SOUTHWEST AIRLINES CO
Form 8-K
July 18, 2007

Exhibit 99.1

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SOUTHWEST AIRLINES REPORTS SECOND QUARTER EARNINGS;
65th CONSECUTIVE QUARTER OF PROFITABILITY

DALLAS, TEXAS – July 18, 2007 – Southwest Airlines (NYSE:LUV) today reported its second quarter 2007 results. Net income for second quarter 2007 was $278 million, or $.36 per diluted share, compared to $333 million, or $.40 per diluted share, for second quarter 2006. Economic net income for second quarter 2007 was $195 million, or $.25 per diluted share, compared to $273 million, or $.33 per diluted share, for second quarter 2006. The $.25 per diluted share in economic net income exceeds First Call's mean estimate of $.22 per diluted share for second quarter 2007. (Refer to the reconciliation in the accompanying tables for further information regarding economic results.)

Second Quarter 2007 Financial Highlights:

- Record second quarter revenues of $2.6 billion, up 5.5 percent
- Economic net income of $195 million, down 28.6 percent
- Economic net income per diluted share of $.25, down 24.2 percent
- Repurchased 32 million shares of common stock for $464 million

Gary C. Kelly, CEO, stated: "The anticipated decline in our year-over-year second quarter earnings performance reflects a continued rise in fuel costs and difficult unit revenue comparisons. As we recently outlined, specific initiatives are well underway to adapt to higher jet fuel cost levels. Through these initiatives, we believe that we can maintain our low fare, low cost leadership while achieving substantially enhanced incremental revenues over the next several years.

"While we reported record operating revenues of $2.6 billion for the second quarter 2007, our unit revenue production has not kept pace with rising fuel costs. Our operating unit revenue of 10.34 cents fell below the exceptional year ago performance. Although softer revenue trends were consistent throughout the second quarter, demand strengthened somewhat in June, and we reported an all-time record load factor of 82.1 percent for the month. Traffic trends and bookings thus far in July are strong, suggesting unit revenue comparisons for third quarter 2007 will be better year-over-year than second quarter 2007's performance.

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“Our economic fuel cost per gallon of $1.62 was up 14.1 percent from a year ago. Favorable cash settlements resulting from our prudent fuel hedging program were $173 million for second quarter 2007. We have derivative contracts for approximately 90 percent of our third quarter 2007 estimated fuel consumption, capped at an average crude-equivalent price of approximately $51 per barrel (compared to approximately 81 percent at approximately $41 per barrel for third quarter 2006). Based on this derivative position and current market prices, we currently expect our third quarter 2007 economic fuel costs per gallon to be in the $1.70 range. We currently have derivative contracts for approximately 90 percent of our estimated fuel consumption for the fourth quarter 2007 at an average crude-equivalent price of approximately $51 per barrel. We have derivative contracts for approximately 65 percent of our estimated fuel consumption in 2008 at an average crude-equivalent price of $49 per barrel.

“Excluding fuel, second quarter 2007 economic unit costs decreased 1.2 percent from a year ago, primarily due to lower profitsharing expense. While our Employees have done a commendable job improving efficiency, we must persistently find ways to control costs, including salaries, wages, and benefits, due to continual increases in jet fuel prices. As such, we recently offered certain Employees a voluntary early-out program. Employees eligible under this program must make their election to participate by August 10, 2007. Excluding any charge from this program, we currently expect our third quarter 2007 economic unit costs, excluding fuel, to exceed third quarter 2006’s 6.38 cents.

“We look forward to resuming service to San Francisco International Airport on August 26th. We are also very pleased with Customer response to our continued growth in key markets such as Denver, Ft. Myers, New Orleans, Philadelphia, Pittsburgh, and Washington Dulles. We are elated with the strong Customer demand for our new low fare service added to and from Dallas Love Field as a result of the Wright Amendment Reform Act of 2006, which increased second quarter 2007 revenues by almost $30 million.

"Our estimated year-over-year available seat mile (ASM) growth for third quarter 2007 is eight percent. However, in our continuing efforts to restore profit growth, we have adjusted both our fourth quarter 2007 and full year 2008 capacity plans to grow ASMs year-over-year by approximately six percent, or about two percentage points slower than previously planned.

"Prior to adjusting our growth rate, we had 34 737-700 aircraft (33 firm and one option) scheduled for delivery from Boeing in 2008. Now, we plan to grow our fleet by 19 aircraft, 15 fewer than originally planned. We have an agreement with Boeing to defer five of our 2008 deliveries (four firm and one option) to firm orders in 2013, resulting in 29 firm aircraft deliveries from Boeing next year. In addition to deferring five of the 2008 Boeing deliveries, we are currently exploring a variety of alternatives to reduce our fleet growth by another ten aircraft in 2008, which will bring our 2008 planned additions to 19 net aircraft. As part of the agreement with Boeing, we have also agreed to exercise 25 737-700 options (including the one 2008 deferred option) originally scheduled for 2008 through 2011 for delivery in 2013 and 2014, bringing our firm orders from 2008 through 2014 to 106. In addition, we have 86 options, with delivery positions available in 2009 through 2012, and 54 purchase rights for delivery through December 31, 2014. (See accompanying Revised 737-700 Delivery Schedule).

