

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
March 31, 1995 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) 904-4000
(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 May 9, 1995:

143,579,198

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>

	March 31, 1995	December 31, 1994
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$172,749	\$174,538
Accounts receivable	96,589	75,692
Inventories of parts and supplies	36,927	37,565
Deferred income taxes	9,822	9,822
Prepaid expenses and other	21,265	17,281
Total current assets	337,352	314,898
Property and equipment:		
Flight equipment	2,753,427	2,564,551
Ground property and equipment	403,212	384,501
Deposits on flight equipment purchase contracts	388,805	393,749
	3,545,444	3,342,801
Less allowance for depreciation	878,842	837,838
	2,666,602	2,504,963
Other assets	3,798	3,210

	\$3,007,752	\$2,823,071
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$137,843	\$117,599
Accrued liabilities	296,371	288,979
Air traffic liability	158,500	106,139
Income taxes payable	1,644	
Current maturities of long-term debt	12,841	9,553
Total current liabilities	607,199	522,270
Long-term debt less current maturities	675,949	583,071
Deferred income taxes	237,288	232,850
Deferred gains from sale and leaseback of aircraft	211,371	217,677
Other deferred liabilities	24,305	28,497
Stockholders' equity:		
Common Stock	143,477	143,256
Capital in excess of par value	154,067	151,746
Retained earnings	954,096	943,704
Total stockholders' equity	1,251,640	1,238,706
	\$3,007,752	\$2,823,071

</TABLE>

See accompanying notes.

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

<TABLE>

<CAPTION>

		Three months ended March 31	
		1995	1994
<S>	<C>		<C>
Operating revenues:			
Passenger	\$596,828		\$597,002
Freight	14,885		12,799
Other	9,286		9,611
Total operating revenues	620,999		619,412
Operating expenses:			
Salaries, wages, and benefits	203,572		177,915
Fuel and oil	83,176		74,970
Maintenance materials and repairs	51,673		49,902
Agency commissions	29,515		34,538
Aircraft rentals	38,415		30,825
Landing fees and other rentals	40,533		36,124
Depreciation	37,347		32,476
Other operating expenses	113,359		106,616
Total operating expenses	597,590		543,366
Operating income	23,409		76,046
Other expenses (income):			
Interest expenses	13,686		13,979
Capitalization interest	(8,485)		(5,509)
Interest income	(1,892)		(2,114)
Nonoperating losses, net	66		152
Total other expenses	3,375		6,508
Income before income taxes	20,034		69,538
Provision for income taxes	8,208		27,691
Net income	\$11,826		\$41,847
Weighted average common and common equivalent shares outstanding			
	146,532		147,600
Net income per common and common equivalent share			
	\$.08		\$.28

</TABLE>

See accompanying notes.

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

<TABLE>

<CAPTION>

Three months ended March 31

<S>	1995 <C>	1994 <C>
Net cash provided by operating activities	\$104,411	\$122,594
Cash flows from investing activities:		
Net purchases of property and equipment	(201,274)	(121,265)
Cash flows from financing activities:		
Issuance of long-term debt	98,811	
Payment of long-term debt and capital lease obligations	(3,412)	(57,867)
Payment of cash dividends	(2,867)	(1,428)
Proceeds from Employee stock plans	2,542	2,644
Net cash provided by financing activities	95,074	(56,651)
Net (decrease) in cash and cash equivalents	(1,789)	(55,322)
Cash and cash equivalents at beginning of period	174,538	295,571
Cash and cash equivalents at end of period	\$172,749	\$240,249
Cash payments for:		
Interest, net of amount capitalized	\$13,213	\$16,734
Income taxes	\$1,831	\$9,196

</TABLE>

See accompanying notes.

SOUTHWEST AIRLINES CO.
Notes to Condensed Consolidated Financial Statements

1. Basis of presentation - The accompanying unaudited condensed consolidated financial statements 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 March 31, 1995 and 1994 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 months ended March 31, 1995 are not necessarily indicative of the results that may be expected for the year ended December 31, 1995. 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, 1994.

