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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 24, 1997

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

TEXAS	1-7259	74-1563240
(State or other jurisdiction of incorporation)	(Commission file number)	(I.R.S. employee identification no.)

P.O. Box 36611
Love Field, Dallas, Texas 75235
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

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

=====

Item 5. Other Events

The purpose of this report is to permit the registrant to file herewith those exhibits listed in Item 7 (c) below.

Item 7. Financial Statements and Exhibits.

(c). Exhibits

- Exhibit 5.2 - Opinion of Deborah Ackerman, Associate General Counsel of Southwest Airlines Co., re legality of Debt Securities being offered.
- Exhibit 12 - Calculation of Ratio of Earnings to Fixed Charges.
- Exhibit 23 - Consent of Independent Auditors.
- Exhibit 25.1 - Form T-1 Statement of Eligibility and Qualification under the Trust Indenture Act of 1939 of U.S. Trust Company of Texas, N.A., as Trustee, under the Indenture between Southwest Airlines Co. and U.S. Trust Company of Texas, N.A. (which Indenture is incorporated by reference to Exhibit 4.1 to the

- Exhibit 27 - Financial Data Schedule
- Exhibit 99.1 - Consolidated Financial Statements and Notes to Consolidated Financial Statements.
- Exhibit 99.2 - Report of Independent Auditors
- Exhibit 99.3 - Management's Discussion and Analysis of Financial Condition and Results of Operations

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.

February 24, 1997

By: /s/ Gary C. Kelly

Gary C. Kelly
Vice President - Finance
and Chief Financial Officer

-2-

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit No. <S>	<C>	Description <C>
Exhibit 5.2	-	Opinion of Deborah Ackerman, Associate General Counsel of Southwest Airlines Co., re legality of Debt Securities being offered.
Exhibit 12	-	Calculation of Ratio of Earnings to Fixed Charges.
Exhibit 23	-	Consent of Independent Auditors.
Exhibit 25.1	-	Form T-1 Statement of Eligibility and Qualification under the Trust Indenture Act of 1939 of U.S. Trust Company of Texas, N.A., as Trustee, under the Indenture between Southwest Airlines Co. and U.S. Trust Company of Texas, N.A. (which Indenture is incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 (File No. 33-59113)).
Exhibit 27	-	Financial Data Schedule
Exhibit 99.1	-	Consolidated Financial Statements and Notes to Consolidated Financial Statements.
Exhibit 99.2	-	Report of Independent Auditors
Exhibit 99.3	-	Management's Discussion and Analysis of Financial Condition and Results of Operations.

</TABLE>

February 24, 1997

Southwest Airlines Co.
P.O. Box 36611
Dallas, TX 75235

Dear Sirs:

I have represented Southwest Airlines Co., a Texas corporation (the "Company") in connection with the proposed offering, issuance and sale of \$100,000,000 principal amount of Debt Securities (the "Securities") to be issued from time to time under a Trust Indenture (the "Indenture") between the Company and U.S. Trust Company of Texas, N.A., as Trustee (the "Trustee"), such Securities to bear interest at such rates and to be payable at such times, to mature at such times and otherwise to have such terms as contemplated by the Prospectus included as part of the Registration Statement on Form S-3 (the "Registration Statement") with respect to the Securities which has been filed with the Securities and Exchange Commission under the Securities Act of 1993 and Rule 415 thereunder (File No. 33-59113) and which became effective on May 9, 1995.

For the purposes of this opinion, I have examined such corporate records and other documents and have reviewed such questions of law as I considered necessary or appropriate for the purposes of this opinion.

Based on such examination and review, I hereby advise you that, in my opinion, the execution and delivery by the Company of the Indenture has been duly authorized by the Company. Further, when all necessary proceedings have been taken by the Board of Directors or the Executive Committee of such Board of Directors of the Company in connection with the authorization, issuance and sale of the Securities of a particular series and related matters, the Securities of such series, when duly executed on behalf of the Company and authenticated by the Trustee and issued and delivered pursuant to the Indenture against payment to the Company of the authorized consideration therefor, will be duly authorized and validly issued and will be binding obligations of the Company.

I hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to me under the caption "Legal Opinions" in the Prospectus relating to the Securities forming a part of the Registration Statement. In giving this consent, I do not thereby admit that I am within the category of persons whose consent is required under Section 7 of the

Southwest Airlines Co.
February 24, 1997

Page 2

Securities Act of 1933 and the rules and regulations of the Securities and Exchange Commission thereunder.

Sincerely,

/s/ DEBORAH ACKERMAN

Deborah Ackerman

DA:pjw

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

<TABLE>
 <CAPTION>

	Year Ended December 31,				
	1996	1995	1994	1993	1992
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Earnings					
Income before income taxes and cumulative effect of accounting changes	\$341.4	\$305.1	\$299.5	\$259.6	\$157.4
Add: Fixed charges	184.1	169.1	141.6	132.1	113.8
Less: Interest capitalized	22.3	31.4	26.3	17.8	15.4
	-----	-----	-----	-----	-----
Total	\$503.2	\$442.8	\$414.8	\$373.9	\$255.8
	=====	=====	=====	=====	=====
Fixed charges					
Interest expense	\$37.0	\$27.4	\$27.1	\$40.7	\$ 43.7
Add: Interest capitalized	22.3	31.4	26.3	17.8	15.4
	-----	-----	-----	-----	-----
Gross interest expense	59.3	58.8	53.4	58.5	59.1
Add: Interest factor of operating lease expense	124.8	110.3	88.2	73.6	54.7
	-----	-----	-----	-----	-----
Total	\$184.1	\$169.1	\$141.6	\$132.1	\$113.8
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges	2.73	2.62	2.93	2.83	2.25
	=====	=====	=====	=====	=====

</TABLE>

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-20275, 33-48178, 33-57327, 33-40652 and 33-40653 and Form S-3 Nos. 33-52115 and 33-59113) and in the related Prospectuses of our report dated January 23, 1997 with respect to the consolidated financial statements of Southwest Airlines Co. for the year ended December 31, 1996 included in its Current Report on Form 8-K dated February 24, 1997, filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

