A Financial Analysis
of Southwest Airlines Co.

Accounting for Financial Decisions BA812

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Southwest Airlines: Twenty-Six Years of "LUV"

Twenty-six years ago, Rollin W. King scribbled three lines on a cocktail napkin, leaned across the table, and muttered to his longtime friend: "*Herb, lets start our own airline*". Herbert D. Kelleher loosened his tie and knitted his brow before replying: "*Rollin, you're crazy*." He then paused, grinned, and added, "*Lets do it!*" [1]They founded Air Southwest Company in 1967. The company incorporated as Southwest Airlines in Texas, and commenced customer service on June 18, 1971. They began with three Boeing 737 aircraft serving three Texas cities – Dallas, Houston, and San Antonio. Today, Southwest Airlines operates more than 243 Boeing aircraft and provides service to more than 50 airports located in 49 cities in more than 24 states. Southwest Airlines offers approximately 2200 low fare, short-to-medium range flights throughout the United States.[2] Their stock-exchange symbol "LUV" symbolizes their home at Dallas Love Field, as well as the theme of their customer relationships.

Today, Southwest is the nation's low fare, high customer satisfaction airline. Southwest has literally written the book on low fares. The airline has never pretended to be anything more than a bus service. With an average flight distance of 425 miles, Southwest Airlines' most significant competitor is ground transportation. No matter how long the flight is Southwest offers only a single class, open seating, and no meals. Southwest Airlines also maintains high frequency of flights and quick ground turnaround, yielding approximately 20 minutes ground time between flights.[3] By maintaining this consistency, they have been able to drive cost-cutting efforts and provide superior service. Southwest flies from smaller, lower traffic airports and schedules its planes to minimize the amount of time they spend at the gates.

A classic moment in the history of Southwest was when Herb, in 1992, arm-wrestled Stevens Aviation chairman Kurt Herwald to determine the rights to the "*Just Plane Smart*" advertising slogan, and for starring in Southwest's TV commercials.

[1] 1996 Southwest Airlines Annual Report

Southwest Airlines Compared to the US Airline Industry

Since its beginnings as a scheduled airline in 1971, Southwest Airlines has distinguished itself within the US airline industry as a unique player. Its commitment to offering a low fare structure to both business and leisure travelers has made air travel more affordable to many consumers and has caused a consistent increase in demand for expansion into new markets, as well as increasing price competition within the cities it serves. Since the airline regulation in 1978, Southwest has dramatically increased the number of markets it serves and its market share. It has also been the model for a number of less successful low cost start-up airlines, such as ValuJet and People's Express.

Southwest Airlines has implemented several cost-effective strategies which allow the savings to be passed along to the consumer. First, Southwest does not offer full cabin service and provides only "coach class" service to its passengers. Meal service is not offered, only peanuts, snacks and beverages. Second, Southwest only operates one type of aircraft and one type of engine, the Boeing 737 series and GE engines, which greatly reduces maintenance costs, allows for lower spare parts inventory and cuts on training costs for crews. Third, Southwest uses "ticketless" and "paperless" travel reservations systems. Passengers are not issued paper-boarding passes and are not assigned seating when making reservations. Instead, they are given plastic numbered reusable boarding passes based on first come, first served basis. Fourth, Southwest Airlines offers point-to-point transportation, and does not operate within a hub system like the other major US airlines. It also is a stand-alone carrier with no alliance or partnerships agreements with other domestic or international airlines. And last, Southwest Airlines uses a direct method of distribution, selling tickets directly to the traveler, bypassing travel agents and reducing the costs associated with commission incentives.

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[2] Duns Financial Profile. Dun & Bradstreet, Inc., 1998. New York.
[3] 1997 Southwest Airlines Annual Report

Financial Analysis

Various ratios are used by managers and investors to analyze and forecast the profitability and efficiency of a company. Listed in this section are the ratios used for the financial analysis of Southwest Airlines.

Short Term Liquidity Ratios for Southwest Airlines Co.

Objective

To measure the solvency, or the ability, of Southwest Airlines Co. to meet its short-term financial obligations and to assess the liquidity, or the ability, of Southwest Airlines Co. to convert current assets to cash to reduce current liabilities.

The Ratios

The most widely used financial ratios for establishing the short-term liquidity of a company are highlighted in the below chart.

Financial Ratio	Numerator	Denominator
Current Ratio	Current Assets	Current Liabilities
Quick Ratio	Cash + Cash Equivalents + Accounts Receivable	Current Liabilities
Average collection period in days	Average Accounts Receivable x 365	Sales
Inventory Turnover	Cost of goods sold	Average inventory at cost

The short-term liquidity ratios are used in the evaluation of short-term liquidity to convert current assets into cash in order to reduce the financial obligations of the company as they become due. These ratios are particularly significant to the creditors and potential lenders of a company because they determine the ability of that company to meet current payments of a debt[4]. However, investors and stockholders are also interested in the company's definition of current assets and current liabilities since these classifications have a direct impact on the amount of available working capital of an entity. As a general rule of thumb, a current ratio of 2:1 and a quick ratio of 1:1 are considered to be acceptable.

[4] "Introduction to Financial Accounting." Charles T. Horngren et al. Prentice Hall, 1996. New Jersey.

Other ratios commonly used to evaluate short-term liquidity are average collection period in days and inventory turnover. The main focus of these ratios is to evaluate how soon accounts receivable will be collected and how soon inventory will be sold. Collection period is a key measure of accounts receivable quality. Increases in the average collection period of receivables may indicate increases in acceptance of poor credit risks or less energetic collection efforts. Inventory turnover measures how quickly inventory is sold. Decrease in inventory turnover may indicate problems such as slower-moving merchandise or a worsening coordination of buying and selling functions.[5]

As with all financial ratios, the industry practices and the company's management and operating practices need to be taken into account during the analysis.

