

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

**Current Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): October 20, 2003

SOUTHWEST AIRLINES CO.

(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction of incorporation)

1-7259 74-1563240

(Commission File Number) (IRS Employer Identification No.)

P. O. Box 36611, Dallas, Texas 75235-1611

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(214) 792-4000**

N/A

(Former name or former address, if changed since last report)

Item 7. Financial Statements and Exhibits

(c) Exhibits.

99.1 Registrant's Third Quarter 2003 Earnings Release.

99.2 Registrant's October 20, 2003 Press Release concerning payment of travel agency commissions.

Item 9. Regulation FD Disclosure.

On October 20, 2003, the Registrant issued a press release announcing it will no longer pay commissions on flights booked by traditional travel agencies. The press release is furnished herewith as Exhibit 99.2 and is incorporated herein by reference.

The information furnished in this Item 9 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Exchange Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

Item 12. Results of Operations and Financial Condition.

On October 20, 2003, the Registrant issued a press release announcing its financial results for the third quarter of 2003. The press release is furnished herewith as Exhibit 99.1 and is incorporated herein by reference.

The information furnished in this Item 12 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Exchange Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

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

SOUTHWEST AIRLINES CO.

(Registrant)

By:

Gary C. Kelly

Executive Vice President - Chief

Financial Officer

Date: October 20, 2003

INDEX TO EXHIBITS

Exhibit No.	Exhibit
99.1	Registrant's Third Quarter 2003 Earnings Release.
99.2	Registrant's October 20, 2003 Press Release concerning payment of travel agency commissions

CONTACT: Investor Relations (214) 792-4415

SOUTHWEST AIRLINES REPORTS THIRD QUARTER EARNINGS OF \$106 MILLION

DALLAS, TEXAS -- October 20, 2003 -- Southwest Airlines' net income for third quarter 2003 was \$106 million, compared to third quarter 2002 net income of \$75 million. Net income per diluted share was \$.13 for third quarter 2003, compared to \$.09 for third quarter 2002. These results are in line with First Call's consensus estimate. The Company's third quarter 2002 net income, excluding a special income item, was \$50 million, or \$.06 per diluted share.

Operating Results

Total operating revenues for third quarter 2003 increased 11.6 percent to \$1.55 billion, compared to \$1.39 billion for third quarter 2002. Operating income was \$185 million, compared to \$91 million in third quarter 2002, an increase of 103.3 percent. Revenue passenger miles (RPMs) increased 7.7 percent in third quarter 2003, compared to a 3.4 percent increase in available seat miles (ASMs), resulting in a load factor of 70.5 percent versus the third quarter 2002 load factor of 67.7 percent. The passenger revenue yield per RPM increased 3.8 percent to 11.71 cents from 11.28 cents in third quarter 2002. Operating revenue per ASM (RASM) increased 8.0 percent to 8.53 cents from 7.90 cents in third quarter 2002.

Total third quarter 2003 operating expenses were \$1.37 billion, an increase of 5.2 percent, compared to \$1.30 billion in third quarter 2002. Operating expenses per ASM (CASM) for third quarter 2003 increased 1.8 percent to 7.51 cents from the year ago period, primarily due to higher labor and jet fuel costs, net of hedging gains. Excluding fuel and the effect of a 2002 special item, CASM for third quarter 2003 increased 2.4 percent to 6.34 cents versus 6.19 cents in third quarter 2002.

"Other expenses" were \$14 million for third quarter 2003 versus "other income" of \$33 million for third quarter 2002. "Other losses" increased to \$7 million in third quarter 2003 from "other gains" of \$46 million in third quarter 2002 primarily due to the 2002 special income item. Interest expense declined 22.2 percent and interest income declined 40.0 percent primarily due to lower interest rates.

/more

Capitalized interest increased to \$8 million from \$4 million in third quarter 2002 as a result of higher Boeing aircraft progress payments.

James F. Parker, Vice Chairman and Chief Executive Officer, stated: "We are proud to report our third quarter 2003 net income of \$106 million, which represents our 50th consecutive quarter of profitability. Our third quarter 2003 earnings were up substantially from the same period last year due to an improved post-war revenue environment and a weak year-ago performance. Third quarter 2003 RASM increased eight percent to 8.53 cents through a combination of higher load factors and passenger yields. Summer demand for vacation travel was strong, resulting in a record July and very solid August load factor performance. Thankfully, post-Labor Day travel also held up reasonably well, although our September traffic was impacted by Hurricane Isabel. We continue to be encouraged by recent RASM and booking trends and expect year-over-year unit revenue growth again in fourth quarter 2003. On a customary seasonal basis, however, we expect fourth quarter 2003 RASM to decline from third quarter 2003.

