

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED
June 30, 1999 OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM
TO

Commission file No. 1-7259

SOUTHWEST AIRLINES CO.
(Exact name of registrant as specified in its charter)

TEXAS 74-1563240
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

P.O. Box 36611, Dallas, Texas 75235-1611
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all
reports required to be filed by Section 13 or 15(d) of the
Securities Exchange Act of 1934 during the preceding 12 months (or
for such shorter period that the registrant was required to file
such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes X No .

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of the latest practicable date.

Number of shares of Common Stock outstanding as of the close
of business on August 9, 1999:

504,030,721

SOUTHWEST AIRLINES CO.
FORM 10-Q

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Southwest Airlines Co.
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands)
(unaudited)

<TABLE>

<CAPTION>

	June 30, 1999	December 31, 1998
<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$487,635	\$378,511
Accounts receivable	116,785	88,799
Inventories of parts and supplies	60,803	50,035
Deferred income taxes	21,252	20,734
Prepaid expenses and other current assets	32,537	36,076
Total current assets	719,012	574,155
Property and equipment:		
Flight equipment	5,121,969	4,709,059
Ground property and equipment	745,709	720,604
Deposits on flight equipment purchase contracts	403,688	309,356
	6,271,366	5,739,019
Less allowance for depreciation	1,712,454	1,601,409
	4,558,912	4,137,610
Other assets	4,370	4,231
	\$5,282,294	\$4,715,996

LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:

Accounts payable	\$176,701	\$157,415
Accrued liabilities	557,310	477,448
Air traffic liability	292,893	200,078
Income taxes payable	68,783	-
Current maturities of long-term debt	7,722	11,996
Other current liabilities	4,360	3,716
Total current liabilities	1,107,769	850,653
Long-term debt less current maturities	617,207	623,309
Deferred income taxes	595,601	549,207
Deferred gains from sale and leaseback of aircraft	230,290	238,412
Other deferred liabilities	58,472	56,497
Stockholders' equity:		
Common stock	335,937	335,904
Capital in excess of par value	89,878	89,820
Retained earnings	2,249,814	2,044,975
Treasury stock at cost	(2,674)	(72,781)
Total stockholders' equity	2,672,955	2,397,918
	\$5,282,294	\$4,715,996

</TABLE>

See accompanying notes.

Southwest Airlines Co.
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(in thousands except per share amounts)
(unaudited)

<TABLE>

<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
OPERATING REVENUES:				
Passenger	\$1,160,153	\$1,030,238	\$2,179,449	\$1,925,027
Freight	25,186	24,283	50,279	49,425
Other	35,093	24,320	66,275	47,042
Total operating revenues	1,220,432	1,078,841	2,296,003	2,021,494
OPERATING EXPENSES:				
Salaries, wages, and benefits	368,573	320,539	712,585	618,771
Fuel and oil	102,982	96,043	188,650	197,519
Maintenance materials and repairs	85,145	75,211	174,636	146,700
Agency commissions	40,201	41,529	79,282	79,977
Aircraft rentals	49,898	50,747	99,704	101,164
Landing fees and other rentals	60,708	54,042	118,691	104,596
Depreciation	59,542	53,996	116,328	105,976
Other operating expenses	199,052	178,186	385,179	346,550
Total operating expenses	966,101	870,293	1,875,055	1,701,253
OPERATING INCOME	254,331	208,548	420,948	320,241
OTHER EXPENSES (INCOME):				
Interest expense	13,295	13,561	26,682	29,272
Capitalized interest	(9,109)	(6,481)	(16,093)	(12,717)
Interest income	(6,838)	(8,473)	(12,373)	(16,288)
Other (gains) losses, net	385	(6,606)	10,032	(10,630)
Total other expenses (income)	(2,267)	(7,999)	8,248	(10,363)
INCOME BEFORE INCOME TAXES	256,598	216,547	412,700	330,604
PROVISION FOR INCOME TAXES	98,841	83,154	159,096	127,203
NET INCOME	\$157,757	\$133,393	\$253,604	\$203,401
NET INCOME PER SHARE:				
Basic	\$.31	\$.27	\$.50	\$.41
Diluted	\$.29	\$.25	\$.47	\$.38

WEIGHTED AVERAGE SHARES

OUTSTANDING:				
Basic	503,531	502,164	502,349	501,116
Diluted	539,059	531,111	537,497	530,258

</TABLE>

See accompanying notes.