Quick Comparison

Financial Ratio	**31st Dec. 1997**	**31st Dec. 1996**	**31st Dec 1995**	**31st Dec. 1994**	**31st Dec. 1993**
Current Ratio	.93	.98	.78	.60	.90
Quick Ratio	.81	.86	.65	.48	.76
Average Collection Period in Days	7.17	8.21	9.88	10.29	11.2
Inventory Turnover	14.34	14.44	14.18	13.56	14.76

Analysis

As shown in the above comparative table, Southwest Airlines Co. short-term liquidity has varied over the past five years and has consistently remained below a 2:1 ratio, which could be perceived as less than optimal, generally speaking. The quick ratio also has remained under 1:1, which is considered to be the benchmark value for this ratio. However, relative to the US airline industry, Southwest Airlines Co. has maintained a higher than average current ratio (with the exception of fiscal year 1994) and its

[5] "Analysis of Financial Statements." Leopold A. Bernstein. Richard D. Irwin, 1994.

quick ratio has remained greater than its competitors for three out of the past five years. These trends indicate Southwest Airlines Co have been in a better position than its competition to meet its short-term financial obligations.

The airline industry is a debt intensive industry due to the significant amounts of debt incurred in the financing (either leases or purchases) of aircraft necessary for operations. The current and quick ratios can be dramatically affected as the number of aircraft leases or debt obligations move into the current liabilities section of the balance sheet. Additionally, as an airline expands operations and service to new cities, it incurs additional liabilities in the form of gate and ticket counter leases at the new airport destinations. Southwest underwent significant expansion into Florida during the years 1994 and 1995.

As shown in the above comparative table, the Average Collection Period in Days has steadily increased since 1993. However, the majority of all Southwest's ticket sales to their customers are by cash or credit card. This results in a low average collection period and is not a significant indicator of Southwest's short-term solvency. As indicated in the industry comparative table below, Southwest Airlines average collection period is one of the best in the industry.

Southwest Airlines provides low fare air transportation services and therefore is not a highly inventory sensitive entity. Southwest Airlines' inventories consists of flight equipment expendable parts, materials, and supplies and is carried at average cost, which approximates market value. These items are charged to expenses when issued for use.[3] Southwest's inventory turnover is relatively high as compared to the industry medium quartiles.

The below table shows current and quick ratios for the US Airline industry.

Financial Ratio	**31st Dec. 1997**	**31st Dec. 1996**	**31st Dec. 1995**	**31st Dec. 1994**	**31st Dec. 1993**
Current Ratio	N/A	.80	.70	.70	.70
Quick Ratio	N/A	.80	.60	.60	.60

The below table shows comparative US Airline industry data for the average collection period and inventory turnover.

Financial Ratio	**31st Dec. 1997**	**31st Dec. 1996**	**31st Dec 1995**	**31st Dec. 1994**	**31st Dec. 1993**
Industry Ave Collection Period in Days	21.9	221.9	22.3	N/A	N/A
Southwest's Inventory Turnover	72.9	66.7	70	N/A	N/A
Industry's Inventory Turnover	45.6	38.4	38.5	N/A	N/A

Data form Duns Financial Profile. Data shown as the median quartile of the industry

Long Term Solvency Ratios for Southwest Airlines Co.

Objective

To apply ratio analysis to assess the debt levels of Southwest Airlines.

The Ratios

The most commonly used ratios by financial analysts for determining the long- term solvency of an entity are shown in the following table:

Financial Ratio	**Numerator**	**Denominator**
Debt-to-Total Assets	Total Liabilities	Total Assets
Debt-to-Equity	Total Liabilities	Total Shareholder's Equity
Long-Term-Debt-to-Total-Capital	Total Long-Term Debt	Total Shareholder's Equity + Total Long-Term Debt

These ratios are used for solvency evaluation. The main focus of these ratios is the entity's ability to repay long-term creditors. Both creditors and shareholders are equally interested in these ratios. Typically, these ratios should be as low as possible. These ratios indicate the entity's ability to withstand relatively sour business conditions without suffering net losses or insolvency. Although, these ratios should not be taken at face value since they are dependent on many factors, these ratios are most useful for making apple-to-apple comparisons in the industry.

Quick Comparison

Financial Ratio	**31st Dec. 1997**	**31st Dec. 1996**	**31st Dec. 1995**	**31st Dec. 1994**	**31st Dec. 1993**
Debt-to-Total Assets	53%	56%	56%	56%	59%
Debt-to-Equity	111%	126%	128%	128%	144%
Long-Term-Debt-to-Total-Capital	24%	28%	32%	32%	38%

Analysis

As evident from the above table there is a decreasing trend in all of the above ratios from 1993 to 1997. This shows the increasing stability of Southwest Airlines and the improving ability of the entity to meet its long-term obligations successfully without being in danger of encountering net losses or insolvency.

Profitability Ratios

Objective

To determine the profitability of Southwest Airlines using various financial ratios.

The Ratios

Profitability ratios are used in an effort to evaluate management's ability to monitor and control expenses and to earn a profit on resources committed to the business. The ratios assess Southwest Airlines' strengths and weaknesses, operating results and growth potential. These ratios are used to measure how efficiently the assets are being used to generate net income and sales. The higher the ratio, the more effectively a company is using their assets. The ratios also allow comparison of the profitability of Southwest Airlines to that of similar airlines within the industry.