"Excluding the effect of a 2002 special item, our overall unit costs were up 2.3 percent in third quarter 2003. Our average jet fuel cost per gallon increased only 3.7 percent to 72.8 cents in third quarter 2003, as we benefited from third quarter hedging gains of \$30 million. Based on prevailing market prices, we currently expect our fourth quarter 2003 average jet fuel cost per gallon to exceed the third quarter 2003 average jet fuel cost per gallon of 72.8 cents. We are 87 percent hedged in fourth quarter 2003 under \$24 per barrel and 83 percent hedged for 2004, with caps approximating \$23 per barrel.

"Excluding fuel and the effect of the 2002 special item, third quarter 2003 unit costs increased 2.4 percent to 6.34 cents from third quarter 2002. Based on current cost trends, we expect more year-over-year unit cost pressure in fourth quarter 2003 and higher unit cost levels than in third quarter 2003. We continue to realize productivity improvements from Company-wide cost reduction efforts, which we will aggressively pursue to protect our low cost competitive advantage.

"As a result of our Employees' commitment to low costs, low fares, and high quality Customer service, the future for Southwest Airlines is bright. Because of our confidence in the People of Southwest and the gradual improvement in the revenue environment, we recently exercised one Boeing 737-700 option for 2005 delivery and four 2006 options for accelerated delivery to 2004. We also entered into an agreement to lease an additional new -700 in 2004. These changes bring our 2004 aircraft deliveries to 47 and our 2005 firm

/more

orders and options to 23 and 11, respectively. After considering these additions and our planned 737-200 retirements, we expect an annual capacity increase of approximately seven percent in 2004 and over ten percent in 2005.

"In addition to our cash on hand at September 30, 2003, we continue to have our fully available unsecured revolving credit line of \$575 million. During October 2003, we redeemed \$100 million of senior unsecured 8 3/4 percent Notes due October 15, 2003 at par plus accrued interest."

Operating revenues for the nine months ended September 30, 2003 increased 7.3 percent to \$4.42 billion while operating expenses increased 6.8 percent to \$4.05 billion, resulting in operating income in 2003 of \$372 million.

Net income for the nine-month period was \$376 million in 2003 versus \$199 million in 2002. Net income per diluted share for the nine-month period was \$.46 in 2003 versus \$.25 in 2002. Excluding special items in each year, net income for the nine months ended September 30, 2003 increased 49.4 percent to \$233 million from \$156 million in 2002.

Special Items

The Company believes it is helpful to management and investors to evaluate ongoing operational performance and trends by excluding special items, as described below, for comparative purposes. A reconciliation of key financial measures, excluding these special items, is included in this release, pursuant to Regulation G issued by the Securities and Exchange Commission. There were no special items in third quarter 2003.

Pursuant to the April 2003 Emergency Wartime Supplemental Appropriations Act, the Company received a \$271 million cash payment from the U.S. government, which is included as "Other gains" in its Condensed Consolidated Statement of Income for the nine months ended September 30, 2003. This special item, which was recorded in second quarter 2003, resulted in an increase of approximately \$41 million to Employee profitsharing expense.

Pursuant to the Air Transportation Safety and System Stabilization Act, which was enacted following the September 2001 terrorist attacks, the Company recognized \$48 million included in "Other gains" in its Condensed Consolidated Statement of Income for third quarter 2002.

The Company's 2002 nine month results also included an additional \$36 million in passenger revenue recognized during second quarter 2002 from a reduction in the estimated future refunds and exchanges included in "Air traffic liability."

/more

Southwest Airlines will conduct a conference call to discuss its quarterly earnings today at 10:30 a.m. Eastern Time. A live broadcast of the conference call will be available at www.southwest.com.

This news release contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the plans, intentions, and expectations reflected in or suggested by the forward-looking statements. Additional information concerning the factors which could cause actual results to differ materially from the forward-looking statements is contained in the Company's periodic filings with the Securities and Exchange Commission, including without limitation, the Company's Annual Report on Form 10-K for the year ended 2002. The Company undertakes no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this press release.

/more

SOUTHWEST AIRLINES CO.

