

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, 1997 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 May 12, 1997:

145,583,242

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, 1997	December 31, 1996
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$652,412	\$581,841
Accounts receivable	84,493	73,440
Inventories of parts and supplies	50,171	51,094
Deferred income taxes	11,796	11,560
Prepaid expenses and other	24,245	33,055
Total current assets	823,117	750,990
Property and equipment:		
Flight equipment	3,543,020	3,435,304
Ground property and equipment	538,358	523,958
Deposits on flight equipment		
purchase contracts	188,924	198,366
	4,270,302	4,157,628
Less allowance for depreciation	1,240,253	1,188,405
	3,030,049	2,969,223
Other assets	4,079	3,266
	\$3,857,245	\$3,723,479

LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:

Accounts payable	\$143,718	\$214,232
Accrued liabilities	397,821	380,747
Air traffic liability	184,178	158,098
Income taxes payable	17,517	-
Current maturities of long-term debt	18,192	12,327
Total current liabilities	761,426	765,404
Long-term debt less current maturities	739,188	650,226
Deferred income taxes	358,013	349,987
Deferred gains from sale and leaseback of aircraft	270,281	274,891
Other deferred liabilities	28,465	34,659
Stockholders' equity:		
Common stock	145,415	145,112
Capital in excess of par value	183,632	181,650
Retained earnings	1,370,825	1,321,550
Total stockholders' equity	1,699,872	1,648,312
	\$3,857,245	\$3,723,479

</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,	
	1997	1996
<S>	<C>	<C>
Operating revenues:		
Passenger	\$849,106	\$741,100
Freight	21,354	18,980
Other	16,635	12,449
Total operating revenues	887,095	772,529
Operating expenses:		
Salaries, wages, and benefits	265,794	237,365
Fuel and oil	134,075	103,867
Maintenance materials and repairs	57,238	62,199
Agency commissions	37,092	31,826
Aircraft rentals	50,382	44,997
Landing fees and other rentals	49,011	45,443
Depreciation	48,386	44,014
Other operating expenses	157,914	145,425
Total operating expenses	799,892	715,136
Operating income	87,203	57,393
Other expenses (income):		
Interest expense	15,225	14,902
Capitalized interest	(4,422)	(6,904)
Interest income	(7,962)	(4,053)
Nonoperating (gains) losses, net	961	(1,323)
Total other expenses	3,802	2,622
Income before income taxes	83,401	54,771
Provision for income taxes	32,527	21,771
Net income	\$50,874	\$33,000
Weighted average common and common equivalent shares outstanding	150,448	152,403
Net income per common and common equivalent share	\$.34	\$.22

</TABLE>

See accompanying notes.

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

<TABLE>

<CAPTION>

	Three months ended March 31, 1997	1996
<S>	<C>	<C>
Net cash provided by operating activities	\$ 93,511	\$141,715
Cash flows from investing activities:		
Net purchases of property and equipment	(115,850)	(132,354)
Cash flows from financing activities:		
Issuance of long-term debt	98,764	-
Payment of long-term debt and capital lease obligations	(4,944)	(6,558)
Payment of cash dividends	(3,195)	(3,029)
Proceeds from Employee stock plans	2,285	7,543
Net cash provided by (used in) financing activities	92,910	(2,044)
Net increase in cash and cash equivalents	70,571	7,317
Cash and cash equivalents at beginning of period	581,841	317,363
Cash and cash equivalents at end of period	\$652,412	\$324,680
Cash payments for:		
Interest, net of amount capitalized	\$20,827	\$17,434
Income taxes	\$215	\$396

</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, 1997 and 1996 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, 1997 are not necessarily indicative of the results that may be expected for the year ended December 31, 1997. 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, 1996.

2. Dividends - During the three-month period ended March 31, 1997, \$.01155 per share in dividends were declared on the 145,335,143 shares of common stock then outstanding. During the three-month period ended March 31, 1996, \$.011 per share in dividends were declared on the 144,452,894 shares of common stock then outstanding.

3. Long-term debt - During February 1997, the Company issued \$100 million of senior unsecured 7 3/8% Debentures due

March 1, 2027. Interest on the Debentures is payable semi-annually on March 1 and September 1, commencing September 1, 1997. The Debentures may be redeemed, at the option of the Company, in whole at any time or in part from time to time, at a redemption price equal to the greater of the principal amount of the Debentures plus accrued interest at the date of redemption or the sum of the present values of the remaining scheduled payments of principal of the Debentures and interest thereon discounted to the date of redemption plus accrued interest at the date of redemption.

4. Recently issued accounting standard - In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share, which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact of Statement 128 on the calculation of primary and fully diluted earnings per share for the first quarter ended March 31, 1997 and March 31, 1996 is not expected to be material.