Listed in the table below are the seven primary ratios used to determine profitability.

Financial Ratio	Numerator	Denominator
Gross Profit	Sales – Cost of Goods Sold	N/A
Gross Profit Percentage	Gross Profit	Sales Revenue
Return on Sales	Net Income	Sales Revenue
Return on Stockholder's Equity	Net Income	Average Stockholder's Equity
Asset Turnover	Sales	Average Total Assets Available
Pretax Return on Operating Assets	Operating Income	Average Total Assets Available
Earnings Per Share	Net Income – Dividends on preferred stock, if any	Average Common Shares Outstanding

Quick Comparison

Financial Ratio	**31st Dec. 1997**	**31st Dec. 1996**	**31st Dec. 1995**	**31st Dec. 1994**	**31st Dec. 1993**
Gross Profit	3065.3	2668.0	2289.9	2082.0	1828.9
Gross Profit Percentage	80.3%	78.3%	79.7%	80.3%	79.6%
Return on Sales	8.3%	6.1%	6.4%	6.9%	6.7%
Return on Stockholder's Equity	17.4%	13.5%	13.7%	15.6%	16.0%
Asset Turnover	.96	.98	.95	.96	N/A
Pretax Return on Operating Assets	13.2%	10.1%	10.3%	11.7%	N/A
Earnings Per Share	1.45	.95	.85	.81	.77

Analysis

Gross profit and gross profit percentage are used to assess whether the profits will cover operating expenses. The gross profit rate has remained steady in the periods since 1993. Southwest Airlines has a relatively high gross profit rate, primarily because of low operating costs. Low operating costs is one of Southwest Airlines' claim to fame, as discussed in their 1997 Annual Report, "By keeping costs low, we keep our fares low. This, in turn, gives customers the freedom to fly."

Return on sales discloses the profits earned and measures the efficiency of the company. The return on sales is above the industry average of 2.9%.[6] Such a favorable comparison has proven to be the trend for Southwest Airlines.

Return on stockholder's equity assesses the effective use of resources provided by stockholders.[7] This measure of performance is one of the key profitability ratios. Although the return on equity has been below the industry median, Southwest Airlines has had a significant increase since 1996.

[6] Duns Financial Profile. Dun & Bradstreet, Inc., 1998. New York.
[7] "Introduction to Financial Accounting." Charles T. Horngren et al. Prentice Hall, 1996. New Jersey.

The higher the ratio for asset turnover, the more effective the company is using its assets to produce sales. It appears that Southwest is reasonably using their assets. They do not have excess turnover, which would signal the company is strapped for cash, and their turnover is not too low which would mean they have a shortage of cash and other assets. It appears that Southwest has remained relatively stable over the past five years. When comparing Southwest to the industry, they are equal or just slightly above the industry average in asset turnover. Like Asset Turnover, the higher the number of the Pretax Return on Operating Income, the better the company is doing using their assets to produce operating income.

The most popular profitability ratio is Earnings Per Share (EPS). This is one of the easier ratios to use when comparing companies because many firms include this ratio on their Income Statement. Earning per share gives a picture of the current net income in a particular period to the number of outstanding shares of stock.[8] Southwest's earnings per share has steadily increased over the past five years. The Earning Per Share increased 52.6 percent from 1996 to 1997. Southwest's earnings per share appears to be around the industry median. In November of 1997 Southwest offered a 3 for 2 stock split. Prior year's earnings have been recalculated to include the stock split.[9] Two factors that contributed to the higher 1997 earnings per share are operating income and operating expenses. In 1997, Southwest's operating income increased by 12.1 percent. Operating expenses increased only 7.8 percent even though capacity (available seat miles) increased 9.2 percent. One expense that can affect net income and consequently earnings per share is the cost of jet fuel. Jet fuel accounts for 15 percent of Southwest's expenses. The cost of jet fuel is volatile and depends on many outside factors. Fuel and oil expenses per available seat mile decreased 6.7 percent in 1997. Southwest believes they will benefit from lower fuel costs into the first quarter of 1998. Research analysts estimate that Southwest earnings per share will increase to $1.66 per share for 1998 and $1.81 per share for 1999.

[8] "Financial Statement Analysis." Charles J. Woelfel. Probus Publishing Company, 1994. Illinois.

Market Price and Dividend Ratios

Objective

To apply ratio analysis to determine the return on investment for Southwest Airlines.

The Ratios

The following are the most commonly used ratios in determining the return on investment:

Financial Ratios	Numerator	Denominator
Price-Earnings	Market price of common share	Earnings per Share
Dividend-Yield	Dividends per common share	Market price of common share
Dividend-Payout	Dividends per common share	Earnings per share

Quick Comparison

Financial Ratio	31st Dec. 1997	31st Dec. 1996	31st Dec. 1996	31st Dec. 1996	31st Dec. 1996
Price-Earnings	20.9	24.15	24.13	32.13	36.17
Dividend-Yield	.1%	.13%	.13%	.1%	.1%
Dividend-Payout	2.3%	3.1%	3.2%	3.3%	3.4%

Analysis

Price-Earnings Ratio measures how confident the public is in the ability of the company to increase their revenue[10]. Southwest Airlines has a ratio comparable to the industry average, indicating that the public feels that the net income of the company will grow at a fast pace.

Dividend Yield measures the returns on stock purchased.[11] The dividend-yield for Southwest Airlines is extremely low, indicating that the company is most likely reinvesting their profit in the future expansion of the company. Investors who wish to receive a large cash return on their investment each year would not invest in Southwest Airlines.

