%	2%	4%	5%	4%	4%	All Div'ds to Net Prof	3%				

Leases, Uncapitalized Annual rentals \$688.0 mill.
No Defined Benefit Pension Plan
Pfd Stock None

Common Stock 728,096,579 shs. as of 2/4/13
MARKET CAP: \$8.5 billion (Large Cap)

CURRENT POSITION 2010 2011 12/31/12 (\$MILL.)

Cash Assets	3538	3144	2970
Receivables	195	299	332
Inventory (Avg Cst)	243	401	469
Other	303	501	456
Current Assets	4279	4345	4227
Accts Payable	739	1057	1107
Debt Due	505	644	271
Other	2061	2832	3272
Current Liab.	3305	4533	4650

ANNUAL RATES		Past	Past	Est'd		
of change (per sh)		10 Yrs.	5 Yrs.	09-'11		
Revenues	9.0%	11.5%	9.5%			
"Cash Flow"	2.5%	2.0%	11.5%			
Earnings	-3.5%	-4.0%	19.5%			
Dividends	2.0%	.5%	11.0%			
Book Value	6.0%	1.0%	9.5%			

QUARTERLY REVENUES (\$mill.)						Full
Cal-	Mar.31	Jun.30	Sep.30	Dec.31	Year	
2010	2630	3168	3192	3114	12104	
2011	3103	4136	4311	4108	16568	
2012	3991	4616	4309	4172	17088	
2013	4100	4800	4500	4500	17900	
2014	4300	4900	4700	4600	18500	

EARNINGS PER SHARE A						Full
Cal-	Mar.31	Jun.30	Sep.30	Dec.31	Year	
2010	.03	.29	.26	.15	.73	
2011	.03	.15	.15	.09	.43	
2012	d.02	.36	.13	.09	.56	
2013	.05	.40	.30	.20	.95	
2014	.10	.45	.30	.25	1.10	

QUARTERLY DIVIDENDS PAID B						Full
Cal-	Mar.31	Jun.30	Sep.30	Dec.31	Year	
2009	.009	.005	.005	--	.02	
2010	.009	.005	.005	--	.02	
2011	.009	.005	.005	--	.02	
2012	.009	.010	.010	--	.03	
2013	.020	--	--	--	.03	

Business: Southwest Airlines is one of the largest carriers in the United States by revenues and the largest by passengers flown. Specializes in low fares & short-hauls. Uses point-to-point, versus common hub-and-spoke model. Acquired AirTran 5/11. At 12/31/12, served 97 cities; operated fleet of 694 aircraft (189 leased); On order: 321 additional aircraft, w/ option for 242 more.

Southwest Airlines posted decent results in 2012. The top line advanced 9% over the year-earlier figure, thanks to overall healthy passenger demand, combined with the inclusion of revenues from the AirTran acquisition. Meanwhile, the full-year load factor narrowed modestly (albeit from record levels), as capacity increases outpaced passenger demand. Nevertheless, several fare-price increases, as well as better yields, allowed passenger revenues per available seat mile to grow 3%. Meanwhile, owing to higher restructuring and maintenance costs related to the company's fleet modernization program, the operating margin narrowed. All in all, higher revenues drove a 30% year-over-year share-earnings recovery. **We are cautiously optimistic about prospects for this year.** January traffic trends were lackluster, as lower demand, in conjunction with higher capacity, caused the load factor to narrow. Despite this, 2013 revenues should receive a boost from a new customer rewards program, which has been met with a strong initial response. Moreover, as acquisition-related cost synergies are realized, the operating margin ought to widen. Finally, the company should continue to buy back shares, which would also boost share earnings. All things considered, we look for revenues and share earnings to grow around 5% and 70%, respectively, in 2013. **Southwest continues to integrate itself with AirTran.** Most recently, the companies began conjoining their flight networks, allowing customers to book itineraries utilizing both companies' flight channels. Elsewhere, the airline is in the process of co-locating operational hubs, reaching labor agreements, and combining customer rewards programs. Southwest expects to realize net pretax annual cost synergies of \$400 million this year. **Stock repurchases remain a focus.** In fact, the company has retired more than 40 million shares over the past year or so. Furthermore, the board recently increased the repurchase authorization from \$500 million to \$1 billion. **Shares of Southwest are neutrally ranked for year-ahead price performance.** That said, LUV has wide recovery potential over the pull to 2016-2018.

Simon E. Shnyder *March 1, 2013*

Company's Financial Strength B+
Stock's Price Stability 65
Price Growth Persistence 10
Earnings Predictability 45

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