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

Comparative Consolidated Operating Statistics

Relevant operating statistics for the three-month periods ended March 31, 1997 and 1996 are as follows:

<TABLE>
<CAPTION>

<S>	Three months ended		
	1997	March 31, 1996	Change
<C>	<C>	<C>	<C>
Revenue passengers carried	12,046,184	11,405,237	5.6%
Revenue passenger miles (RPMs) (000s)	6,533,046	5,837,118	11.9%
Available seat miles (ASMs) (000s)	10,517,635	9,641,403	9.1%
Load factor	62.1%	60.5%	1.6 pts.
Average length of passenger haul	542	512	5.9%
Trips flown	190,205	179,105	6.2%
Average passenger fare	\$70.49	\$64.98	8.5%
Passenger revenue yield per RPM	\$.1300	\$.1270	2.4%
Operating revenue yield per ASM	\$.0843	\$.0801	5.2%
Operating expenses per ASM	\$.0761	\$.0742	2.6%
Average fuel cost per gallon	\$.7145	\$.5913	20.8%
Number of employees at period-end	23,544	20,804	13.2%
Size of fleet at period-end	246	229	7.4%

</TABLE>

Material Changes in Results of Operations

Consolidated net income for the first quarter ended March 31, 1997 was \$50.9 million (\$.34 per share), as compared to first quarter 1996 net income of \$33.0 million (\$.22 per share), an increase of 54.2%. 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 1997 consolidated operating revenues increased 14.8 percent compared to first quarter 1996 primarily due to a 14.6 percent increase in passenger revenues. The increase in passenger revenues resulted from an 11.9 percent increase in RPMs coupled with a 2.4 percent increase in yield per RPM.

While RPMs in first quarter 1997 increased 11.9 percent, available seat miles (ASMs) increased 9.1 percent resulting in a load factor of 62.1 percent versus 60.5 percent for the first three months of 1996. The increase in ASMs resulted primarily from the net addition of 17 aircraft since first quarter 1996.

The load factor for April 1997 was 60.8 percent, compared to

the April 1996 load factor of 64.7 percent. Management believes the lower load factor for April 1997 was due to the 1997 Easter holiday falling in March rather than April as it did in 1996, coupled with modest fare increases in February 1997. Although load factor trends have improved since the Easter holiday and bookings for the remainder of the second quarter, at this point, are good, we do not expect to match the load factor performance of second quarter 1996. Additionally, the March 1997 reimposition of the ten percent federal excise tax may adversely impact revenue growth during second quarter 1997 versus second quarter 1996, which was not subject to any federal excise tax. (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, and variations in advance booking trends.)

Consolidated freight revenues increased 12.5 percent in the first quarter of 1997 as compared to the same period in 1996, due to increased capacity, as well as an increase in United States mail services. Other revenues increased 33.6 percent in first quarter 1997, primarily due to increased revenues from the sale of frequent flyer credits to participating partners in the Rapid Rewards program.

Operating expenses per ASM for first quarter 1997 increased 2.6 percent to \$.0761, compared to \$.0742 for first quarter 1996, primarily due to higher jet fuel prices and a \$6.4 million increase in Profitsharing and Employee savings plan contributions, partially offset by lower aircraft engine overhaul costs.

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

<TABLE>
<CAPTION>

	Three months ended March 31,			
	1997	1996	Increase (decrease)	Percent change
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits	2.30	2.28	.02	.9
Employee profitsharing and savings plans	.23	.19	.04	21.1
Fuel and oil	1.28	1.08	.20	18.5
Maintenance materials and repairs	.54	.64	(.10)	(15.6)
Agency commissions	.35	.33	.02	6.1
Aircraft rentals	.48	.47	.01	2.1
Landing fees and other rentals	.47	.47	-	-
Depreciation	.46	.45	.01	2.2
Other operating expenses	1.50	1.51	(.01)	(.7)
Total	7.61	7.42	.19	2.6

</TABLE>

The Company's flight attendants are subject to an agreement with the Transport Workers Union of America, AFL-CIO (TWU), which became amendable May 31, 1996. Southwest is currently in negotiations with TWU to amend the contract.

Profitsharing and Employee savings plan expenses per ASM increased 21.1 percent from first quarter 1996 to first quarter 1997, primarily due to higher earnings available for profitsharing in 1997.

Fuel and oil expense per ASM increased 18.5 percent in first quarter 1997 due to a 20.8 percent increase in the average jet fuel cost per gallon from the same period in 1996. The average price paid for jet fuel in first quarter 1997 was \$.7145 per gallon, compared to \$.5913 per gallon in first quarter 1996. Since the end of first quarter 1997, fuel prices have averaged approximately \$.62 per gallon.

Maintenance materials and repairs per ASM decreased 15.6 percent for the three months ended March 31, 1997 as compared to the corresponding period of the prior year. The decrease was primarily due to performing fewer aircraft engine overhauls in first quarter 1997.

Agency commissions per ASM increased 6.1 percent for the first quarter of 1997 as compared to the first quarter of 1996, primarily due to increased passenger revenues. First quarter 1997

agency commissions as a percentage of revenue were flat year over year.

Aircraft rentals per ASM increased 2.1 percent for first quarter 1997 as compared to first quarter 1996 due to the sale-leaseback of ten aircraft in second and third quarter 1996.