Southwest Airlines Co.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)
(unaudited)

<TABLE>

<CAPTION>

	Six months ended June 30,	
	1999	1998
<S>	<C>	<C>
Net cash provided by operating activities	\$673,138	\$508,424
Investing activities:		
Net purchases of property and equipment	(568,790)	(471,815)
Financing activities:		
Payment of long-term debt and capital lease obligations	(10,572)	(111,959)
Payment of cash dividends	(10,542)	(6,669)
Proceeds from Employee stock plans	25,890	25,849
Net cash provided by (used in) financing activities	4,776	(92,779)
Net increase (decrease) in cash and cash equivalents	109,124	(56,170)
Cash and cash equivalents at beginning of period	378,511	623,343
Cash and cash equivalents at end of period	\$487,635	\$567,173
Cash payments for:		
Interest, net of amount capitalized	\$11,408	\$20,351
Income taxes	\$29,244	\$31,251

</TABLE>

See accompanying notes.

SOUTHWEST AIRLINES CO.
Notes to Condensed Consolidated Financial Statements

1. Basis of presentation - The accompanying unaudited condensed consolidated financial statements of Southwest Airlines Co. (Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The condensed consolidated financial statements for the interim periods ended June 30, 1999 and 1998 include all adjustments (which include only normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. Operating results for the three and six month periods ended June 30, 1999 are not necessarily indicative of the results that may be expected for the year ended December 31, 1999. For further information, refer to the consolidated financial statements and footnotes thereto included in the Southwest Airlines Co. Annual Report on Form 10-K for the year ended December 31, 1998.

2. Dividends - During the three month periods ended June 30, 1999 and March 31, 1999, dividends of \$.0055 per share and \$.005 per share were declared, respectively, on the 503,581,881 and 501,949,689 shares of common stock then outstanding. During the three month periods ended June 30, 1998 and March 31, 1998, \$.0044 per share in dividends were declared on the 502,280,503 and 501,031,778 shares of common stock then outstanding.

3. Common stock - On July 22, 1998, the Company's Board of Directors declared a three-for-two stock split, distributing 111,894,315 shares on August 20, 1998. On May 20, 1999, the Company's Board of Directors declared a three-for-two stock split, distributing 167,954,962 shares on July 19, 1999. All per share data presented in the accompanying consolidated financial

statements and notes thereto have been restated for these stock splits.

4. Net income per share - The following table sets forth the computation of basic and diluted earnings per share (in thousands except per share amounts):

[CAPTION]

<TABLE>

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
NUMERATOR:				
Net income available to common stockholders - numerator for basic and diluted earnings per share	\$157,757	\$133,393	\$253,604	\$203,401
DENOMINATOR:				
Weighted-average shares outstanding, basic	503,531	502,164	502,349	501,116
Dilutive effect of Employee stock options	35,528	28,947	35,148	29,142
Adjusted weighted-average shares outstanding, diluted	539,059	531,111	537,497	530,258
NET INCOME PER SHARE:				
Basic	\$0.31	\$0.27	\$0.50	\$0.41
Diluted	\$0.29	\$0.25	\$0.47	\$0.38

</TABLE>

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Comparative Consolidated Operating Statistics

Relevant operating statistics for the three and six month periods ended June 30, 1999 and 1998 are as follows:

[CAPTION]

<TABLE>

	Three months ended June 30,		Change
	1999	1998	
<S>	<C>	<C>	<C>
Revenue passengers carried	14,816,803	13,766,338	7.6 %
Revenue passenger miles (RPMs) (000s)	9,471,014	8,225,141	15.1 %
Available seat miles (ASMs) (000s)	12,947,815	11,712,905	10.5 %
Load factor	73.1%	70.2%	2.9 pts.
Average length of passenger haul	639	597	7.0 %
Trips flown	210,029	200,977	4.5 %
Average passenger fare	\$78.30	\$74.84	4.6 %
Passenger revenue yield per RPM (cents)	12.25	12.53	(2.2) %
Operating revenue yield per ASM (cents)	9.43	9.21	2.4 %
Operating expenses per ASM (cents)	7.46	7.43	0.4 %
Fuel costs per gallon, excluding fuel tax (cents)	44.36	45.13	(1.7) %
Number of Employees at period-end	26,818	24,387	10.0 %
Size of fleet at period-end	294	273	7.7 %