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	Three months ended September 30,			Nine months ended September 30,		
	2003	2002	Percent Change	2003	2002	Percent Change
OPERATING REVENUES:						
Passenger	\$1,503	\$1,344	11.8	\$4,275	\$3,984	7.3
Freight	23	20	15.0	70	63	11.1
Other	27	27	-	75	74	1.4
Total operating revenues	1,553	1,391	11.6	4,420	4,121	7.3
OPERATING EXPENSES:						
Salaries, wages, and benefits	554	510	8.6	1,657	1,473	12.5
Fuel and oil	214	203	5.4	616	562	9.6
Maintenance materials and repairs	111	99	12.1	321	296	8.4
Agency commissions	11	12	(8.3)	36	42	(14.3)
Aircraft rentals	46	46	-	137	140	(2.1)
Landing fees and other rentals	95	87	9.2	276	258	7.0
Depreciation and amortization	97	92	5.4	285	263	8.4
Other operating expenses	240	251	(4.4)	720	757	(4.9)
Total operating expenses	1,368	1,300	5.2	4,048	3,791	6.8
OPERATING INCOME	185	91	103.3	372	330	12.7
OTHER EXPENSES (INCOME):						
Interest expense	21	27	(22.2)	71	80	(11.3)
Capitalized interest	(8)	(4)	100.0	(23)	(13)	76.9
Interest income	(6)	(10)	(40.0)	(18)	(29)	(37.9)
Other (gains) losses, net	7	(46)	n.a.	(265)	(37)	n.a.
Total other expenses (income)	14	(33)	n.a.	(235)	1	n.a.
INCOME BEFORE INCOME TAXES	171	124	37.9	607	329	84.5
PROVISION FOR INCOME TAXES	65	49	32.7	231	130	77.7
NET INCOME	\$106	\$75	41.3	\$376	\$199	88.9
NET INCOME PER SHARE:						
Basic	\$.14	\$.10		\$.48	\$.26	
Diluted	\$.13	\$.09		\$.46	\$.25	
WEIGHTED AVERAGE SHARES OUTSTANDING:						
Basic	784	773		781	772	
Diluted	827	805		818	808	

/more

SOUTHWEST AIRLINES CO.

RECONCILIATION OF REPORTED AMOUNTS TO NON-GAAP ITEMS (SEE NOTE)

(unaudited)

(In millions, except per share amounts)	Three months ended September 30,		Percent Change	Nine months ended September 30,		Percent Change
	2003	2002		2003	2002	
Operating revenue, as reported	\$ 1,553	\$ 1,391		\$ 4,420	\$ 4,121	
Passenger revenue adjustment	-	-		-	(36)	
Operating revenue, excluding special item	\$ 1,553	\$ 1,391	11.6	\$ 4,420	\$ 4,085	8.2
Operating expenses, as reported	\$ 1,368	\$ 1,300		\$ 4,048	\$ 3,791	
Profitsharing impact of Stabilization Act grant	-	(7)		-	(7)	
Profitsharing impact of Wartime Act grant	-	-		(41)	-	
Profitsharing impact of passenger revenue adjustment	-	-		-	(6)	
Operating expenses, excluding special items	\$ 1,368	\$ 1,293	5.8	\$ 4,007	\$ 3,778	6.1
Operating income, as reported	\$ 185	\$ 91		\$ 372	\$ 330	
Profitsharing impact of Stabilization Act grant	-	7		-	7	
Profitsharing impact of Wartime Act grant	-	-		41	-	
Passenger revenue adjustment, net of profitsharing	-	-		-	(30)	
Operating income, excluding special items	\$ 185	\$ 98	88.8	\$ 413	\$ 307	34.5
Net income, as reported	\$ 106	\$ 75		\$ 376	\$ 199	
Stabilization Act grant, net of income taxes and profitsharing	-	(25)		-	(25)	
Wartime Act grant, net of income taxes and profitsharing	-	-		(143)	-	
Passenger revenue adjustment, net of income taxes and profitsharing	-	-		-	(18)	
Net income, excluding special items	\$ 106	\$ 50	112.0	\$ 233	\$ 156	49.4
Net income per share, diluted, as reported	\$.13	\$.09		\$.46	\$.25	
Stabilization Act grant, net of income taxes and profitsharing	-	(.03)		-	(.04)	
Wartime Act grant, net of income taxes and profitsharing	-	-		(.18)	-	
Passenger revenue adjustment, net of income taxes and profitsharing	-	-		-	(.02)	
Net income per share, diluted, excluding special items	\$.13	\$.06	116.7	\$.28	\$.19	47.4

NOTE: The above schedule reconciles the financial measures, excluding special items, included in this press release to the most comparable GAAP financial measures. The special items were a \$271 million Wartime Act grant received in second quarter 2003 pursuant to the April 2003 Emergency Wartime Supplemental Appropriations Act, a \$48 million Stabilization Act grant received in the third quarter 2002, and \$36 million in additional passenger revenue from a reduction in estimated refunds and exchanges included in "Air traffic liability" in second quarter 2002. The \$271 million Wartime Act grant was received as a result of the war with Iraq and is recorded in "Other gains." The \$48 million Stabilization Act grant was received as a result of the unfavorable impact of the September 11, 2001 terrorist attacks on the airline industry and is recorded in "Other gains." The \$36 million passenger revenue adjustment was primarily due to a change in Customer travel patterns and a higher than usual mix of low-fare nonrefundable ticket sales following the September 11, 2001 terrorist attacks.