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[9] 1997 Southwest Airlines Co. Annual Report.
[10] "Introduction to Financial Accounting." Charles T. Horngren et al. Prentice Hall, 1996. New Jersey.
[11] "Introduction to Financial Accounting." Charles T. Horngren et al. Prentice Hall, 1996. New Jersey.

Dividend-Payout measures the percentage a company pays out to its investors in dividends. As we can see, Southwest Airlines has an extremely low dividend-payout ratio, once again indicating that most of their profit is being reinvested into the growth of the company.

Future Analysis

In 1997, Southwest Airlines was ranked the seventh largest U.S. airline calculated according to revenue passenger miles (RPM). Southwest posted a record annual profit for the 6th consecutive year and a profit for the 25th consecutive year. To continue its future dominance in the low-fare, short-haul market, Southwest plans to grow its list of destination cities, increase its services to those cities already being served, and increase the number of existing aircraft.

In 1998, Southwest signed an agreement to purchase 22 new Boeing 737-700 aircraft and ordered 59 Boeing 737's, valued at over 2.5 billion, to be delivered between 2000 and 2004. These aircraft are more fuel-efficient, require less maintenance, and have a lower capital outlay than other aircraft on the market. In addition, Southwest is currently looking for other 737 aircraft that they can purchase for an affordable price. Southwest also plans to retire some of its older, more maintenance-intensive aircraft. These strategies will continue to contribute to Southwest Airlines' low costs.

A delay in the production of the 737 by Boeing has caused Southwest to find alternative solutions for the time being. Southwest is offsetting Boeing's lack of timeliness in production by delaying the retirement of some older Boeing 737-200 aircraft. In addition, Boeing is paying Southwest cash penalty payments to offset these delays. Southwest's management has indicated that if these delays continue, they could produce a negative effect on the expansion plans of Southwest.

In 1997, the US Government passed the Taxpayer Relief Act of 1997. This Act increases the tax burden on short-haul, low-fare airlines such as Southwest. Southwest has estimated that this new tax could cut operating profits by up to $35 million in 1998. To help offset this new tax burden, Southwest plans to offer more long haul flights and recover its higher costs with fare hikes. Southwest is unable to predict the long-term consequences on operating profits resulting from the tax increase and rate hikes.

The FAA's recent ruling requiring the inspection and repair of wiring problems in those Boeing 737s with more than 50,000 flight hours may also affect the future operating profits of Southwest Airlines. At present, Southwest has had 38 planes affected by this FAA ruling. Currently, Southwest has not experienced any additional operating costs as a result of these inspections.

Southwest will also be required to modify and upgrade a significant portion of its internal software to guarantee that its computer systems will function properly during the year 2000. As of December 1997, Southwest has completed the assessment of its year 2000 solution. By March 31 1999, Southwest expects to complete the upgrade of all its internal software. The airline's management believes that the approaching year 2000 will not adversely affect operating results due to the upgraded internal software. However, if the upgrade is not completed in time, the year 2000 could have a material impact on the operation of Southwest Airlines. [12] [13]

In conclusion, Southwest continues to show signs of positive earnings growth. Future plans of the airline include the continuation of cost-controlling efforts, expanding the fleet of Boeing aircraft, and increasing its list of destination cities.

The following tables show earnings estimates for Southwest Airlines. [14]

Earning Estimate	**June 1998**	**Sept. 1998**	**Dec. 1998**	**Dec. 1999**
Avg. Estimate	0.51	0.51	1.67	1.83
No. of Analysts covering	12	11	14	10
Low Estimate	0.46	0.46	1.50	1.57
High Estimate	0.56	0.65	1.80	2.11
Year Ago EPS	0.41	0.40	1.40	1.67
EPS Growth	22.48%	28.18%	19.44%	9.56%

[12] Southwest Airlines Annual Report (SEC form 10K); Management's Discussion and Analysis of Financial Condition and Results of Operations.
[13] Charles Schwab; Research on Request, Business Summary
[14] Internet; http://biz.yahoo.com/z/a/l/luv.html

Earnings Growth	Past 5 Years	Dec. 1998	Dec. 1999	Next 5 Years	PE Dec. 1998	PEG Ratio Dec. 1998
Southwest	25.8%	18.6%	9.3%	12.4%	16	0.86
Trans-Airlines	15.4%	20.6%	18.5%	11.5%	13.7	0.67
S&P 500	14.0%	7.5%	6.2%	7.1%	23.3	3.11

Appendix A: Calculations of Ratios

Long Term Solvency Ratios for Southwest Airlines

A) 31st Dec. 1993

1. Debt-to-Total Assets		1522 / 2576
	=	**0.59**
2. Debt-to-Equity		1522 / 1054
	=	**1.44**
3. Long-Term-Debt-to-Total-Capital		639.1 / (1054 + 639.1)
	=	**0.38**

B) 31st Dec. 1994

1. Debt-to-Total Assets		1584 / 2823.1
	=	**0.56**
2. Debt-to-Equity		1584 / 1238.7
	=	**1.28**
3. Long-Term-Debt-to-Total-Capital		583.1 / (1238.7 + 583.1)
	=	**0.32**

C) 31st Dec. 1995

1. Debt-to-Total Assets		1828.8 / 3256.1
	=	**0.56**
2. Debt-to-Equity		1828.8 / 1427.3
	=	**1.28**
3. Long-Term-Debt-to-Total-Capital		661 / (1427.3 + 661)
	=	**0.32**

4) 31st Dec. 1996

1. Debt-to-Total Assets		2075.2 / 3723.5
	=	**0.56**
2. Debt-to-Equity		2075.2 / 1648.3
	=	**1.26**
3. Long-Term-Debt-to-Total-Capital		650.2 / (1648.3 + 650.2)
	=	**0.28**

E) 31st Dec. 1997

1. Debt-to-Total Assets		2237.1 / 4246.2
	=	**0.53**
2. Debt-to-Equity		2237.1 / 2009
	=	**1.11**

3. Long-Term-Debt-to-Total-Capital		628.1 / (2009 + 628.1)
	=	**0.24**

Profitability Ratios for Southwest Airlines.