</TABLE>

[CAPTION]

<TABLE>

	Six months ended June 30,		Change
	1999	1998	
<S>	<C>	<C>	<C>
Revenue passengers carried	27,750,381	25,615,024	8.3 %
Revenue passenger miles (RPMs) (000s)	17,517,498	15,123,988	15.8 %
Available seat miles (ASMs) (000s)	25,340,794	22,983,079	10.3 %
Load factor	69.1%	65.8%	3.3 pts.
Average length of			

passenger haul	631	590	6.9 %
Trips flown	412,575	396,154	4.1 %
Average passenger fare	\$78.54	\$75.15	4.5 %
Passenger revenue yield			
per RPM (cents)	12.44	12.73	(2.3) %
Operating revenue yield			
per ASM (cents)	9.06	8.80	3.0 %
Operating expenses per ASM (cents)	7.40	7.40	0.0 %
Fuel costs per gallon, excluding fuel tax (cents)	41.92	47.62	(12.0) %
Number of Employees at period-end	26,818	24,387	10.0 %
Size of fleet at period-end	294	273	7.7 %

</TABLE>

Material Changes in Results of Operations

Consolidated net income for the second quarter ended June 30, 1999 was \$157.8 million (\$.29 per share, diluted), as compared to the second quarter 1998 net income of \$133.4 million (\$.25 per share, diluted), an increase of 18.3 percent. For the six months ended June 30, 1999, net income was \$253.6 million (\$.47 per share, diluted), an increase of 24.7 percent over the first half of 1998 net income of \$203.4 million (\$.38 per share, diluted). The prior year's earnings per share amounts have been restated for the 1999 and 1998 three-for-two stock splits (see Note 3 to the Condensed Consolidated Financial Statements).

Consolidated operating revenues increased 13.1 percent for the second quarter of 1999 and 13.6 percent for the six months ended June 30, 1999 compared to the corresponding periods of the prior year primarily due to 12.6 percent and 13.2 percent increases, respectively, in consolidated passenger revenues. The increases in passenger revenues resulted from 7.6 percent and 8.3 percent increases in revenue passengers carried, and 15.1 percent and 15.8 percent increases in revenue passenger miles (RPMs) for the three and six month periods ended June 30, 1999, respectively. The passenger revenue yield per RPM decreased 2.2 percent to \$.1225 for the three months ended June 30, 1999 and decreased 2.3 percent to \$.1244 for the six months ended June 30, 1999 primarily due to an increase in average length of passenger haul of 7.0 percent and 6.9 percent, respectively, partially offset by a 4.6 percent and 4.5 percent increase in average passenger fare.

The increase in RPMs of 15.1 percent and 15.8 percent for the three and six months ended June 30, 1999, respectively, exceeded the increase in available seat miles (ASMs) of 10.5 percent and 10.3 percent for these same periods resulting in a 2.9 point increase in load factor to 73.1 percent for second quarter 1999 and a 3.3 point increase to 69.1 percent for the six months ended June 30, 1999. The increases in ASMs resulted primarily from the net addition of 21 aircraft since second quarter 1998.

Strong load factor and revenue trends continued in July. The load factor for July 1999 was 75.6 percent, up 2.5 points from July 1998's load factor of 73.1 percent. Thus far, bookings for August and September are also strong. (The immediately preceding sentence is a forward-looking statement that involves uncertainties that could result in actual results differing materially from expected results. Some significant factors include, but may not be limited to, competitive pressure such as fare sales and capacity changes by other carriers, general economic conditions, and variations in advance booking trends.)

