

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, 1996 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, 1996:

144,706,891

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, 1996	December 31, 1995
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$324,680	\$317,363
Accounts receivable	97,473	79,781
Inventories of parts and supplies	47,940	41,032
Deferred income taxes	10,931	10,476
Prepaid expenses and other	21,936	24,484
Total current assets	502,960	473,136
Property and equipment:		
Flight equipment	3,176,248	3,024,702
Ground property and equipment	451,017	435,822
Deposits on flight equipment purchase contracts	289,698	323,864
	3,916,963	3,784,388

Less allowance for depreciation	1,054,191	1,005,081
	2,862,772	2,779,307
Other assets	3,559	3,679
	\$3,369,291	\$3,256,122
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$125,891	\$117,473
Accrued liabilities	346,161	348,476
Air traffic liability	198,426	131,156
Current maturities of long-term debt	11,448	13,516
Total current liabilities	681,926	610,621
Long-term debt less current maturities	657,263	661,010
Deferred income taxes	293,600	281,650
Deferred gains from sale and leaseback of aircraft	239,638	245,154
Other deferred liabilities	30,592	30,369
Stockholders' equity:		
Common Stock	144,574	144,033
Capital in excess of par value	169,706	162,704
Retained earnings	1,151,992	1,120,581
Total stockholders' equity	1,466,272	1,427,318
	\$3,369,291	\$3,256,122

</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, 1996	1995
<S>	<C>	<C>
Operating revenues:		
Passenger	\$741,100	\$596,828
Freight	18,980	14,885
Other	12,449	9,286
Total operating revenues	772,529	620,999
Operating expenses:		
Salaries, wages, and benefits	237,365	203,572
Fuel and oil	103,867	83,176
Maintenance materials and repairs	62,199	51,673
Agency commissions	31,826	29,515
Aircraft rentals	44,997	38,415
Landing fees and other rentals	45,443	40,533
Depreciation	44,014	37,347
Other operating expenses	145,425	113,359
Total operating expenses	715,136	597,590
Operating income	57,393	23,409
Other expenses (income):		
Interest expense	14,902	13,686
Capitalized interest	(6,904)	(8,485)
Interest income	(4,053)	(1,892)
Nonoperating (gains) losses, net	(1,323)	66
Total other expenses	2,622	3,375
Income before income taxes	54,771	20,034
Provision for income taxes	21,771	8,208
Net income	\$33,000	\$11,826

Weighted average common and common equivalent shares outstanding	152,403	146,532
Net income per common and common equivalent share	\$.22	\$.08

</TABLE>

see accompanying notes

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

<TABLE>
<CAPTION>

	Three months ended March 31,	
	1996	1995
<S>	<C>	<C>
Net cash provided by operating activities	\$141,715	\$104,411
Cash flows from investing activities:		
Net purchases of property and equipment	(132,354)	(201,274)
Cash flows from financing activities:		
Issuance of long-term debt	-	98,811
Payment of long-term debt and capital lease obligations	(6,558)	(3,412)
Payment of cash dividends	(3,029)	(2,867)
Proceeds from Employee stock plans	7,543	2,542
Net cash (used in) provided by financing activities	(2,044)	95,074
Net increase (decrease) in cash and cash equivalents	7,317	(1,789)
Cash and cash equivalents at beginning of period	317,363	174,538
Cash and cash equivalents at end of period	\$324,680	\$172,749
Cash payments for:		
Interest, net of amount capitalized	\$17,434	\$13,213
Income taxes	\$396	\$1,831

</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, 1996 and 1995 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, 1996 are not necessarily indicative of the results that may be expected for the year ended December 31, 1996. 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, 1995.

2. Dividends - During the three month periods ended March 31, 1996 and 1995, \$.01 per share in dividends were declared on the 144,452,894 and 143,411,223 shares of common stock then outstanding, respectively.

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, 1996 was \$33.0 million (\$.22 per share), compared to first quarter 1995 net income of \$11.8 million (\$.08 per share). The increase in earnings was principally due to increased passenger revenues resulting from year-over-year increases in revenue passenger miles (RPMs) and passenger revenue yield per RPM.

First quarter 1996 operating revenues increased 24.4 percent compared to first quarter 1995 due to a 24.2 percent increase in passenger revenues. The increase in passenger revenues resulted from a 12.1 percent increase in RPMs and a 10.8 percent increase in passenger revenue yield per RPM. Passenger revenue yield per RPM increased from \$.1146 in first quarter 1995 to \$.1270 in first quarter 1996, the majority of which was due to the expiration of the ten percent domestic ticket tax at December 31, 1995.