In management's view, comparative analysis of results can be enhanced by excluding the impact of these special items. None of these items are indicative of the Company's ongoing operating performance for the applicable period, nor should they be considered in developing trend analysis for future periods, including fourth quarter 2003.

/more

SOUTHWEST AIRLINES CO.

COMPARATIVE CONSOLIDATED OPERATING STATISTICS

(unaudited)

	Three months ended September 30,		Change	Nine months ended September 30,		Change
	2003	2002		2003	2002	
Revenue passengers carried	17,243,250	16,255,950	6.1 %	49,384,070	47,491,651	4.0 %
Revenue passenger miles (RPMs) (000s)	12,832,340	11,917,932	7.7 %	36,278,706	34,309,389	5.7 %
Available seat miles (ASMs) (000s)	18,204,357	17,611,104	3.4 %	53,497,254	51,303,936	4.3 %
Load factor	70.5%	67.7%	2.8 pts.	67.8%	66.9%	0.9 pts.
Average length of passenger haul	744	733	1.5 %	735	722	1.8 %
Trips flown	240,912	241,143	(0.1)%	711,517	709,168	0.3 %
Average passenger fare	\$87.16	\$82.68	5.4 %	\$86.56	\$83.89	3.2 %
Average passenger fare, excluding special items	\$87.16	\$82.68	5.4 %	\$86.56	\$83.14 (c)	4.1 %
Passenger revenue yield per RPM	11.71¢	11.28¢	3.8 %	11.78¢	11.61¢	1.5 %
Passenger revenue yield per RPM, excluding special items	11.71¢	11.28¢	3.8 %	11.78¢	11.51¢ (c)	2.3 %
Operating revenue yield per ASM	8.53¢	7.90¢	8.0 %	8.26¢	8.03¢	2.9 %
Operating revenue yield per ASM, excluding special items	8.53¢	7.90¢	8.0 %	8.26¢	7.96¢ (c)	3.8 %
Operating expenses per ASM	7.51¢	7.38¢	1.8 %	7.57¢	7.39¢	2.4 %
Operating expenses per ASM, excluding special items	7.51¢	7.34¢ (b)	2.3 %	7.49¢ (a)	7.36¢ (b)(c)	1.8 %
Operating expenses per ASM, excluding fuel	6.34¢	6.23¢	1.8 %	6.42¢	6.30¢	1.9 %
Operating expenses per ASM, excluding fuel and special items	6.34¢	6.19¢ (b)	2.4 %	6.34¢ (a)	6.27¢ (b)(c)	1.1 %
Fuel costs per gallon, excluding fuel tax	72.8¢	70.2¢	3.7 %	71.6¢	67.1¢	6.7 %
Fuel consumed, in gallons (millions)	292	287	1.7 %	855	835	2.4 %
Number of Employees at period-end	32,563	33,609	(3.1)%	32,563	33,609	(3.1)%
Size of fleet at period-end	385	370	4.1 %	385	370	4.1 %

(a) Amounts exclude profitsharing impact of \$271 million Wartime Act grant in 2003.

(b) Amounts exclude profitsharing impact of \$48 million Stabilization Act grant in 2002.

(c) Amounts exclude \$36 million in additional passenger revenue from a reduction in air traffic liability, and related impact to operating expenses.

/more

SOUTHWEST AIRLINES CO.