(In thousands)

A) 31st December 1993

1. Gross Profit		2296.7 – 467.8
	=	**1828.9**
2. Gross Profit Rate		1828.9 / 2296.7
	=	**79.6%**
3. Return on Sales		154.3 / 2296.7
	=	**6.7%**
4. Return on Stockholder's Equity		154.2 / 966.8
	=	**16.0%**
5. Asset Turnover	=	N/A
6. Pretax return on operating assets	=	N/A
7. Earnings Per Share	=	.77

B) 31st December 1994

1. Gross Profit		2591.9 – 509.9
	=	**2082**
2. Gross Profit Rate		2082 / 2591.9
	=	**80.3%**
3. Return on Sales		179.3 / 2591.9
	=	**6.9%**
4. Return on Stockholder's Equity		179.3 / 1146.4
	=	**15.6%**
5. Asset Turnover		2591.9/2699.55
	=	**.96**
6. Pretax return on operating assets		316.7/2699.55
	=	**11.7%**
7. Earnings Per Share	=	**.81**

C) **31st December 1995**

1. Gross Profit		2872.8 – 582.9
	=	**2289.9**
2. Gross Profit Percentage		2289.9 / 2872.8
	=	**79.7%**
3. Return on Sales		182.6 / 2872.8
	=	**6.4%**

4. Return on Stockholder's Equity		182.6 / 1333
	=	**13.7%**
5. Asset Turnover		2872.8/3039.6
	=	**.95**
6. Pretax return on operating assets		313.6/3039.6
	=	**10.3%**
7. Earnings Per Share	=	**.85**

D) 31st December 1996

1. Gross Profit		3406.2 – 738.2
	=	**2668**
2. Gross Profit Percentage		2668 / 3406.2
	=	**78.3%**
3. Return on Sales		207.3 / 3406.2
	=	**6.1%**
4. Return on Stockholder's Equity		207.3 / 1537.8
	=	**13.5%**
5. Asset Turnover		3406.2/3489.8
	=	**.98**
6. Pretax return on operating assets		350.9/3489.8
	=	**10.1%**
7. Earnings Per Share	=	**.95**

E) 31st December 1997

1. Gross Profit		3816.8 – 751.5
	=	**3065.3**
2. Gross Profit Percentage		3065.3 / 3816.8
	=	**80.3%**
3. Return on Sales		317.8 / 3816.8
	=	**8.3%**
4. Return on Stockholder's Equity		317.7 / 1828.7
	=	**17.4%**
5. Asset Turnover		3816.8/3984.85
	=	**.96**
6. Pretax return on operating assets		524.2/3984.85
	=	**13.2%**
7. Earnings Per Share	=	**1.45**

Market Price and Dividend Ratios for Southwest Airlines

A) December 31, 1993

1. Price-Earnings		27.85/.77
	=	**36.17**
2. Dividend-Yield		.026/27.85
	=	**.1%**
3. Dividend-Payout		.026/.77
	=	**3.4%**

B) December 31, 1994

1. Price-Earnings		26.03/.81
	=	**32.13**
2. Dividend-Yield		.027/26.03
	=	**.1%**
3. Dividend-Payout		.027/.81
	=	**3.3%**

C) December 31, 1995

1. Price-Earnings		20.51/.85
	=	**24.13**
2. Dividend-Yield		.027/20.51
	=	**.13%**
3. Dividend-Payout		.027/.85
	=	**3.2%**

D) December 31, 1996

1. Price-Earnings		22.94/.95
	=	**24.15**
2. Dividend-Yield		.029/22.94
	=	**.13%**
3. Dividend-Payout		.029/.95
	=	**3.1%**

E) December 31, 1997

1. Price-Earnings		29.13/1.45
	=	**20.9**
2. Dividend-Yield		.033/29.13
	=	**.1%**
3. Dividend-Payout		.033/1.45
	=	**2.3%**

Short Term Solvency Ratios for Southwest Airlines

A) 31st December 1993

1. Current Ratio		432/478.6
	=	**.90**
		.90 to 1
2. Quick Ratio		295.6+70.5/478.6
	=	**.76**
	=	**.76 to 1**
3. Average Collection Period in Days		(70.5[15]) x365/2296.7
	=	**11.2**
4. Inventory Turnover		467.8 / 31.7
	=	**14.76**

B) 31st December 1994

1. Current Ratio		314.9/522.3
	=	**.60**
		.60 to 1
2. Quick Ratio		174.5+75.7/522.3
	=	**.48**
		.48 to 1
3. Average Collection Period in Days		((75.7+70.5)/2) x 365)/2591.9
	=	**10.29**
4. Inventory Turnover		509.9 / 37.6
	=	**13.56**

C) 31st December 1995

1. Current Ratio		473.1/610.6
	=	**.78**
	=	**.78 to 1**
2. Quick Ratio		317.4+79.8/610.6
	=	**.65**
	=	**.65 to 1**
3. Average Collection Period in Days		((79.8+75.7)/2) x 365)/2872.8
	=	**9.88**
4. Inventory Turnover		582.9 / 41.1
	=	14.18