Consolidated freight revenues increased 3.7 percent in second quarter 1999 and 1.7 percent for the six months ended June 30, 1999 as compared to the same periods of the prior year. The increases are primarily due to modest rate increases by the Company and a higher mix of premium rate shipments as a percentage of total unit volume. The increases were less than capacity growth, however, due primarily to the postal service continuing to shift business away from commercial carriers. Other revenues increased 44.3 percent in the second quarter 1999 and 40.9 percent for the six months ended June 30, 1999 primarily due to increased revenues from the sale of frequent flyer segment credits to participating partners in the Company's Rapid Rewards frequent flyer program, and an increase in charter revenue.

Operating expenses per ASM increased .4 percent for the three months ended June 30, 1999 and remained unchanged for the six months ended June 30, 1999 as compared to the same prior year periods. For second quarter 1999 compared to second quarter 1998, operating expenses per ASM increased in salaries, wages, and

benefits, and were partially offset by decreases in travel agency commissions and aircraft rental expense. For the six months ended June 30, 1999 compared to the same prior year period, expenses per ASM increased in salaries, wages, and benefits and maintenance, but were offset by a decline in average jet fuel prices. Excluding jet fuel costs, operating expenses per ASM were up 1.8 percent for the first half of 1999 versus the first half of 1998. Based on current trends, the Company expects modest increases in nonfuel unit costs for third quarter 1999 in comparison to the same 1998 period. (The immediately preceding sentence is a forward-looking statement that involves uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, general economic conditions.)

Southwest Airlines Co.
Operating Expenses per ASM
(in cents except percent change)

[CAPTION]
<TABLE>

	Three months ended June 30,				Six months ended June 30,			
	1999	1998	Inc/ (Dec)	Percent Change	1999	1998	Inc/ (Dec)	Percent Change
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.39	2.32	.07	3.0	2.41	2.35	.06	2.6
Employee profitsharing and savings plans	.46	.42	.04	9.5	.39	.35	.04	11.4
Fuel and oil	.80	.82	(.02)	(2.4)	.74	.86	(.12)	(14.0)
Maintenance materials and repairs	.66	.64	.02	3.1	.69	.64	.05	7.8
Agency commissions	.31	.35	(.04)	(11.4)	.31	.35	(.04)	(11.4)
Aircraft rentals	.39	.43	(.04)	(9.3)	.39	.44	(.05)	(11.4)
Landing fees and other rentals	.47	.46	.01	2.2	.47	.45	.02	4.4
Depreciation	.46	.46	-	-	.46	.46	-	-
Other operating expenses	1.52	1.53	(.01)	(.7)	1.54	1.50	.04	2.7
Total	7.46	7.43	.03	.4	7.40	7.40	.00	(.0)

</TABLE>

Salaries, wages, and benefits per ASM increased 3.0 percent and 2.6 percent in the three and six month periods ended June 30, 1999, respectively. These increases were primarily due to increased workers' compensation costs, higher effective wage rates, and increased health care costs.

Profitsharing and Employee savings plans expense per ASM increased 9.5 percent and 11.4 percent for the three and six month periods ended June 30, 1999, respectively, as compared to the corresponding periods of the prior year primarily due to higher earnings available for profitsharing in 1999.

Fuel and oil expense per ASM decreased 2.4 percent and 14.0 percent for the three and six month periods ended June 30, 1999, respectively, as compared to the corresponding periods of the prior year. For second quarter 1999, the Company recognized gains due to hedging activities of approximately \$10.5 million, which more than offset an increase in average jet fuel price per gallon compared to second quarter 1998. Before hedging activities, the average price paid for jet fuel was approximately \$.4893 per gallon in second quarter 1999 compared to \$.4513 per gallon in same prior year period. Including the effects of hedging activities, the average cost of jet fuel was \$.4436 per gallon for second quarter 1999. For the first half of 1999, the average cost of jet fuel was \$.4192 per gallon compared to \$.4762 per gallon during the same period of 1998, including the effects of hedging activities. As of August 9, 1999, the Company has hedged its exposure to fuel price increases with both fixed swap agreements and purchased crude oil call options totaling approximately 22% of its third quarter 1999 anticipated fuel requirements. The average price paid for jet fuel in July 1999 was \$.5485 per gallon, excluding gains from hedging activities.