2. Dividends - During the three-month periods ended March 31, 1995 and 1994, \$.01 per share in dividends were declared on the 143,411,223 and 142,856,850 shares of common stock then outstanding, respectively.

3. Long-term Debt - During March 1995, the Company issued \$100 million of 8% senior unsecured notes due March 2005. Interest on the Notes is payable semi-annually on March 1 and September 1, commencing September 1, 1995. The Notes may not be

redeemed prior to maturity.

4. Leases - Subsequent to the end of first quarter 1995, the Company completed a transaction for the sale and leaseback of six new Boeing 737 aircraft. The lease terms, which require periodic lease payments through 2019, increased the Company's commitments for operating leases by \$371 million.

5. Reclassifications - Certain prior year amounts have been reclassified for comparison purposes.

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

Material Changes in Results of Operations

Consolidated net income for the first quarter ended March 31, 1995 was \$11.8 million (\$.08 per share), compared to first quarter 1994 net income of \$41.8 million (.28 per share).

First quarter 1995 operating revenues were \$621.0 million, compared to \$619.4 million for first quarter 1994. Revenue passenger miles (RPMs) increased 3.3 percent in first quarter 1995, compared to a 13.0 percent increase in available seat miles (ASMs), resulting in a load factor of 61.1 percent versus the first quarter 1994 load factor of 66.9 percent. The passenger revenue yield per RPM decreased 3.2 percent to \$.1146 from \$.1184 in first quarter 1994. The decline in load factor and yield was principally caused by aggressive industry fare sales; increased shorthaul, low-fare competition; reservation system capacity constraints; and our own aggressive expansion. The Company expects second quarter 1995 load factors and RPM yields to continue to lag 1994 levels; however, the year over year comparisons should improve as a result of the following recent developments:

1. Significant enhancements to our reservation system were completed during first quarter 1995 and it is now operating exceptionally well.
2. Our yields per RPM have improved significantly since fourth quarter 1994, supported by modest fare increases.
3. In the aggregate, our new markets are developing very well with extremely high load factors and steadily improving yields per RPM.
4. The expansion of shorthaul, low-fare competition in our markets has stabilized, and, in some cases receded. Continental Airlines recently announced it will discontinue its Continental Lite product.

Freight revenues increased 16.3 percent in the first quarter of 1995 as compared to the same period in 1994, due to an increase in air freight and United States mail services. Other revenues decreased 3.4 percent in the first quarter 1995, primarily due to higher charter activity at Morris in first quarter 1994.

Operating expenses per ASM for first quarter 1995 decreased 2.8 percent to \$.0701, compared to \$.0721 for first quarter 1994, primarily due to lower agency commissions and profitsharing expenses.

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

<TABLE>
<CAPTION>

	Three months ended March 31,			
	1995	1994	Increase (Decrease)	Percent Change
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.27	2.14	.13	6.1
Profitsharing and Employee savings plans	.12	.22	(.10)	(45.5)
Fuel and oil	.98	.99	(.01)	(1.0)
Maintenance materials and repairs	.61	.66	(.05)	(7.6)
Agency commissions	.34	.46	(.12)	(26.1)
Aircraft rentals	.45	.41	.04	9.8

Landing fees and other rentals	.47	.48	(.01)	(2.1)
Depreciation	.44	.43	.01	2.3
Other operating expenses	1.33	1.42	(.09)	(6.3)
Total	7.01	7.21	(.20)	(2.8)

</TABLE>

Salaries, wages, and benefits per ASM increased 6.1 percent in first quarter 1995. This increase resulted primarily from increased headcount necessary to transition Morris operational functions, which in some instances were performed by outside vendors, to Southwest.

Fleet service employees are subject to an agreement with the Ramp, Operations and Provisioning Association, which became amendable in December 1994 and is currently in negotiation.