D) 31st December 1996

1. Current Ratio		751/765.4
	=	**.98**
	=	**.98 to 1**
2. Quick Ratio		581.8+73.4/765.4
	=	**.86**

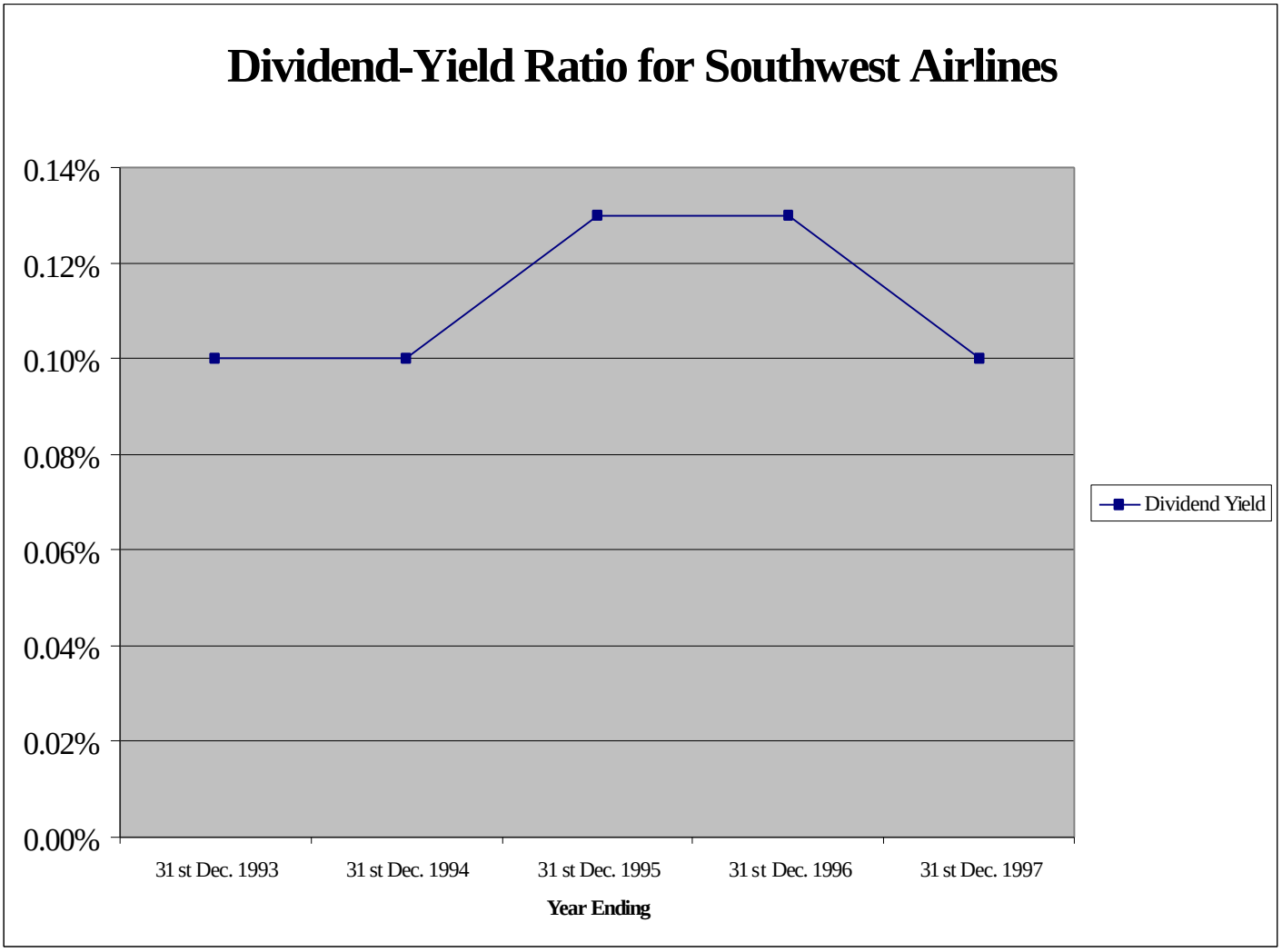
[15] Accounts Receivable for 31st Dec. 1993 was used for Average Accounts Receivable for 1993.