Dallas, TX
February 20, 1997

/s/ ERNST & YOUNG LLP

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM T-1

STATEMENT OF ELIGIBILITY UNDER THE TRUST INDENTURE ACT OF 1939 OF A CORPORATION
DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE ELIGIBILITY OF A
TRUSTEE PURSUANT TO SECTION 305(b) (2) X

U.S. TRUST COMPANY OF TEXAS, N.A.
(Exact name of trustee as specified in its charter)

(State of incorporation if not a national bank)	75-2353745 (I.R.S. employer identification No.)
--	---

2001 Ross Avenue, Suite 2700 Dallas, Texas (Address of trustee's principal executive offices)	75201-2936 (Zip Code)
--	--------------------------

Compliance Officer
U.S. Trust Company of Texas, N.A.
2001 Ross Avenue, Suite 2700
Dallas, Texas 75201-2936
(214) 754-1200
(Name, address and telephone number of agent for service)

Southwest Airlines Co.
(Exact name of obligor as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	74-1563240 (I.R.S. employer identification No.)
2702 Love Field Drive Dallas, TX (Address of principal executive offices)	75235 (Zip Code)

Debt Securities
(Title of the indenture securities)

=====

GENERAL

1. General Information.

Furnish the following information as to the Trustee:

- (a) Name and address of each examining or supervising authority to
which it is subject.

Federal Reserve Bank of Dallas (11th District),
Dallas, Texas (Board of Governors of the Federal
Reserve System)
Federal Deposit Insurance Corporation, Dallas, Texas
The Office of the Comptroller of the Currency,
Dallas, Texas

- (b) Whether it is authorized to exercise corporate trust powers.

The Trustee is authorized to exercise corporate trust powers.

2. Affiliations with Obligor and Underwriters.

If the obligor or any underwriter for the obligor is an affiliate of the Trustee, describe each such affiliation.

None.

3. Voting Securities of the Trustee.

Furnish the following information as to each class of voting securities of the Trustee:

As of January 31, 1997

<TABLE>

<CAPTION>

Col A.	Col B.

<S> Title of Class	<C> Amount Outstanding

Capital Stock - par value \$100 per share	5,000 shares

</TABLE>

4. Trusteeships under Other Indentures.

Not Applicable

5. Interlocking Directorates and Similar Relationships with the Obligor or Underwriters.

Not Applicable

6. Voting Securities of the Trustee Owned by the Obligor or its Officials.

Not Applicable

7. Voting Securities of the Trustee Owned by Underwriters or their Officials.

Not Applicable

8. Securities of the Obligor Owned or Held by the Trustee.

Not Applicable

9. Securities of Underwriters Owned or Held by the Trustee.

Not Applicable

10. Ownership or Holdings by the Trustee of Voting Securities of Certain Affiliates or Security Holders of the Obligor.

Not Applicable

11. Ownership or Holdings by the Trustee of any Securities of a Person Owning 50 Percent or More of the Voting Securities of the Obligor.

Not Applicable

12. Indebtedness of the Obligor to the Trustee.

Not Applicable

13. Defaults by the Obligor.

Not Applicable

14. Affiliations with the Underwriters.

Not Applicable

15. Foreign Trustee.

Not Applicable

16. List of Exhibits.

T-1.1 - A copy of the Articles of Association of U.S. Trust Company of Texas, N.A.; incorporated herein by reference to Exhibit T-1.1 filed with Form T-1 Statement, Registration No.

16. (con't.) 22-21897.

- T-1.2 - A copy of the certificate of authority of the Trustee to commence business; incorporated herein by reference to Exhibit T-1.2 filed with Form T-1 Statement, Registration No. 22-21897.
- T-1.3 - A copy of the authorization of the Trustee to exercise corporate trust powers; incorporated herein by reference to Exhibit T-1.3 filed with Form T-1 Statement, Registration No. 22-21897.
- T-1.4 - A copy of the By-laws of the U.S. Trust Company of Texas, N.A., as amended to date; incorporated herein by reference to Exhibit T-1.4 filed with Form T-1 Statement, Registration No. 22-21897.
- T-1.5 - The consent of the Trustee required by Section 321(b) of the Trust Indenture Act of 1939.
- T-1.6 - A copy of the latest report of condition of the Trustee published pursuant to law or the requirements of its supervising or examining authority.

NOTE

As of January 31, 1997 the Trustee had 5,000 shares of Capital Stock outstanding, all of which are owned by U.S. T.L.P.O. Corp. As of January 31, 1997 U.S. T.L.P.O. Corp. had 35 shares of Capital Stock outstanding, all of which are owned by U.S. Trust Corporation. U.S. Trust Corporation had outstanding 9,863,036 shares of \$5 par value Common Stock as of January 31, 1997.

The term "Trustee" in Items 2, 5, 6, 7, 8, 9, 10 and 11 refers to each of U.S. Trust Company of Texas, N.A., U.S. T.L.P.O. Corp. and U.S. Trust Corporation.

Inasmuch as this Form T-1 is filed prior to the ascertainment by the Trustee of all the facts on which to base responsive answers to Items 2, 5, 6, 7, 9, 10 and 11, the answers to said Items are based upon incomplete information. Items 2, 5, 6, 7, 9, 10 and 11 may, however, be considered correct unless amended by an amendment to this Form T-1.

In answering any items in this Statement of Eligibility and Qualification which relates to matters peculiarly within the knowledge of the obligors or their directors or officers, or an underwriter for the obligors, the Trustee has relied upon information furnished to it by the obligors and will rely on information to be furnished by the obligors or such underwriter, and the Trustee disclaims responsibility for the accuracy or completeness of such information.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939 the Trustee, U.S. Trust Company of Texas, N.A., a national banking association organized under the laws of the United States of America, has duly caused this statement of eligibility and qualification to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Dallas, and State of Texas on the 20th day of February, 1997.