Maintenance materials and repairs per ASM increased 3.1 percent and 7.8 percent for the three and six month periods ended June 30, 1999, respectively, as compared to the corresponding periods of 1998. The increases are primarily due to more routine heavy maintenance activities being outsourced throughout the first half of 1999. The outsourcing of this maintenance was due to the Company's aircraft growth currently exceeding the available headcount and facilities necessary to perform the maintenance internally. Additionally, for the first half of 1999, the Company experienced an increase in maintenance costs due to higher engine

overhaul costs related to the Company's 737-200 aircraft, which are not covered by the Company's engine maintenance contract with General Electric Engine Services, Inc. This increase in maintenance was primarily due to an increase in the number of engine overhauls and the average cost per overhaul. The Company currently expects third quarter 1999 maintenance costs to be higher on a per ASM basis than third quarter 1998 due primarily to the continued outsourcing of routine heavy maintenance and an increase in 737-200 aircraft engine overhaul expense. (The immediately preceding sentence is a forward-looking statement that involves uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, any unanticipated required aircraft airframe or engine repairs.)

Agency commissions per ASM decreased 11.4 percent for both the three and six month periods ended June 30, 1999 as compared to the same periods of 1998, primarily due to a decrease in the percentage of commissionable sales. Commissionable sales represented 33.4 percent and 35.1 percent of total sales in second quarter 1999 and the first half of 1999, respectively, down from 37.2 percent and 39.1 percent in the same 1998 periods.

Aircraft rentals per ASM decreased 9.3 percent for second quarter 1999 and 11.4 percent for the six months ended June 30, 1999 as compared to the same periods of 1998, primarily due to a lower percentage of the aircraft fleet being leased.

Landing fees and other rentals increased 2.2 percent and 4.4 percent per ASM for the three and six month periods ended June 30, 1999, respectively, as compared to the same periods of 1998. These increases were primarily due to the Company's expansion of facilities in several airports where the Company already had existing service as well as the start of service to new airports.

Depreciation expense per ASM was flat for second quarter 1999 and for the six months ended June 30, 1999 as compared to the same periods of 1998. Although the Company experienced an increase in depreciation expense per ASM due to a higher percentage of owned aircraft, this increase was offset by an increase in the estimated useful lives of the Company's Boeing 737-300/500 aircraft from 20 years to 23 years. This change in accounting estimate was made January 1, 1999 and resulted in a decrease in depreciation expense of approximately \$6.4 million for second quarter 1999 and \$12.8 million for the first half of 1999. This revision will result in similar savings for remaining 1999 periods compared to 1998.

Other operating expenses per ASM decreased slightly for second quarter 1999, but increased 2.7 percent for the six months ended June 30, 1999 as compared to the same periods of 1998. The increase for the first half of 1999 was primarily due to higher credit card processing costs and increased advertising costs associated with beginning service to two new cities during the first half of 1999 versus one new city in the first half of 1998.

Other expenses (income) for the three and six month periods ended June 30, 1999, included interest expense, capitalized interest, interest income, and other gains and losses. Interest expense was relatively flat for second quarter 1999 compared to the same period in 1998. For the first half of 1999, interest expense decreased approximately 8.8 percent as compared to the same period of 1998, due primarily to the February 1998 redemption of \$100 million of senior unsecured 9 1/4% Notes originally issued in February 1991. Capitalized interest increased \$2.6 million and \$3.4 million for the three and six month periods ended June 30, 1999, respectively, as a result of higher 1999 progress payment balances for scheduled future aircraft deliveries. Interest income decreased for the three and six months ended June 30, 1999 due to lower invested cash balances. Other losses for the first half of 1999 resulted primarily from a write-down associated with the consolidation of certain software development projects; whereas other gains in second quarter 1998 and the first half of 1998 primarily consisted of contractual penalties received from Boeing due to delays in the delivery of 737-700 aircraft.

Liquidity and Capital Resources

Net cash provided by operating activities was \$673.1 million for the six months ended June 30, 1999 and \$1,050.8 million for the 12 months then ended. Cash generated for the 12 months ended June 30, 1999 was primarily used to finance aircraft-related capital expenditures, provide working capital, and repurchase approximately \$100 million of the Company's outstanding common stock. The Company began and completed this repurchase program during third quarter 1998.