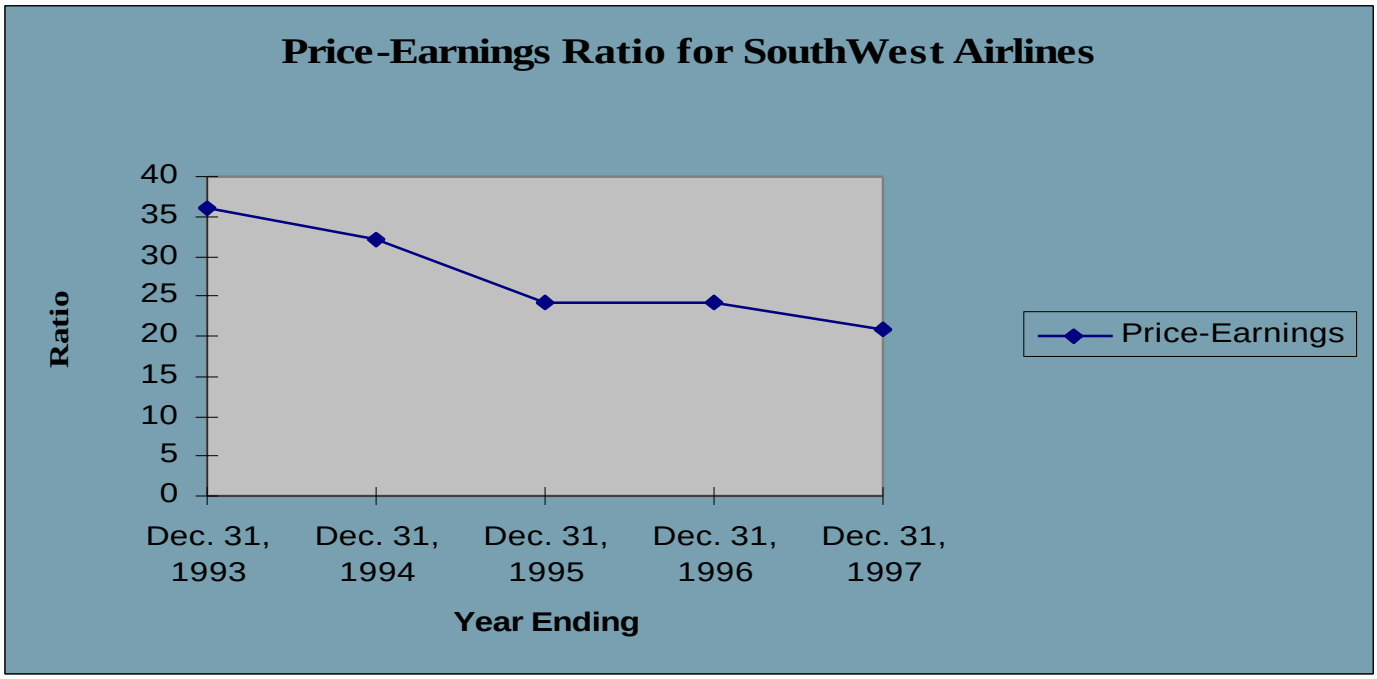
	=	**.86 to 1**
3. Average Collection Period in Days		((73.4+79.8)/2) x 365)/3406.2
	=	**8.21**
4. Inventory Turnover		738.2 / 51.1
	=	**14.44**

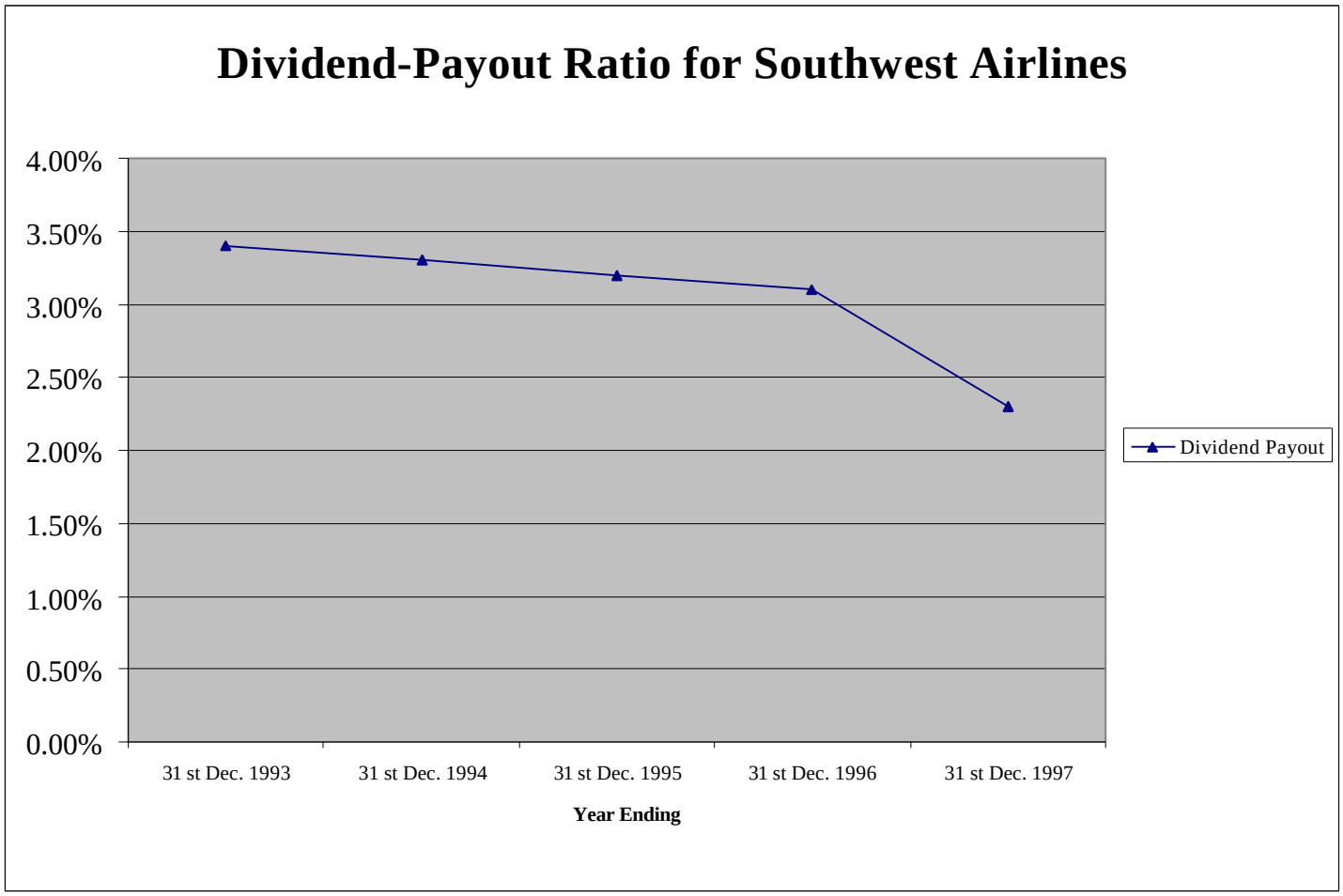
E) 31st December 1997

1. Current Ratio		806.4/868.5
	=	**.93**
	=	**.93 to 1**
2. Quick Ratio		623.3+76.5/868.5
	=	**.81**
	=	**.81 to 1**
3. Average Collection Period in Days		((76.5+73.4)/2) x 365)/3816.8
	=	**7.17**
4. Inventory Turnover		751.5 / 52.4
	=	**14.34**