U.S. Trust Company of Texas, N.A.,
Trustee

By: /s/ JOHN C. STOHLMANN

John C. Stohlmann
Vice President

Exhibit T-1.5

CONSENT OF TRUSTEE

Pursuant to the requirements of Section 321(b) of the Trust Indenture Act of 1939 as amended in connection with the proposed issue of Southwest Airlines Co. Debt Securities, we hereby consent that reports of examination by Federal, State, Territorial or District authorities may be furnished by such authorities to the Securities and Exchange Commission upon request therefor.

U.S. Trust Company of Texas, N.A.

By: /s/ JOHN C. STOHLMANN

John C. Stohlmann
Vice President

<TABLE>
<S>

System

Federal Financial Institutions Examination Council

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Board of Governors of the Federal Reserve

OMB Number: 7100-0036
Federal Deposit Insurance Corporation
OMB Number: 3064-0052
Office of the Comptroller of the Currency
OMB Number: 1557-0081
Expires March 31, 1999

[1]
[LOGO]

Please Refer to Page i,
Table of Contents, for
the required disclosure
of estimated burden

CONSOLIDATED REPORTS OF CONDITION AND INCOME FOR
A BANK WITH DOMESTIC OFFICES ONLY AND
TOTAL ASSETS OF LESS THAN \$100 MILLION - FFIEC 034

REPORT AT THE CLOSE OF BUSINESS DECEMBER 31, 1996

(961231)

(RCRI 9999)

This report is required by law: 12 U.S.C. Section 324 (State member banks); 12 U.S.C. Section 1817 (State nonmember banks); and 12 U.S.C. Section 161 (National banks).

This report form is to be filed by banks with domestic offices only. Banks with branches and consolidated subsidiaries in U.S. territories and possessions, Edge or Agreement subsidiaries, foreign branches, consolidated foreign subsidiaries, or International Banking Facilities must file FFIEC 031.

NOTE: The Reports of Condition and Income must be signed by an authorized officer and the Report of Condition must be attested to by not less than two directors (trustees) for State nonmember banks and three directors for State member and National banks.

The Reports of Condition and Income are to be prepared in accordance with Federal Regulatory authority instructions. NOTE: These instructions may in some cases differ from generally accepted accounting principles.

I, Alfred B. Childs, SVP & Cashier

Name and Title of Officer Authorized to Sign Report

of the named bank do hereby declare that these Reports of Condition and Income (including the supporting schedules) have been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and are true to the best of my knowledge and belief.

/s/ ALFRED B. CHILDS

Signature of Officer Authorized to Sign Report

We, the undersigned directors (trustees), attest to the correctness of this Report of Condition (including the supporting schedules) and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the appropriate Federal regulatory authority and is true and correct.

/s/ STUART M. PEARMAN

Director (Trustee)

/s/ J. T. MOORE, JR.

Director (Trustee)

/s/ PETER J. DENKER

Director (Trustee)

January 15, 1997

Date of Signature

FOR BANKS SUBMITTING HARD COPY REPORT FORMS:

STATE MEMBER BANKS: Return the original and one copy to the appropriate Federal Reserve District Bank.

STATE NONMEMBER BANKS: Return the original only in the special return address envelope provided. If express mail is used in lieu of the special return address envelope, return the original only to the FDIC, c/o Quality Data Systems,

NATIONAL BANKS: Return the original only in the special return address envelope provided. If express mail is used in lieu of the special return address envelope, return the original only to the FDIC, c/o Quality Data Systems, 2127 Espey Court, Suite 204, Crofton, MD 21114.

FDIC Certificate Number

(RCRI 9050)

12-31-96

Banks should affix the address label in this space.

U.S. TRUST COMPANY OF TEXAS, NATIONAL

Legal Title of Bank (TEXT 9010)

2001 ROSS AVENUE, SUITE 2700

City (TEXT 9130)

DALLAS, TX 75201

State Abbrev. (TEXT 9200)

ZIP Code (TEXT 9220)

Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency
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<TABLE>			
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U.S. TRUST COMPANY OF TEXAS, N.A.	<C>	<C>	<C>
2100 ROSS AVENUE, SUITE 2700	Call Date: 12/31/96	STATE # 6797	FFIEC 034
DALLAS, TX 75201	Vendor ID: D	CERT: 33217	Page RC-1
	Transit Number: 11101765		
			9
</TABLE>			

CONSOLIDATED REPORT OF CONDITION FOR INSURED COMMERCIAL
AND STATE-CHARTERED SAVINGS BANKS FOR DECEMBER 31, 1996

All schedules are to be reported in thousands of dollars. Unless otherwise indicated, report the amount outstanding as of the last business day of the quarter.

SCHEDULE RC - BALANCE SHEET

<TABLE>			
<CAPTION>			
C100 <-			
Thousands		Dollar Amounts in	

<S>		<C>	<C>
<C>			
ASSETS		RCON	

1. Cash and balances due from depository institutions:			
a. Noninterest-bearing balances and currency and coin(1,2).....		0081	325
b. Interest bearing balances(3).....		0071	173
2. Securities:			
a. Held-to-maturity securities (from Schedule RC-B, column A).....		1754	0
b. Available-for-sale securities (from Schedule RC-B, column D).....		1773	101,385
3. Federal funds sold and securities purchased under agreements to resell:			
a. Federal funds sold (4)		0276	0
b. Securities purchased under agreements to resell (5)		0277	0
4. Loans and lease financing receivables:		RCON	

a. Loans and leases, net of unearned income (from Schedule RC-C)...		2122	42,103
b. LESS: Allowance for loan and lease losses.....		3123	481
c. LESS: Allocated transfer risk reserve.....		3128	0
d. Loans and leases, net of unearned income, allowance, and reserve (item 4.a minus 4.b		RCON	
and 4.c).....		----	
		2125	41,622
5. Trading assets		3545	0
6. Premises and fixed assets (including capitalized leases).....		2145	753
7. Other real estate owned (from Schedule RC-M).....		2150	0
8. Investments in unconsolidated subsidiaries and associated companies (from Schedule			