During the 12 months ended June 30, 1999, net capital expenditures were \$1,044.1 million, which primarily related to the purchase of 24 new 737-700 aircraft, three used 737-300 aircraft, five used 737-200 aircraft, and progress payments for future aircraft deliveries. The five 737-200 aircraft were previously on lease by Southwest prior to being purchased.

The Company's contractual commitments consist primarily of scheduled aircraft acquisitions. During the six months ended June 30, 1999, the Company exercised options to purchase six Boeing 737-700 aircraft for accelerated delivery in the year 2000, and options for six additional Boeing 737-700 aircraft for accelerated delivery in late 2000 and early 2001. In addition, the Company has acquired and placed in service two used Boeing 737 - 300s thus far in 1999. As of July 31, 1999, 15 737-700s are scheduled for delivery in the remainder of 1999, 31 in 2000, 23 in 2001, 21 in 2002, five in 2003, and five in 2004. In addition, the Company has options to purchase up to 62 737-700s during 2003-2006. The Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute 737-600s or 737-800s for the 737-700s scheduled subsequent to 1999. Aggregate funding needed for fixed commitments at July 31, 1999 was approximately \$2,288 million at April 30, 1999 due as follows: \$320.8 million in 1999; \$689.4 million in 2000; \$520.1 million in 2001; \$515.8 million in 2002; \$152.8 million in 2003; and \$89.1 million in 2004.

The Company has various options available to meet its capital and operating commitments, including cash on hand at June 30, 1999 of \$487.6 million, internally generated funds, and a revolving credit line with a group of banks of up to \$475 million (none of which had been drawn at June 30, 1999). In addition, the Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

The Company currently has outstanding shelf registrations for the issuance of \$318.8 million in public debt securities which it may utilize for aircraft financing during 1999 and 2000.

The Company began new service to Raleigh-Durham North Carolina on June 6, 1999, with nonstop service to Baltimore/Washington, Nashville, Chicago Midway, Tampa Bay, and Orlando. The Company recently announced new service to Bradley International Airport in Hartford, Connecticut beginning on October 31, 1999 with daily nonstop service to Baltimore/Washington, Nashville, Chicago Midway, and Orlando.

Year 2000 Readiness Disclosure

The Year 2000 issue results from the fact that many computer programs were previously written using two digits rather than four to define the applicable year. Programs written in this way may recognize a date ending in "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing business delays and disruptions of operations. The Company is following an enterprise-wide Year 2000 program to take the necessary actions to become Year 2000 ready and ensure business continuity now and into the next century. This program encompasses information technology systems as well as embedded technology assets and an assessment of material third-party relationships and associated risks.

The Company's program consists of five phases: identification of all products, services, vendors, etc. to determine if they could potentially be affected by the Year 2000 issue; assessment includes the prioritization of each item according to its significance to the Company's operations and the determination of a strategy for remediation; remediation entails the execution of plans to make an item Year 2000 ready including replacement, modifying computer codes, retirement, or verification of whether or not an item has date codes; testing includes the validation of whether an item is Year 2000 ready by using date simulation techniques; and implementation, which involves putting an item in use in the Company's operations.

FLIGHT SAFETY SYSTEMS The Company has completed all phases of its Year 2000 project as it relates to its aircraft fleet and onboard support systems. The Company does not believe there are any safety issues in regard to these systems and believes they are Year 2000 ready. The Company also utilizes ground computer systems and equipment essential for the maintenance of aircraft and the management of flight operations. All phases of the project with respect to these systems and equipment are essentially completed with the exception of a system which is

dependent on a third party provider's completion of Year 2000 readiness, now scheduled for early fourth quarter.

INTERNAL SYSTEMS The Company's vital and critical internal systems include computer hardware, software, and related equipment for customer reservations, ticketing, flight and crew scheduling, revenue management, accounting functions, and payroll. Also included are non-information systems that support airport activities such as aircraft ground handling, bag handling, and security. Although some of these systems are still currently in the testing phase, virtually all of the Company's vital and critical systems are Year 2000 ready, with the remaining systems expected to be ready by year-end. While all vital and critical systems are expected to be Year 2000 ready by year-end, the Company also believes it has or will have contingency plans in place to ensure there will not be a material disruption in the Company's operations. Additionally, the Company has established procedures to review all new potential vital and critical hardware and software purchases and development to ensure they are Year 2000 ready.