Profitsharing and Employee savings plan expenses per ASM decreased 45.5 percent from first quarter 1994 to first quarter 1995, primarily due to lower earnings available for profitsharing in 1995.

Fuel and oil expenses per ASM decreased 1.0 percent in first quarter 1995 due to a 1.5 percent decrease in the average jet fuel cost per gallon from the same period in 1994. The average price paid for jet fuel in first quarter 1995 was \$.5309 per gallon, as compared to \$.5391 per gallon in first quarter 1994. Since the end of first quarter 1995, fuel prices have averaged approximately \$.5250 per gallon.

Maintenance materials and repairs per ASM decreased 7.6 percent for the three months ended March 31, 1995 as compared to the corresponding period of the prior year. The decrease was primarily due to higher maintenance costs incurred in first quarter 1994 as a result of the Morris acquisition.

Agency commissions per ASM decreased 26.1 percent for the first quarter of 1995 as compared to the first quarter of 1994, primarily due to lower revenue per ASM and a lower mix of travel agency sales. The lower travel agency sales mix resulted from 1994 and first quarter 1995 enhancements to Southwest's ticket delivery systems for direct Customers, as described below.

In response to actions taken by our competitor-owned reservations systems, we reduced our operating costs and enhanced our ticket delivery systems by developing our own Southwest Airlines Air Travel ("SWAT") system, allowing high-volume travel agents direct access to reservations; introduced overnight ticket delivery for travel agents; reduced to three the number of advance days reservations required for overnight delivery of tickets to customers (Ticket By Mail); developed our own Ticketless system, which was rolled out system-wide on January 31, 1995; and effective March 30, 1995, subscribed to a new level of service with SABRE that allows SABRE travel agencies to electronically access our reservation system. We also continue to actively pursue other cost-effective solutions for automating non-SABRE travel agency bookings.

Aircraft rentals per ASM increased 9.8 percent for the first quarter of 1995 as compared to the first quarter of 1994. During both first quarter 1995 and 1994, approximately 43 percent of the Company's fleet was subject to operating leases. However, 63 percent of the 1995 leased aircraft are 737-300s, compared to 58 percent in 1994. The newer 737-300 aircraft have higher per aircraft lease rates than older 737-200s.

Other operating expenses per ASM decreased 6.3 percent for the three months ended March 31, 1995 as compared to the same period ended March 31, 1994. These decreases were primarily due to operating efficiencies resulting from the transition of Morris operational functions to Southwest, commencing first quarter 1994, offset by higher advertising and promotional costs associated with the roll out of ticketless travel and the addition of one new city, Omaha, Nebraska, in first quarter 1995.

Other expenses (income) decreased \$3.1 million (48.1 percent) from first quarter 1994 to first quarter 1995, due to a 54.0 percent increase in capitalized interest primarily associated with aircraft progress payments.

Material Changes in Financial Condition

Net cash provided by operating activities was \$104.4 million

for the three months ended March 31, 1995. During March 1995, the Company generated additional funds of \$98.8 million from the issuance of \$100 million of 8 percent senior unsecured debt due March 2005. During the 12 months ended March 31, 1995, cash of \$394.5 million was provided from operations. This cash was primarily used to finance aircraft-related capital expenditures and provide working capital.

During the 12 months ended March 31, 1995, net capital expenditures were \$868.7 million, which primarily related to the purchase of 22 737-300 aircraft, including 20 new, one used, and one previously leased aircraft, and progress payments for future aircraft deliveries.

As of March 31, 1995, the Company had 3,750,000 shares available from a 1990 authorization by its Board of Directors to purchase shares of its common stock from time-to-time on the open market. No shares have been purchased since 1990.