8.	RC-M).....	2130	0
9.	Customers' liability to this bank on acceptances outstanding.....	2155	0
10.	Intangible assets (from Schedule RC-M).....	2143	0
11.	Other assets (from Schedule RC-F).....	2160	1,511
12.	a. Total assets (sum of items 1 through 11).....	2170	145,769
12.a	b. Losses deferred pursuant to 12 U.S.C. 1823(j).....	0306	0
12.b	c. Total assets and losses deferred pursuant to 12 U.S.C. 1823 (j) (sum of items 12.a and 12.b).....	0307	145,769
12.c			

</TABLE>

-
- (1) Includes cash items in process of collection and unposted debits.
(2) The amount reported in this item must be greater than or equal to the sum of Schedule RC-M, items 3.a and 3.b
(3) Includes time certificates of deposit not held for trading.
(4) Report 'term federal funds sold' in Schedule RC, item 4.a, 'Loans and leases, net of unearned income', and in Schedule RC-C, part 1.
(5) Report securities purchased under agreements to resell that involve the receipt of immediately available funds and mature in one business day or roll over under a continuing contract in Schedule RC, item 3.a, 'Federal funds sold.'

<TABLE>

<S>	<C>	<C>	<C>
U.S. TRUST COMPANY OF TEXAS, N.A.	Call Date: 12/31/96	State: 6797	FFIEC 034
2100 ROSS AVENUE, SUITE 2700	Vendor ID: D	CERT: 33217	Page RC-2
DALLAS, TX 75201	Transit Number: 11101765		

10

</TABLE>

SCHEDULE RC -- CONTINUED

<TABLE>

<CAPTION>

Dollar Amounts in Thousands

		RCON		

<S>		<C>	<C>	<C>
LIABILITIES				
Deposits:				
13.	a. In domestic offices (sum of totals of columns A and C from Schedule RC-E.....	2200	118,129	13.a
	(1) Noninterest-bearing.....	6631	12,689	13.a.1
	(2) Interest-bearing.....	6636	105,440	13.a.2
	b. In foreign offices, Edge and Agreement subsidiaries, and IBFs			
	(1) Noninterest-bearing.....			
	(2) Interest-bearing.....			
14.	Federal funds purchased and securities sold under agreements to repurchase:			
	a. Federal funds purchased(2).....	0278	0	14.a
	b. Securities sold under agreements to repurchase(3).....	0279	0	14.b
15.	a. Demand notes issued to the U.S. Treasury.....	2840	0	15.a
	b. Trading liabilities.....	3548	0	15.b
16.	Other borrowed money:			
	a. With a remaining maturity of one year or less.....	2332	0	16.a
	b. With a remaining maturity of more than one year.....	2333	6,000	16.b
17.	Mortgage indebtedness and obligations under capitalized leases.....	2910	0	17.
18.	Bank's liability on acceptances executed and outstanding.....	2920	0	18.
19.	Subordinated notes and debentures.....	3200	0	19.
20.	Other liabilities (from Schedule RC-G).....	2930	1,575	20.
21.	Total liabilities (sum of items 13 through 20).....	2948	125,704	21.
22.	Limited-life preferred stock and related surplus.....	3282	0	22.
EQUITY CAPITAL				
23.	Perpetual preferred stock and related surplus.....	3838	7,000	23.
24.	Common stock.....	3230	500	24.
25.	Surplus (exclude all surplus related to preferred stock).....	3839	8,384	25.
26.	a. Undivided profits and capital reserves.....	3632	4,045	26.a
	b. Net unrealized holding gains (losses) on available-for-sale securities.....	8434	136	26.b
27.	Cumulative foreign currency translation adjustments.....	3210		
28.	a. Total equity capital (sum of items 23 through 27).....	3210	20,065	28.a
	b. Losses deferred pursuant to 12 U.S.C. 1823 (j).....	0306	0	28.b
	c. Total equity capital and losses deferred pursuant to 12 U.S.C. 1823 (j) (sum of items 28.a and 28.b).....	3559	20,065	28.c
29.	Total liabilities, limited-life preferred stock, equity capital, and losses deferred pursuant to U.S.C. 1823(j) (sum of items 21, 22 and 28.c).....	2257	145,769	29.

MEMORANDUM

TO BE REPORTED ONLY WITH THE MARCH REPORT OF CONDITION.

1. Indicate in the box at the right the number of the statement below that best describes the most comprehensive level of auditing work performed for the bank by independent external auditors as of any date during 1995.....	RCON	NUMBER

	6724	N/A M.1
1 = Independent audit of the bank conducted in accordance with generally accepted auditing standards by a certified public accounting firm which submits a report on the bank		
2 = Independent audit of the bank's parent holding company conducted in accordance with generally accepted auditing standards by a certified public accounting firm which submits a report on the consolidated holding company (but not on the bank separately)		
3 = Directors' examination of the bank conducted in accordance with generally accepted auditing standards by a certified public accounting firm (may be required by state chartering authority)		
4 = Directors' examination of the bank performed by other external auditors (may be required by state chartering authority)		
5 = Review of the bank's financial statements by external auditors		
6 = Compilation of the bank's financial statements by external auditors		
7 = Other audit procedures (excluding tax preparation work)		
8 = No external audit work		

- -----
- (1) Includes total demand deposits and noninterest-bearing time and savings deposits.
 - (2) Report 'term federal funds purchased' in Schedule RC, item 16, 'Other borrowed money.'
 - (3) Report securities sold under agreements to repurchase that involve the receipt of immediately available funds and mature in one business day or roll over under a continuing contract in Schedule RC, item 14.a, 'Federal funds purchased.'