The Company's non-information systems primarily include electrical systems, telephone systems, elevators, security systems, etc. For non-information systems, the Company has performed some internal testing, but has primarily relied on positive assurances it has received from original manufacturers or suppliers of those non-information systems where no date logic is involved.

THIRD PARTIES As part of its Year 2000 assessment, the Company has also considered the compliance of third parties with which the Company has a material relationship, namely its vendors and governmental agencies such as the Federal Aviation Administration ("FAA"). The Company has categorized its third party vendors with respect to their potential impact on Company operations in the event any such third party vendor has Year 2000 issues which are not dealt with on a timely basis. The Company has contacted all of its material third party vendors and is continuing to monitor and evaluate their statements of Year 2000 compliance. The Company has utilized many different methods in obtaining assurances from third parties including questionnaires, written statements, obtaining publicly filed documents, etc., and continually updates information received as new data becomes available. The Company has also visited several of its vital and critical third party vendors for the sole purpose of observing Year 2000 testing and processes. In addition, the Company continues to work with other members of the Air Transport Association, the airline industry trade group, to share information and resources regarding vendors which are common to the entire industry.

The FAA has stated that all of their internal systems, including systems that involve the operation of the nation's air traffic control system, are now fully compliant for the Year 2000. Systems controlled by the FAA are directly involved with air safety, including radar screens and radio transmissions, ground traffic control, airport weather reports, and remote radio beacons.

In management's experience, it is not always possible to obtain written certification of Year 2000 compliance from third party vendors. Accordingly, in such cases, the Company is basing its assessment on its own testing, other materials made available by such vendors, and other publicly available information. The timetables disclosed are all based on the most recent information that has been made available to the Company, including oral and written assurances from third party vendors. The Company does not currently expect any material impact on its operations as a result of third party products; however, this expectation is based on the timeliness and accuracy of those assurances. The Company expects the evaluation and assessment of third parties will be an ongoing process through the balance of 1999.

YEAR 2000 COSTS The Company currently anticipates it will spend approximately \$16 million on Year 2000 compliance, of which approximately \$13.9 million has been spent through June 30, 1999. The majority of the previously expensed amounts have been for third party Year 2000 consultants, full-time associates, and new hardware and software purchases. The Company also purchased Year 2000 hardware and software testing and data aging tools that it has utilized on internal systems. The majority of the remaining expense is expected to be for full-time associates dedicated to the Year 2000 compliance effort. All previous as well as future expenditures on Year 2000 compliance have or will be expensed as incurred from operating cash flow.

RISK OF YEAR 2000 ISSUES The Company believes its project to ensure Year 2000 readiness will be completed in a timely manner and Year 2000 issues will not have a material adverse effect on operations. However, it is possible the Company's or third parties' systems and equipment could fail and result in the reduction or suspension of the Company's operations. This could in turn have a material adverse effect on the Company's operations. The Company currently believes its most likely worst case scenario could involve delays and possibly cancellations of a small percentage of the Company's scheduled flights on the first few days of the Year 2000. This scenario would most likely result from airport delays and other factors out of the Company's control. If delays do happen, however, the Company does not believe they would last for an extended period of time or cause a major disruption in the Company's operations.

The Company has developed contingency plans to deal with situations that occur from time to time in the normal course of business, including weather emergencies, system and power outages, etc. The Company is in the process of augmenting those plans to include plans that deal with different Year 2000 scenarios the Company believes could possibly occur. Contingency plans are being established within each department of the Company to ensure there are minimal internal disruptions in the Company's operations. The Company continues to work closely with each of the airports it serves to ensure all potential Year 2000 related issues are addressed in a timely manner. The Company's senior management meets on a regular basis to discuss the progress of its own Year 2000 effort as well as the status of the airports it serves and its third party vendors.