The Company's contractual commitments consist primarily of scheduled aircraft acquisitions. Twenty 737-300s are scheduled for delivery in the remainder of 1995, 18 in 1996, and ten in 1997. Four 737-700s are scheduled for delivery in 1997, 16 in 1998, 16 in 1999, 15 in 2000, and 12 in 2001. In addition, the Company has options to purchase up to eleven 737-300s in 1997 and up to sixty-three 737-700s during 1998-2004. The Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute 737-400s or 737-500s for the 737-300s to be delivered during 1997 and 737-600s or 737-800s for the 737-700s delivered subsequent to 1999. Aggregate funding needed for these commitments was approximately \$2,912.6 million at March 31, 1995 due as follows: \$472.5 million in 1995; \$489.5 million in 1996; \$447.8 million in 1997; \$445.4 million in 1998; \$452.9 million in 1999; \$366.0 million in 2000; and \$238.5 million in 2001.

The Company has various options available to meet its capital and operating commitments, including cash on hand at March 31, 1995 of \$172.7 million, \$191.7 million from the April 1995 sale/leaseback of six new 737-300 aircraft, internally generated funds, and a \$300 million unused revolving credit line with a group of banks. In addition, the Company will also consider various borrowing or leasing options to maximize earnings and supplement cash requirements.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company has received examination reports from the Internal Revenue Service proposing certain adjustments to Southwest's income tax returns for 1987 through 1991. The adjustments relate to certain types of aircraft financings consummated by Southwest, as well as other members of the aviation industry, during that time period. Southwest intends to vigorously protest the adjustments made with which it does not agree. The industry's difference with the IRS involves complex issues of law and fact which are likely to take a substantial period of time to resolve. Management believes that final resolution of such protest will not have a materially adverse effect upon the results of operations of Southwest.

Item 2. Changes in Securities

None

Item 3. Defaults upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

(11) Computation of Earnings Per Share

(27) Financial Data Schedule

b) Reports on Form 8-K

The following reports on Form 8-K were filed during the quarter:

(i) Form 8-K dated February 27, 1995, filed for the purpose of filing the following exhibits:

12 Calculation of Ratio of Earnings to Fixed Charges
23 Consent of Independent Auditors
99.1 Consolidated Financial Statements
99.2 Report of Independent Auditors
99.3 Management's Discussion and Analysis of Results of Operations and Financial Condition
99.4 Financial Data Schedule

(ii) Form 8-K dated March 3, 1995, filed for the purpose of filing the following exhibits:

1.1 Terms Agreement dated February 28, 1995 between the Company and Solomon Brothers Inc, Lehman Brothers, and Merrill Lynch, Pierce, Fenner & Smith Incorporated
4.1 Form of Global Security representing 8% Notes due 2005

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.

<TABLE>	<C>
<S>	/s/ Gary C. Kelly
May 10, 1995	Gary C. Kelly
Date	Vice President - Finance and
	Chief Financial Officer
	(Principal Financial and
	Accounting Officer)
</TABLE>	

INDEX TO EXHIBITS

<TABLE>	
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Exhibit	
Number	Exhibit
<S>	<C>
(11)	Computation of Earnings Per Share
(27)	Financial Data Schedule
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Southwest Airlines Company
Computation of Earnings Per Share
For the Three Months Ended March 31, 1995

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	Primary	Fully Diluted
<S>	<C>	<C>
Weighted average shares outstanding	146,367,603	143,367,603
Shares issuable upon exercise of outstanding stock options (treasury stock method)	3,164,628	3,164,628
Weighted average common and common equivalent shares	146,532,231	146,532,231
Earnings for per share computations	\$11,826,000	\$11,826,000
Earnings per common and common equivalent share	\$0.08	\$0.08

</TABLE>

Southwest Airlines Company
Computation of Earnings Per Share
For the Three Months Ended March 31, 1994

<TABLE>
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	Primary	Fully Diluted
<S>	<C>	<C>
Weighted average shares outstanding	142,858,363	142,858,363
Shares issuable upon exercise of outstanding stock options (treasury stock method)	4,741,909	4,743,379
Weighted average common and common equivalent shares	147,600,272	147,601,742
Earnings for per share computations	\$41,847,000	\$41,847,000
Earnings per common and common equivalent share	\$0.28	\$0.28

</TABLE>