<TABLE> <S> <C>

<ARTICLE> 5
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<EPS-DILUTED>	1.37

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SOUTHWEST AIRLINES CO.
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	December 31,	
	1996	1995
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 581,841	\$ 317,363
Accounts receivable	73,440	79,781
Inventories of parts and supplies, at cost	51,094	41,032
Deferred income taxes (Note 9)	11,560	10,476
Prepaid expenses and other current assets	33,055	24,484
Total current assets	750,990	473,136
Property and equipment, at cost (Notes 2 and 5):		
Flight equipment	3,435,304	3,024,702
Ground property and equipment	523,958	435,822
Deposits on flight equipment purchase contracts	198,366	323,864
	4,157,628	3,784,388
Less allowance for depreciation	1,188,405	1,005,081
	2,969,223	2,779,307
Other assets	3,266	3,679
	\$3,723,479	\$3,256,122
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 214,232	\$ 116,530
Accrued liabilities (Note 3)	380,747	349,419
Air traffic liability	158,098	131,156
Current maturities of long-term debt	12,327	13,516
Total current liabilities	765,404	610,621
Long-term debt less current maturities (Note 4)		
Deferred income taxes (Note 9)	349,987	281,650
Deferred gains from sale and leaseback of aircraft	274,891	245,154
Other deferred liabilities	34,659	30,369
Commitments and contingencies (Notes 2, 5, and 9)		
Stockholders' equity (Notes 6 and 7):		
Common stock, \$1.00 par value:		
680,000,000 shares authorized;		
145,112,090 and 144,033,273		
shares issued and		
outstanding in 1996 and		
1995, respectively	145,112	144,033
Capital in excess of par value	181,650	162,704
Retained earnings	1,321,550	1,120,581
Total stockholders' equity	1,648,312	1,427,318
	\$3,723,479	\$3,256,122
	=====	=====

</TABLE>

SEE ACCOMPANYING NOTES.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF INCOME
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>

<CAPTION>

	Years ended December 31,		
	1996	1995	1994
<S>	<C>	<C>	<C>
OPERATING REVENUES:			
Passenger	\$ 3,269,238	\$ 2,760,756	\$ 2,497,765
Freight	80,005	65,825	54,419
Other	56,927	46,170	39,749
Total operating revenues	3,406,170	2,872,751	2,591,933
OPERATING EXPENSES:			
Salaries, wages, and			
benefits (Note 8)	999,719	867,984	756,023
Fuel and oil	484,673	365,670	319,552
Maintenance materials and			
repairs	253,521	217,259	190,308
Agency commissions	140,940	123,380	133,081
Aircraft rentals	190,663	169,461	132,992
Landing fees and other			
rentals	187,600	160,322	148,107
Depreciation	183,470	156,771	139,045
Other operating expenses ...	614,749	498,373	456,116
Total operating expenses	3,055,335	2,559,220	2,275,224
OPERATING INCOME	350,835	313,531	316,709
OTHER EXPENSES (INCOME):			
Interest expense	59,269	58,810	53,368
Capitalized interest	(22,267)	(31,371)	(26,323)
Interest income	(25,797)	(20,095)	(9,166)
Nonoperating (gains) losses,			
net	(1,732)	1,047	(693)
Total other expenses	9,473	8,391	17,186
INCOME BEFORE INCOME TAXES ...	341,362	305,140	299,523
PROVISION FOR INCOME TAXES			
(NOTE 9)	134,025	122,514	120,192
NET INCOME	\$ 207,337	\$ 182,626	\$ 179,331
NET INCOME PER SHARE			
(NOTES 6, 7, AND 10)	\$ 1.37	\$ 1.23	\$ 1.22

</TABLE>

SEE ACCOMPANYING NOTES.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1996, 1995, AND 1994
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>

<CAPTION>

	Common stock	Capital in excess of par value	Retained earnings	
Total				
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1993	\$ 142,756	\$ 141,168	\$ 770,095	\$
1,054,019				
Issuance of common stock upon				
exercise of executive stock				
options and pursuant to Employee				
stock option and purchase plans				
(Note 7)	500	8,243	--	
8,743				

Tax benefit of options exercised	--	2,335	--	
2,335				
Cash dividends, \$.04 per share	--	--	(5,722)	
(5,722)				
Net income - 1994	--	--	179,331	
179,331				
-----	-----	-----	-----	---
Balance at December 31, 1994	143,256	151,746	943,704	
1,238,706				
Issuance of common stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans (Note 7)	777	9,907	--	
10,684				
Tax benefit of options exercised	--	1,051	--	
1,051				
Cash dividends, \$.04 per share	--	--	(5,749)	
(5,749)				
Net income - 1995	--	--	182,626	
182,626				
-----	-----	-----	-----	---
Balance at December 31, 1995	\$ 144,033	\$ 162,704	\$ 1,120,581	\$
1,427,318				
Issuance of common stock upon exercise of executive stock options and pursuant to Employee stock option and purchase plans (Note 7)	1,079	14,513	--	
15,592				
Tax benefit of options exercised	--	4,433	--	
4,433				
Cash dividends, \$.044 per share	--	--	(6,368)	
(6,368)				
Net income - 1996	--	--	207,337	
207,337				
-----	-----	-----	-----	---
Balance at December 31, 1996	\$ 145,112	\$ 181,650	\$ 1,321,550	\$
1,648,312				
=====	=====	=====	=====	

</TABLE>

SEE ACCOMPANYING NOTES.

SOUTHWEST AIRLINES CO.
CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	Years ended December 31,		
	1996	1995	1994
-----	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 207,337	\$ 182,626	\$ 179,331
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	183,470	156,771	139,045
Deferred income taxes	67,253	48,147	49,887
Amortization of deferred gains on sale and leaseback of aircraft	(18,263)	(24,286)	(30,341)
Amortization of scheduled			

airframe overhauls	20,539	17,337	14,216
Changes in certain assets and liabilities:			
Accounts receivable	6,341	(4,089)	(5,208)
Other current assets	(19,534)	(11,857)	648
Accounts payable and accrued liabilities.....	132,096	61,937	52,679
Air traffic liability	26,942	25,017	9,993
Other current liabilities	5,334	1,050	(4,690)
Other	3,713	3,789	7,106
	-----	-----	-----
Net cash provided by operating activities	615,228	456,442	412,666
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment ...	(677,431)	(728,643)	(788,649)
	-----	-----	-----
Net cash used in investing activities	(677,431)	(728,643)	(788,649)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of long-term debt	--	98,811	--
Proceeds from aircraft sale and leaseback transactions	330,000	321,650	315,000
Payment of long-term debt and capital lease obligations	(12,695)	(10,379)	(63,071)
Payment of cash dividends	(6,216)	(5,749)	(5,722)
Proceeds from Employee stock plans	15,592	10,693	8,743
	-----	-----	-----
Net cash provided by financing activities ...	326,681	415,026	254,950
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	264,478	142,825	(121,033)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	317,363	174,538	295,571
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 581,841	\$ 317,363	\$ 174,538
	=====	=====	=====
CASH PAYMENTS FOR:			
Interest, net of amount capitalized	\$ 36,640	\$ 25,277	\$ 26,598
Income taxes	66,447	73,928	80,461