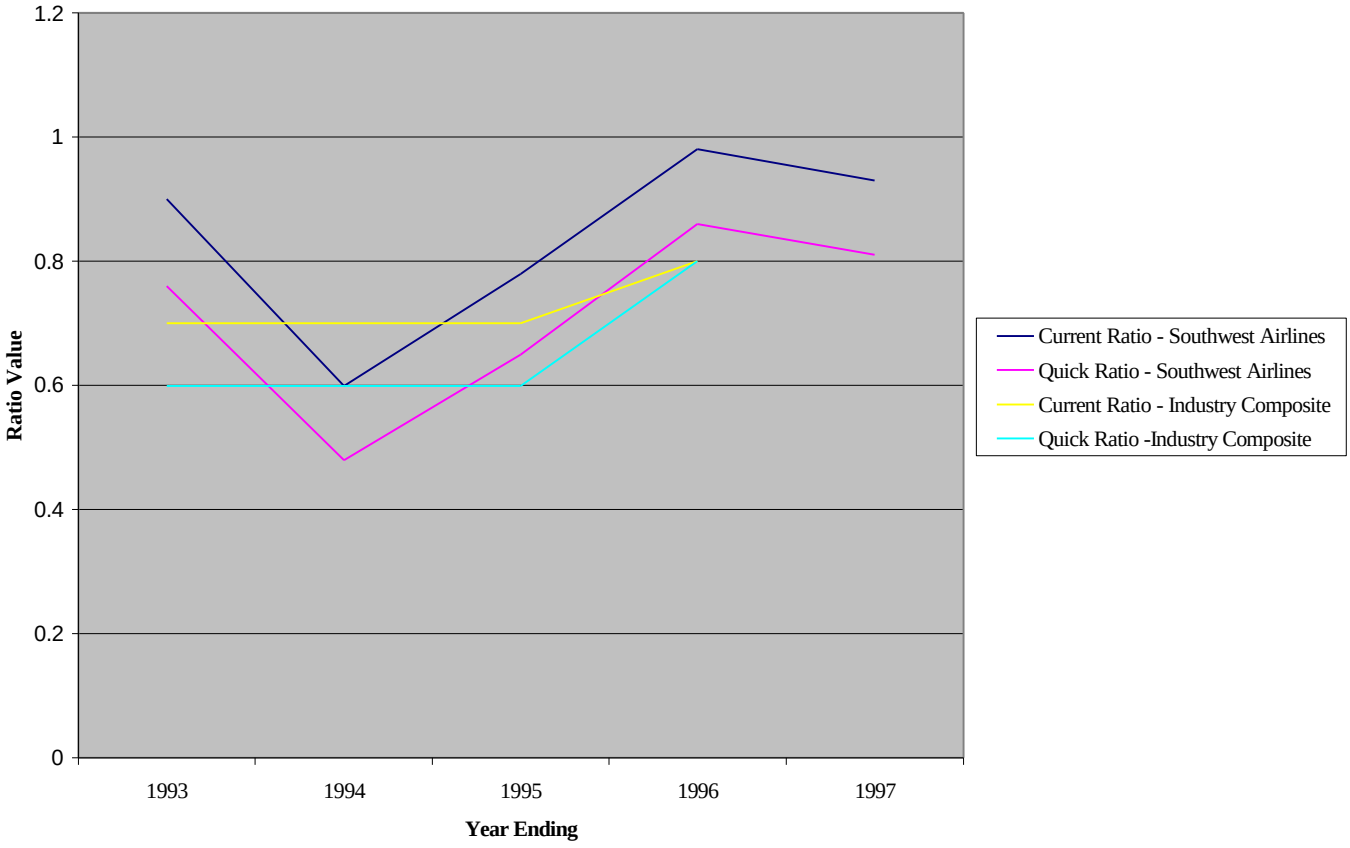
Appendix B: Graphs


Dividend-Yield Ratio for Southwest Airlines
0.14%
0.12%
0.10%
0.08%
0.06%
0.04%
0.02%
0.00%
31 st Dec. 1993
31 st Dec. 1994
31 st Dec. 1995
31 st Dec. 1996
31 st Dec. 1997
Year Ending
Dividend Yield


Price-Earnings Ratio for SouthWest Airlines
Ratio
40
35
30
25
20
15
10
5
0
Dec. 31, 1993
Dec. 31, 1994
Dec. 31, 1995
Dec. 31, 1996
Dec. 31, 1997
Year Ending
Price-Earnings


Dividend-Payout Ratio for Southwest Airlines
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
31 st Dec. 1993
31 st Dec. 1994
31 st Dec. 1995
31 st Dec. 1996
31 st Dec. 1997
Year Ending
Dividend Payout

Short-Term Liquidity Ratios for Southwest Airlines



Long-Term Solvency Ratio Analysis For Southwest Airlines