The costs of the project, the dates on which the Company believes it will complete the Year 2000 modifications and assessments, and the Company's analysis of its risk in this area are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources. There can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area and the ability to locate and correct all relevant computer code, as well as the cooperation needed from third party vendors and others upon whom the Company must rely.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk in the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company received a statutory notice of deficiency from the Internal Revenue Service (the "IRS") in which the IRS proposed to disallow deductions claimed by the Company on its federal income tax returns for the taxable years 1989 through 1991 for the costs of certain aircraft inspection and maintenance procedures. The IRS has proposed similar adjustments to the tax returns of numerous other members of the airline industry. In response to the statutory notice of deficiency, the Company filed a petition in the United States Tax court on October 30, 1997, seeking a determination that the IRS erred in disallowing the deductions claimed by the Company and that there is no deficiency in the Company's tax liability for the taxable years in issue. It is expected that the Tax Court's decision will not be entered for several years. Management believes that the final resolution of this controversy will not have a materially adverse effect upon the results of operations of the Company.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Shareholders was held in Dallas, Texas on Thursday, May 20, 1999. The following matter was voted on at the meeting: An Amendment to the Company's Articles of Incorporation to increase the authorized number of shares of Common Stock was approved by the shareholders. 391,195,518 shares were voted for the amendment; 46,825,422 shares were voted against the amendment; 1,253,571 shares abstained from voting.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

- 12 Calculation of Ratio of Earnings to Fixed Charges
- 27.1 Financial Data Schedule
- 27.2 Restated 1999 Financial Data Schedule
- 27.3 Restated 1998 Financial Data Schedules
- 27.4 Restated 1997 Financial Data Schedule

b) Reports on Form 8-K

None

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.

August 13, 1999
Date

/s/ Gary C. Kelly
Gary C. Kelly
Vice President - Finance and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

INDEX TO EXHIBITS

Exhibit
Number

Exhibit

- 12 Calculation of Ratio of Earnings to Fixed Charges
- 27.1 Financial Data Schedule
- 27.2 Restated 1999 Financial Data Schedule
- 27.3 Restated 1998 Financial Data Schedules
- 27.4 Restated 1997 Financial Data Schedule

SOUTHWEST AIRLINES CO.
CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES
(\$ in millions)

[CAPTION]

<TABLE>

	Six Months Ended June 30			Year Ended December 31,			
	1999	1998	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Earnings							
Income before income taxes and cumulative effect of accounting changes	\$412.7	\$330.6	\$705.1	\$517.0	\$341.4	\$305.1	\$299.5
Add: Fixed charges	91.9	95.3	190.0	198.5	184.1	169.1	141.6
Less: Interest capitalized	16.1	12.7	25.6	19.8	22.3	31.4	26.3
Total	\$488.5	\$413.2	\$869.5	\$695.7	\$503.2	\$442.8	\$414.8
Fixed charges							
Interest expense	\$10.6	\$16.6	\$30.7	\$43.7	\$37.0	\$27.4	\$27.1
Add: Interest capitalized	16.1	12.7	25.6	19.8	22.3	31.4	26.3
Gross interest expense	26.7	29.3	56.3	63.5	59.3	58.8	53.4
Add: Interest factor of operating lease expense	65.2	66.0	133.7	135.0	124.8	110.3	88.2
Total	\$91.9	\$95.3	\$190.0	\$198.5	\$184.1	\$169.1	\$141.6
Ratio of earnings to fixed charges	5.32	4.34	4.58	3.50	2.73	2.62	2.93

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<FN>

On May 20, 1999, the Company's Board of Directors declared a three-for-two stock split on the Company's Common Stock, distributed on July 19, 1999. All per share data in this exhibit have been restated to give effect to the stock split

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<FN>

On May 20, 1999, the Company's Board of Directors declared a three for two stock split on the Company's Common Stock, distributed on July 19, 1999. All per share data in this exhibit have been restated to give effect to the stock split.

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<FN>

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three-for-two split on the Company's
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On May 20, 1999, the Company's Board of Directors declared a three-for-two stock split on the Company's Common Stock, distributed on July 19, 1999. All per share data in this exhibit have been restated to give effect to the stock split.

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