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"Although we face earnings challenges, primarily due to escalating fuel costs, we are confident in our future and the Employees of Southwest Airlines. We remain dedicated to upholding our high Customer Satisfaction record and are proud that we were recently recognized by *City Business Journals Network* as the #1 Brand in the travel segment of the 2007 American Brand Excellence Awards. Southwest Airlines was also named the top U.S. airline on the University of Michigan's American Customer Satisfaction Index, as we have been every year since the index began in 1994."

Southwest will discuss its second quarter 2007 results on a conference call at 11:30 a.m. Eastern Time today. A live broadcast of the conference call will be available at http://www.southwest.com/?src=IR_071807.

Operating Results

Total operating revenues for second quarter 2007 increased 5.5 percent to $2.58 billion, compared to $2.45 billion for second quarter 2006. Total second quarter 2007 operating expenses were $2.26 billion, compared to $2.05 billion in second quarter 2006. Operating income for second quarter 2007 was $328 million compared to $402 million in second quarter 2006. Economic operating income was $328 million in second quarter 2007 compared to $429 million last year.

"Other income" was $119 million for second quarter 2007, compared to $113 million for second quarter 2006. The $6 million increase primarily resulted from unrealized "other (gains) losses" associated with Statement of Financial Accounting Standard (SFAS) 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The cost of the hedging program (which includes the premium costs of derivative contracts) of $14 million in second quarter 2007 and $12 million in second quarter 2006 is also included in "other (gains) losses."

The second quarter 2007 income tax rate of 37.8 percent was higher than last year's second quarter rate of 35.3 percent, which reflected a $13 million net adjustment to reduce deferred taxes related to a revision in the State of Texas Franchise Tax law enacted during second quarter 2006.

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Net cash provided by operations for the six months ended June 30, 2007 was $1.6 billion, which included a $535 million increase in fuel derivative collateral deposits related to future periods, and capital expenditures were $663 million. The Company repurchased 32 million shares of its common stock for $464 million during the second quarter, of which $291 million, or 20 million shares, completed the $300 million repurchase authorization in March by the Company’s Board of Directors. The remaining $173 million related to the $500 million repurchase program authorized in May. As of yesterday, the Company had repurchased 20 million shares of its common stock for a total of $295 million under this latest authorization. This brings the total repurchases of common stock to $1.6 billion, or 102 million shares, since January 1, 2006.

The Company ended second quarter 2007 with $2.1 billion in cash and short-term investments, which included $1.1 billion in fuel derivative collateral deposits. In addition, the Company had a fully available unsecured revolving credit line of $600 million. The Company will repay approximately $100 million in debt during third quarter 2007.

Total operating revenues for the six months ended June 30, 2007 increased 7.0 percent to $4.78 billion, while total operating expenses increased 10.1 percent to $4.37 billion, resulting in operating income in first half 2007 of $412 million versus $500 million in first half 2006. Economic operating income was $398 million and $544 million, respectively, for the six months ended June 30, 2007 and 2006. Net income for the six months ended June 30, 2007 was $371 million, or $.47 per diluted share, compared to $394 million, or $.47 per diluted share, for the same period last year. Economic net income for the six months ended June 30, 2007 was $228 million, or $.29 per diluted share, compared to $338 million, or $.41 per diluted share, for the same period last year.

This news release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Specific forward-looking statements include, without limitation, statements relating to the Company's results of operations and its growth plans and related initiatives, strategies, and revenues expectations. These forward-looking statements are based on the Company's current intent, expectations, and projections and are not guarantees of future performance. These statements involve risks, uncertainties, assumptions, and other factors that are difficult to predict and that could cause actual results to vary materially from those expressed in or indicated by them. Factors include, among others, (i) the price and availability of aircraft fuel; (ii) the Company's ability to timely and effectively prioritize its revenues initiatives and its related ability to timely implement and maintain the necessary information technology systems and infrastructure to support these initiatives; (iii) the extent and timing of the Company’s investment of incremental operating expenses and capital expenditures to develop and implement its initiatives and its corresponding ability to effectively control its operating expenses; (iv) the Company's dependence on third party arrangements to assist with the implementation of certain of its initiatives; (v) competitor capacity and load factors; and (vi) other factors, as described in the Company's filings with the Securities and Exchange Commission, including the detailed factors discussed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, and subsequent filings with the Securities and Exchange Commission. 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 news release.

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SOUTHWEST AIRLINES CO.
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(in millions except per share amounts)
(unaudited)

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Percent Change	**2007**	2006	Percent Change
OPERATING REVENUES:						
Passenger	**$ 2,475**	$ 2,362	4.8	**$ 4,587**	$ 4,300	6.7
Freight	**33**	38	(13.2)	**63**	74	(14.9)
Other	**75**	49	53.1	**131**	95	37.9
Total operating revenues	**2,583**	2,449	5.5	**4,781**	4,469	7.0
OPERATING EXPENSES:						
Salaries, wages, and benefits	**814**	786	3.6	**1,581**	1,502	5.3
Fuel and oil	**607**	518	17.2	**1,171**	1,019	14.9
Maintenance materials and repairs	**154**	119	29.4	**291**	224	29.9
Aircraft rentals	**40**	39	2.6	**79**	80	(1.3)
Landing fees and other rentals	**140**	126	11.1	**276**	246	12.2
Depreciation and amortization	**137**	127	7.9	**272**	250	8.8
Other operating expenses	**363**	332	9.3	**699**	648	7.9
Total operating expenses	**2,255**	2,047	10.2			