Depreciation expense per ASM increased 2.2 percent for first quarter 1997 as compared to first quarter 1996 due to owned aircraft representing a higher percentage of the total fleet.

Other expense (income) for the first quarter 1997 included interest expense, capitalized interest, interest income, and nonoperating gains and losses. Interest expense increased slightly in the first quarter 1997 due to the February issuance of \$100 million of senior unsecured 7 3/8% Debentures due March 1, 2027. Capitalized interest decreased \$2.5 million in first quarter 1997 as a result of certain amendments to aircraft purchase contracts that deferred the timing of advance payments. Interest income increased \$3.9 million in first quarter 1997 due to higher invested cash balances.

Material Changes in Financial Condition

Net cash provided by operating activities was \$93.5 million for the three months ended March 31, 1997 and \$567.0 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, 1997, net capital expenditures were \$660.9 million, which primarily related to the purchase of one previously leased 737-200 and 20 new 737-300 aircraft, of which six were subsequently sold and leased back, and progress payments for future aircraft deliveries.

The Company opened service to Jacksonville, Florida on January 15, 1997 and recently announced expansion to Jackson, Mississippi beginning August 1997.

As of March 31, 1997, the Company had authority from its Board of Directors to purchase up to 2,500,000 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. Twelve 737-300s are scheduled for delivery in the remainder of 1997. Four 737-700s are scheduled for delivery in 1997, 21 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 \$2,015.4 million at March 31, 1997 due as follows: \$457.7 million in 1997; \$533.0 million in 1998; \$502.3 million in 1999; \$318.1 million in 2000; and \$204.3 million in 2001.

The Company has various options available to meet its capital and operating commitments, including cash on hand at March 31, 1997 of \$652.4 million, internally generated funds, and a revolving credit line with a group of banks, which has recently been increased to \$475 million (none of which had been drawn at March 31, 1997). 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. 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

Recent Sales of Unregistered Securities

The Company re-employed Herbert D. Kelleher, effective as of January 1, 1996, as President and Chief Executive Officer under a five-year Employment Contract. Pursuant to this Contract, Mr. Kelleher was granted nonstatutory options to purchase, subject to his employment for four years, 144,395 shares at a purchase price of \$23.50 per share, representing the composite tape closing sales price of the Common Stock on the New York Stock Exchange on January 2, 1996. One-fifth of the options are not subject to vesting and may be exercised at any time as to the underlying shares. Provided Mr. Kelleher remains in the continuous, full-time employ of the Company, the balance of the options will become exercisable in cumulative increments of one-fifth of the underlying shares each January 1 beginning January 1, 1997; provided that in the event of a change of control of the Company all of the options become immediately exercisable. Each of the options will expire ten years after it becomes exercisable. The options are not transferable by Mr. Kelleher other than by will or the laws of descent and distribution, and are exercisable during Mr. Kelleher's lifetime only by him.

During the first quarter of 1997, Mr. Kelleher exercised unregistered options to purchase Southwest Common Stock as follows:

<TABLE>
<CAPTION>

Number of Shares Purchased	Exercise Price	Date of Exercise
<C>	<C>	<C>
123,750	\$1.00	1/14/97
33,750	\$4.8889	1/14/97

</TABLE>

The issuance of the above options and shares to Mr. Kelleher were deemed exempt from the registration provisions of the Securities Act of 1933, as amended (the "Act"), by reason of the provision of Section 4(2) of the Act because, among other things, of the limited number of participants in such transactions and the agreement and representation of Mr. Kelleher that he was acquiring such securities for investment and not with a view to distribution thereof. The certificates representing the shares issued to Mr. Kelleher contain a legend to the effect that such shares are not registered under the Act and may not be transferred except pursuant to a registration statement which has become effective under the Act or to an exemption from such registration. The issuance of such shares was not underwritten.

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

The Company filed the following Reports on Form 8-K during the quarter:

- Form 8-K dated February 24, 1997 for the purpose of filing certain exhibits, including financial statements, in connection with the issuance of \$100,000,000 senior unsecured debentures due March 1, 2027.
- Form 8-K dated February 27, 1997 for the purpose of filing the Terms Agreement and Form of Global Security as exhibits in connection with the issuance of \$100,000,000 senior unsecured debentures due March 1, 2027.

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>

May 14, 1997
Date

<C>

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

</TABLE>

INDEX TO EXHIBITS

Exhibit
Number

Exhibit

(11.1) Computation of Earnings Per Share

(27) Financial Data Schedule

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</TABLE>

Southwest Airlines Co.
Computation of Earnings Per Share
For the Three Months Ended March 31, 1997

<TABLE>
<CAPTION>

	Primary	Fully Diluted
<S>	<C>	<C>
Weighted average shares outstanding	145,313,882	145,313,882
Shares issuable upon exercise of outstanding stock options (treasury stock method)	5,134,063	5,135,309
Weighted average common and common equivalent shares	150,447,945	150,449,191
Earnings for per share computations	\$50,874,000	\$50,874,000
Earnings per common and common equivalent share	\$0.34	\$0.34

</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 commons and common equivalent share	\$0.22	\$0.22

</TABLE>