</TABLE>

SEE ACCOMPANYING NOTES.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION Southwest Airlines Co. (Southwest) is a major domestic airline that provides shorthaul, high frequency, point-to-point, low-fare service. The consolidated financial statements include the accounts of Southwest and its wholly owned subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Certain prior year amounts have been reclassified for comparison purposes.

CASH AND CASH EQUIVALENTS Cash equivalents consist of certificates of deposit

and investment grade commercial paper issued by major corporations and financial institutions that are highly liquid and have original maturity dates of three months or less. Cash and cash equivalents are carried at cost, which approximates market value.

INVENTORIES Inventories of flight equipment expendable parts, materials, and supplies are carried at average cost. These items are charged to expense when issued for use.

PROPERTY AND EQUIPMENT Depreciation is provided by the straight-line method to residual values over periods ranging from 12 to 20 years for flight equipment and 3 to 30 years for ground property and equipment. Property under capital leases and related obligations are recorded at an amount equal to the present value of future minimum lease payments computed on the basis of the Company's incremental borrowing rate or, when known, the interest rate implicit in the lease. Amortization of property under capital leases is on a straight-line basis over the lease term and is included in depreciation expense. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows to be generated by those assets are less than the carrying amounts of those assets.

AIRCRAFT AND ENGINE MAINTENANCE The cost of engine overhauls and routine maintenance costs for aircraft and engine maintenance

are charged to maintenance expense as incurred. Scheduled airframe overhaul costs are capitalized and amortized over the estimated period benefited, presently 8 years. Modifications that significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the remaining life of the asset.

REVENUE RECOGNITION Passenger revenue is recognized when transportation is provided. Tickets sold but not yet used are included in "Air traffic liability", which includes estimates that are evaluated and adjusted periodically. Any adjustments resulting therefrom are included in results of operations for the periods in which the evaluations are completed.

FREQUENT FLYER AWARDS The Company accrues the estimated incremental cost of providing free travel awards earned under its Rapid Rewards frequent flyer program.

ADVERTISING The Company expenses the production costs of advertising as incurred. Advertising expense for the years ended December 31, 1996, 1995, and 1994 was \$109,136,000, \$92,087,000, and \$79,475,000, respectively.

STOCK-BASED EMPLOYEE COMPENSATION Pursuant to Statement of Financial Accounting Standards No. 123 (SFAS 123) "Accounting for Stock-Based Compensation", the Company accounts for stock-based compensation plans utilizing the provisions of Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related Interpretations because, as discussed in Note 7, the alternative fair value accounting provided for under SFAS 123 requires use of option valuation models that were not developed for use in valuing employee stock options.

2. COMMITMENTS

The Company's contractual purchase commitments consist primarily of scheduled aircraft acquisitions. Timing of payments pursuant to contractual commitments was affected favorably by third quarter 1995 amendments to certain aircraft purchase contracts, which modified future progress payment schedules. Fifteen 737-300 and four 737-700 aircraft are scheduled for delivery in 1997. Sixteen -700s are scheduled for delivery in 1998, 16 in 1999, 15 in 2000, and 12 in 2001. In addition, the Company has options to purchase up to sixty-seven -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 -700s delivered subsequent to 1999. Aggregate funding needed for these commitments is approximately \$1,960.1 million, subject to adjustments for inflation, due as follows: \$515.1 million in 1997,

\$420.0 million in 1998, \$502.2 million in 1999, \$318.3 million in 2000, and \$204.5 million in 2001.

The Company has historically used jet fuel and heating oil fixed price swap arrangements to hedge its exposure to price fluctuations on an insignificant percent of its annual fuel requirements. As of December 31, 1996, the Company had no open swap agreements, although the hedging program has not been discontinued. As of December 31, 1995, the Company had a heating oil swap agreement with a broker-dealer to exchange monthly payments on a notional quantity of 1,050,000 gallons during May 1996. Under the swap agreement, the Company paid or received the difference between the daily average heating oil price and a fixed price of \$.46 per gallon.

The Company's principal hedging program utilizes the purchase of crude oil call options at a nominal premium and at volumes of up to 30 percent of its annual fuel requirements.

Gains and losses on hedging transactions are recorded as adjustments to fuel expense and have been insignificant. Any such future agreements expose the Company to credit loss in the event of nonperformance by the other parties to the agreements. The Company does not anticipate such nonperformance.

3. ACCRUED LIABILITIES (in thousands)

<TABLE> <CAPTION>		
	1996	1995

<S>	<C>	<C>
Aircraft rentals _____	\$121,384	\$105,534
Employee profitsharing and savings plans (Note8) _____	61,286	55,253
Vacation pay _____	44,763	38,777
Aircraft maintenance costs _____	25,942	31,463
Taxes, other than income _____	25,574	22,478
Interest _____	21,853	22,326
Other _____	79,945	73,588
	-----	-----
	\$380,747	\$349,419
	=====	=====
</TABLE>		

4. LONG-TERM DEBT (in thousands)

<TABLE> <CAPTION>		
	1996	1995

<S>	<C>	<C>
9 1/4% Notes due 1998 _____	\$100,000	\$100,000
9.4% Notes due 2001 _____	100,000	100,000
8 3/4% Notes due 2003 _____	100,000	100,000
7 7/8% Notes due 2007 _____	100,000	100,000
8% Notes due 2005 _____	100,000	100,000
Capital leases (Note 5) _____	165,610	177,696
Other _____	10	430
	-----	-----
	665,620	678,126
Less current maturities _____	12,327	13,516
Less debt discount _____	3,067	3,600
	-----	-----
	\$650,226	\$661,010
	=====	=====
</TABLE>		

On March 7, 1995, the Company issued \$100 million of senior unsecured 8% Notes due March 1, 2005. Interest is payable semi-annually on March 1 and September 1. The Notes are not redeemable prior to maturity.