While RPMs in first quarter 1996 increased 12.1 percent, available seat miles (ASMs) increased 13.1 percent during the same period, resulting in a load factor of 60.5 percent versus 61.1 percent for the first three months of 1995. The increase in ASMs resulted primarily from the addition of 25 aircraft since first quarter 1995. The first quarter 1996 load factor was adversely affected, in part, by severe winter weather conditions in January.

The load factor for April 1996 was 64.7 percent, compared to the April 1995 load factor of 66.0 percent. This lower load factor for April 1996 was offset by a strong passenger revenue yield, which has continued to compare favorably on a year over year basis. Traffic thus far in May and bookings for the remainder of second quarter, at this point, are good. Yield per RPM should continue to exceed year ago levels, although at a lower rate of growth than first quarter 1996. (The immediately preceding two sentences are forward-looking statements which involve 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, the reimposition of the federal excise tax or its equivalent, and variations in advance booking trends.)

Freight revenues increased 27.5 percent in the first quarter of 1996 as compared to the same period in 1995, due to an increase in air freight and United States mail services. Other revenues increased 34.1 percent in the first quarter 1996, primarily due to higher charter activity.

Operating expenses per ASM for first quarter 1996 increased 5.8 percent to \$.0742, compared to \$.0701 for first quarter 1995, primarily due to higher jet fuel prices; the recently implemented jet fuel tax; a \$7.5 million increase in Profitsharing and Employee savings plan contributions; advertising and other start-up costs associated with the addition of Tampa, Ft. Lauderdale, and Orlando, Florida; and increased aircraft engine overhaul costs.

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

<TABLE>
<CAPTION>

Three months ended
March 31,

Increase Percent

<S>	1996 <C>	1995 <C>	(decrease) <C>	change <C>
Salaries, wages, and benefits	2.28	2.27	.01	.4
Employee profitsharing and savings plans	.19	.12	.07	58.3
Fuel and oil	1.08	.98	.10	10.2
Maintenance materials and repairs	.64	.61	.03	4.9
Agency commissions	.33	.34	(.01)	(2.9)
Aircraft rentals	.47	.45	.02	4.4
Landing fees and other rentals	.47	.47	-	-
Depreciation	.45	.44	.01	2.3
Other operating expenses	1.51	1.33	.18	13.5
Total	7.42	7.01	.41	5.8

</TABLE>

Profitsharing and Employee savings plan expenses per ASM increased 58.3 percent from first quarter 1995 to first quarter 1996, primarily due to higher earnings available for profitsharing in 1996.

Fuel and oil expense per ASM increased 10.2 percent in first quarter 1996 due to an 11.4 percent increase in the average jet fuel cost per gallon from the same period in 1995. The escalation in fuel prices was caused by oil industry efforts to maintain low inventory levels in the face of Iraq's return to the market, coupled with high demand for heating oil and winter diesel as a result of a prolonged cold weather period. The average price paid for jet fuel in first quarter 1996 was \$.5913 per gallon, compared to \$.5309 per gallon in first quarter 1995. Since the end of first quarter 1996, fuel prices have averaged approximately \$.6475 per gallon. Based on current fuel prices, anticipated summer demand and present oil industry inventory levels, the Company expects that second quarter 1996 fuel costs will continue to exceed year ago levels. This forward-looking statement involves uncertainties that could result in actual results differing materially from expected results. Some of the significant factors that could affect ultimate fuel costs include changes in general economic conditions and jet fuel supply and demand.

Maintenance materials and repairs per ASM increased 4.9 percent for the three months ended March 31, 1996 as compared to the corresponding period of the prior year. The increase was primarily due to performing more aircraft engine overhauls in first quarter 1996.

Agency commissions per ASM decreased 2.9 percent for the first quarter of 1996 as compared to the first quarter of 1995, primarily due to a lower mix of travel agency sales. The year-over-year travel agency sales mix continued to be impacted, although less significantly than previous quarters, by 1994 and first quarter 1995 enhancements to Southwest's ticket delivery systems for direct Customers, as described below.