CONDENSED CONSOLIDATED BALANCE SHEET

(unaudited)

(in millions)	September 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,034	\$ 1,815
Accounts and other receivables	143	175
Inventories of parts and supplies, at cost	96	86
Fuel hedge contracts	102	113
Prepaid expenses and other current assets	50	43
Total current assets	<u>2,425</u>	<u>2,232</u>
Property and equipment, at cost:		
Flight equipment	8,510	8,025
Ground property and equipment	1,103	1,042
Deposits on flight equipment purchase contracts	628	389
	<u>10,241</u>	<u>9,456</u>
Less allowance for depreciation and amortization	<u>3,066</u>	<u>2,810</u>
	7,175	6,646
Other assets	99	76
	<u>\$ 9,699</u>	<u>\$ 8,954</u>
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 323	\$ 362
Accrued liabilities	545	529
Air traffic liability	568	412
Income taxes payable	5	-
Current maturities of long-term debt	131	131
Total current liabilities	<u>1,572</u>	<u>1,434</u>
Long-term debt less current maturities	1,525	1,553
Deferred income taxes	1,416	1,227
Deferred gains from sale and leaseback of aircraft	172	184
Other deferred liabilities	146	134
Stockholders' equity:		
Common stock	786	777
Capital in excess of par value	188	136
Retained earnings	3,821	3,455
Accumulated other comprehensive income	73	54
Total stockholders' equity	<u>4,868</u>	<u>4,422</u>
	<u>\$ 9,699</u>	<u>\$ 8,954</u>

/more

SOUTHWEST AIRLINES CO.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2003	2002	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 106	\$ 75	\$ 376	\$ 199
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	97	92	285	263
Deferred income taxes	29	47	177	123
Amortization of deferred gains on sale and leaseback of aircraft	(4)	(3)	(12)	(11)
Amortization of scheduled airframe inspections & repairs	13	12	37	34
Changes in certain assets and liabilities:				
Accounts and other receivables	(15)	4	32	(54)
Other current assets	(7)	(21)	(15)	(15)
Accounts payable and accrued liabilities	(72)	(129)	(20)	(138)
Air traffic liability	(7)	(34)	156	47
Income taxes payable	(6)	-	5	-
Other	7	(23)	25	(42)
Net cash provided by operating activities	141	20	1,046	406
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property and equipment, net	(337)	(119)	(855)	(372)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of long-term debt	-	-	-	385
Proceeds from trust arrangement	-	-	-	119
Proceeds from Employee stock plans	30	10	61	41
Payments of long-term debt and capital lease obligations	(1)	(1)	(21)	(56)
Payment of trust arrangement	-	(80)	-	(365)
Payment of revolving credit facility	-	-	-	(475)
Payments of cash dividends	(4)	(4)	(14)	(14)
Other, net	1	-	2	(5)
Net cash provided by (used in) financing activities	26	(75)	28	(370)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(170)	(174)	219	(336)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,204	2,118	1,815	2,280
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,034	\$ 1,944	\$ 2,034	\$ 1,944

/more

Southwest Airlines Co.

Boeing 737-700 Delivery Schedule

	Prior Schedule		Current Schedule	
	Firm	Options*	Firm	Options*
Fourth quarter 2003	4	-	4	-
2004	42	-	47 **	-
2005	22	12	23	11
2006	22	16	22	12
2007	25	29	25	29
2008	6	45	6	45
2009-2012	-	177	-	177
Total	121	279	127	274

*Includes purchase rights

**Includes one leased aircraft



SOUTHWEST AIRLINES DROPS TRAVEL AGENCY COMMISSIONS IN CONTINUING EFFORT TO CUT COSTS

DALLAS-Oct. 20, 2003-Southwest Airlines today announced it will no longer pay commissions on all Southwest flights booked by traditional travel agencies.

The new policy will be effective Dec. 15, 2003. Southwest was the last major airline paying base commissions to travel agents (Southwest does not pay commissions for online bookings).

"We appreciate the choice our travel agency partners continue to provide to our Customers," said Jim Parker, Southwest's chief executive officer and vice chairman. "We waited this long to make the change in our commission policy to give all agencies-large and small-ample time to shift their business model to the industry norm of fee-based services."

Even prior to the industry-changing events of Sept. 11, 2001, most travel agencies were charging Customers fees for their services. Now, it is largely the business model upon which agencies operate. Changes in distribution brought about by the popularity of the Internet also have changed the way a Customer purchases travel.

In third quarter 2003, Southwest's online bookings generated 55 percent of the airline's revenues, while travel agency bookings accounted for about 15 percent.

Southwest, the industry's low-cost provider, has been vigilant about keeping operating costs low to ensure low fares for Customers. The change in travel agency commission policy will save Southwest about \$40 million annually, Parker said.

Southwest (NYSE: LUV) operates 385 Boeing 737s in 58 cities in 30 states. The airline has nearly 2,800 daily departures, and was named the number one airline in the United States in May and June 2003 for the most passenger boardings in each of those months.

www.southwest.com

Media Please Contact:

Public Relations at 214/792-4847 or

Linda Rutherford at 214/792-4625