On September 9, 1992, the Company issued \$100 million of senior unsecured 7 7/8% Notes due September 1, 2007. Interest is payable semi-annually on March 1 and September 1. The Notes are not redeemable prior to maturity.

During 1991, the Company issued \$100 million of senior unsecured 9 1/4% Notes, \$100 million of senior unsecured 9.4% Notes, and \$100 million of senior unsecured 8 3/4% Notes due February 15, 1998, July 1, 2001, and October 15,

2003, respectively. Interest on the Notes is payable semi-annually. The Notes are not redeemable prior to maturity.

The fair values, based on quoted market prices, of these Notes at December 31, 1996, were as follows (in thousands):

<TABLE>	
<S>	
9 1/4% Notes due 1998 _____	<C> \$103,520
9.4% Notes due 2001 _____	110,670
8 3/4% Notes due 2003 _____	109,820
7 7/8% Notes due 2007 _____	104,800
8% Notes due 2005 _____	106,190
</TABLE>	

In addition to the credit facilities described above, Southwest has an unsecured Bank Credit Agreement with a group of banks that permits Southwest to borrow through December 14, 1999 on a revolving credit basis up to \$460 million. Interest rates on borrowings under the Credit Agreement can be, at the option of Southwest, the agent bank's prime rate, 0.275% over LIBOR, or 0.50% over domestic certificate of deposit rates. The commitment fee is 0.125% per annum. There were no outstanding borrowings under this agreement at December 31, 1996 or 1995.

5. LEASES

Total rental expense for operating leases charged to operations in 1996, 1995, and 1994 was \$280,389,000, \$247,033,000, and \$198,987,000, respectively. The majority of the Company's terminal operations space, as well as 106 aircraft, were under operating leases at December 31, 1996. The amounts applicable to capital leases included in property and equipment were (in thousands):

	1996	1995

[S]		
Flight equipment _____	\$226,677	\$223,844
Less accumulated amortization _____	111,815	101,641
	-----	-----
	\$114,862	\$122,203
	=====	=====

Future minimum lease payments under capital leases and noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 1996 were (in thousands):

<TABLE>		
<CAPTION>		
	CAPITAL LEASES	OPERATING LEASES

<S>	<C>	<C>
1997 _____	\$ 25,858	\$ 243,253
1998 _____	32,026	223,479
1999 _____	20,245	215,553
2000 _____	16,871	213,798
2001 _____	17,391	208,460
After 2001 _____	155,360	2,342,794
	-----	-----
Total minimum lease payments _____	267,751	\$3,447,337
		=====
Less amount representing interest _____	102,141	

Present value of minimum lease payment _____	165,610	
Less current portion _____	12,317	

Long-term portion _____	\$ 153,293	
	=====	

</TABLE>

The aircraft leases can generally be renewed, at rates based on fair market value at the end of the lease term, for one to five years. Most aircraft leases have purchase options at or near the end of the lease term at fair market value, but generally not to exceed a stated percentage of the lessor's defined cost of the aircraft.

6. COMMON STOCK

At December 31, 1996, the Company had common stock reserved for issuance pursuant to Employee stock benefit plans (35,257,962 shares) and upon exercise of rights (180,370,052 shares) pursuant to the Common Stock Rights Agreement, as amended (Agreement).

Effective July 18, 1996, the Company amended and restated the Agreement. The principal purpose of the amendment and restatement was to extend the Agreement by 10 years. Pursuant to the Agreement, each outstanding share of the Company's common stock is accompanied by one common share purchase right (Right). Each Right entitles its holder to purchase one share of common stock at an exercise price of \$16.67 and is exercisable only in the event of a proposed takeover, as defined by the Agreement. The Company may redeem the Rights at \$.0111 per Right prior to the time that 15 percent of the common stock has been acquired by a person or group. If the Company is acquired, each Right will entitle its holder to purchase for \$16.67 that number of the acquiring company's or the Company's common shares, as provided in the Agreement, having a market value of two times the exercise price of the Right. The Rights will expire no later than July 30, 2006.

7. STOCK PLANS

At December 31, 1996, the Company had six stock-based compensation plans and other stock options outstanding, which are described below. The Company applies APB 25 and related Interpretations in accounting for its stock-based compensation. Accordingly, no compensation cost is recognized for its fixed option plans and its stock purchase plan because the exercise price of the Company's Employee stock options equals the market price of the underlying stock on the date of the grant. Compensation cost charged against income for other options outstanding was \$649,778, \$564,251, and \$451,400 for 1996, 1995, and 1994, respectively.

The Company has five fixed option plans. Under the 1991 Incentive Stock Option Plan, the Company may grant options to key Employees for up to 9,000,000 shares of common stock. Under the 1991 Non-Qualified Stock Option Plan, the Company may grant options to key Employees and non-employee directors for up to 750,000 shares of common stock. All options granted under these plans have ten-year maximum terms and vest and become fully exercisable at the end of three, five, or ten years of continued employment, depending upon the grant type.

Under the 1995 Southwest Airlines Pilots' Association Non-Qualified Stock Option Plan (SWAPA Plan), the Company may grant

options to Pilots for up to 18,000,000 shares of common stock. An initial grant of approximately 14,500,000 shares was made on January 12, 1995 at an option price of \$20.00 per share. Options granted under the initial grant vest in ten annual increments of ten percent. On September 1 of each year of the agreement, beginning September 1, 1996, additional options will be granted to Pilots that become eligible during that year. Additional options granted on September 1, 1996 vest in eight annual increments of 12.5 percent. Options under both grants must be exercised prior to January 31, 2007, or within a specified time upon retirement or termination. In the event that the Southwest Airlines Pilots' Association exercises its option to make the collective bargaining agreement amendable on September 1, 1999, any unexercised options will be canceled on December 1, 1999.