In response to actions taken in 1994 by our competitor-owned reservations systems, during 1994 and first quarter 1995, 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 automates the booking process for SABRE travel agencies. We also continue to actively pursue other cost-effective solutions for automating non-SABRE travel agency bookings, such as direct bookings through the Internet which became available via Southwest Airlines' "Home Gate" in April 1996.

Aircraft rentals per ASM increased 4.4 percent for first quarter 1996 as compared to first quarter 1995 due to a higher percentage of the fleet consisting of leased aircraft in 1996.

Other operating expenses per ASM increased 13.5 percent for the three months ended March 31, 1996 as compared to the same period in 1995. This increase was primarily due to the recently implemented jet fuel tax, which resulted in approximately \$7.5 million of additional expense in first quarter, and a 21.7 percent per ASM increase in advertising expense associated with the addition of service to Tampa, Ft. Lauderdale, and Orlando, Florida.

Other expenses (income) decreased \$753,000 (22.3 percent) from first quarter 1995 to first quarter 1996, due primarily to interest income on higher invested cash balances.

Material Changes in Financial Condition

Net cash provided by operating activities was \$141.7 million for the three months ended March 31, 1996 and \$493.7 million for the 12 months then ended. This cash was primarily used to finance aircraft-related capital expenditures and provide working capital.

During the 12 months ended March 31, 1996, net capital expenditures were \$659.7 million, which primarily related to the purchase of 23 737-300 aircraft, and progress payments for future aircraft deliveries.

As of March 31, 1996 and since 1990, the Company had authority from its Board of Directors to purchase 3,750,000 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. Fifteen 737-300s are scheduled for delivery in the remainder of 1996, and seventeen 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 sixty-seven 737-700s during 1998-2004. The Company has the option, which must be exercised two years prior to the contractual delivery date, to substitute 737-600s or 737-800s for the 737-700s delivered subsequent to 1999. Aggregate funding needed for these commitments was approximately \$2,513.0 million at March 31, 1996 due as follows: \$362.0 million in 1996; \$575.4 million in 1997; \$446.9 million in 1998; \$551.2 million in 1999; \$351.0 million in 2000; and \$226.5 million in 2001.

The Company has various options available to meet its capital and operating commitments, including cash on hand at March 31, 1996 of \$324.7 million, internally generated funds, and a revolving credit line with a group of banks of up to \$460 million (none of which had been drawn at March 31, 1996). 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 \$260.6 million public debt securities which it currently intends to substantially utilize for aircraft financings during the remainder of 1996.

The lapse of the ten percent domestic ticket tax and its presumed reinstatement, proposed deferral or elimination of the jet fuel tax, and looming prospect of FAA reform present uncertainty for 1996 and future periods. At the current time, Southwest is unable to predict how these issues will be resolved and what impact, if any, resolution of these uncertainties will have on future operating results or financial condition.

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. This forward-looking statement is based on management's current understanding of the relevant law and facts; it is subject to various contingencies including the views of legal counsel, changes in the IRS' position, the

potential cost and risk associated with litigation and the actions of the IRS, judges and juries.

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

(11.1) Computation of Earnings Per Share

(27) Financial Data Schedule

b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter.

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>

<S>	<C>
May 13, 1996	/s/ Gary C. Kelly
Date	Gary C. Kelly
	Vice President - Finance and
	Chief Financial Officer
	(Principal Financial and
	Accounting Officer)

</TABLE>

INDEX TO EXHIBITS

<TABLE>

<CAPTION>

Exhibit Number	Exhibit
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<S>	<C>
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(11.1)	Computation of Earnings Per Share
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(27)	Financial Data Schedule
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</TABLE>

Southwest Airlines Co.
Computation of Earnings Per Share
For the Three Months Ended March 31, 1996

<TABLE>

<CAPTION>

	Primary	Fully Diluted
<S>	<C>	<C>
Weighted average shares outstanding	144,315,573	144,315,573
Shares issuable upon exercise of outstanding stock options (treasury stock method)	8,087,207	9,133,447
Weighted average common and common equivalent shares	152,402,780	153,449,020
Earnings for per share computations	\$33,000,000	\$33,000,000
Earnings per common and common equivalent share	\$0.22	\$0.22

</TABLE>

EXHIBIT (11.1)

Page 2 of 2

Southwest Airlines Co.
Computation of Earnings Per Share
For the Three Months Ended March 31, 1995

<TABLE>

<CAPTION>

	Primary	Fully Diluted
<S>	<C>	<C>
Weighted average shares outstanding	143,367,603	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

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