Under the 1996 Incentive Stock Option Plan, the Company may grant options to key Employees for up to 6,000,000 shares of common stock. Under the 1996 Non-Qualified Stock Option Plan, the Company may grant options to key Employees and non-employee directors for up to 575,000 shares of common stock. All options granted under these plans have ten-year terms and vest and become fully exercisable at the end of three, five, or ten years of continued employment, depending upon the grant type.

Under all fixed option plans, the exercise price of each option equals the market price of the Company's stock on the date of grant, except that under the SWAPA Plan, for additional options granted each September 1, eligible Pilots will be required to pay a purchase price equal to 105 percent of the fair value of such stock on the date of the grant.

A summary of the status of the Company's five fixed option plans as of December 31, 1996, 1995, and 1994, and changes during the years ending on those dates is presented below:

<TABLE>

<CAPTION>

	INCENTIVE PLANS		NON-QUALIFIED PLANS	
	OPTIONS *	AVERAGE EXERCISE PRICE	OPTIONS **	AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>
Outstanding December 31, 1993 ..	4,312,287	\$ 8.83	301,277	\$ 8.92
Granted - Incentive Plans ...	794,714	29.02	--	--
Granted - SWAPA Plan	--	--	--	--
Granted - Other Non-Qualified Plans	--	--	63,918	34.85
Exercised	(190,159)	8.23	(9,940)	7.85
Surrendered	(104,880)	14.22	--	--
Outstanding December 31, 1994 ..	4,811,962	12.07	355,255	13.61
Granted - Incentive Plans	983,214	18.80	--	--
Granted - SWAPA Plan	--	--	14,527,050	20.00
Granted - Other Non-Qualified Plans	--	--	93,315	18.77
Exercised	(275,058)	8.50	(60,510)	15.12
Surrendered	(308,239)	12.71	(61,041)	19.61
Outstanding December 31, 1995 ..	5,211,879	13.47	14,854,069	19.86
Granted - Incentive Plans ...	1,670,344	25.18	--	--
Granted - SWAPA Plan	--	--	466,200	23.82
Granted - Other Non-Qualified Plans	--	--	69,122	25.17
Exercised	(395,848)	10.27	(290,385)	17.89
Surrendered	(250,446)	20.16	(94,985)	20.00
Outstanding December 31, 1996 ..	6,235,929	\$ 16.54	15,004,021	\$ 20.04
Exercisable December 31, 1996 ..	1,237,517		4,250,643	
Available for granting in future periods	7,352,821		3,854,504	

</TABLE>

*Includes 1991 Incentive Stock Option Plan. No options have been granted under the 1996 Incentive Stock Option Plan.

**Includes 1991 Non-Qualified Stock Option Plan and SWAPA Plan. No options have been granted under the 1996 Non-Qualified Stock Option Plan.

The following table summarizes information about fixed stock options outstanding under the fixed option plans at December 31, 1996:

<TABLE>

<CAPTION>

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding at 12/31/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/96	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
\$6.02 to \$7.81	2,487,991	4.05 yrs.	\$ 6.12	682,231	\$ 6.39
\$11.33 to \$16.87	326,591	5.09	12.02	71,291	12.07
\$18.81 to \$27.19	18,248,078	8.09	20.71	4,572,348	20.33
\$35.69 to \$37.44	177,290	7.02	37.29	162,290	37.40
\$6.02 to \$37.44	21,239,950	7.56 yrs.	\$19.01	5,488,160	\$18.99

</TABLE>

The Company has granted options to purchase the Company's common stock related to employment contracts with the Company's president and chief executive officer. These options have terms of ten years from the date of grant or ten years from the date exercisable, depending upon the grant. The options vest and become fully exercisable over three or four years. In 1996, the Company granted 144,395 options with an exercise price of \$1.00 per share and 500,000 options with an exercise price of \$23.50 per share related to the 1996 employment agreement. None of the 1996 options granted were exercised in 1996, however, 128,879 were exercisable as of December 31, 1996. At December 31, 1996, 1995,

and 1994, 1,897,898, 1,422,253, and 1,489,753 total options were outstanding. Exercise prices range from \$1.00 to \$23.50 per share. Options for 168,750, 67,500, and 15,000 shares were exercised in 1996, 1995, and 1994, respectively.

Under the 1991 Employee Stock Purchase Plan (ESPP), the Company is authorized to issue up to a balance of 1,183,236 shares of common stock to Employees of the Company at a price equal to 90 percent of the market value at the end of each purchase period. Common stock purchases are paid for through periodic payroll deductions. Participants under the plan received 309,446 shares in 1996, 388,339 shares in 1995, and 290,054 shares in 1994 at average prices of \$23.05, \$19.18, and \$24.98, respectively.

Pro forma information regarding net income and net income per share is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock-based compensation plans and other stock options under the fair value method of that SFAS. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants under the fixed option plans in 1996 and 1995, respectively: dividend yield of .16% and .21%; expected volatility of 35.4% and 36.9%; risk-free interest rate of 5.9% and 7.8%; and expected lives of 5.0 years for both periods. Assumptions for the stock options granted in 1996 to the Company's president and chief executive officer were the same as for the fixed option plans except for the weighted average expected lives of 8.0 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's Employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its Employee stock options.

For purposes of pro forma disclosures the estimated fair value of stock-based compensation plans and other options is amortized to expense primarily over the vesting period. The Company's pro forma net income and net income per share is as follows (in thousands except per share amounts):

<TABLE> <CAPTION>		1996 ----	1995 ----
<S>		<C>	<C>
Net income	As reported	\$207,337	\$182,626
	Pro forma	\$196,478	\$167,907
Net income per share	As reported	\$1.37	\$1.23
	Pro forma	\$1.33	\$1.14
</TABLE>			

The effects of applying SFAS 123 for providing pro forma disclosures during the initial phase-in period may not be representative of the effects on reported net income for future years.

The weighted-average fair value of options granted under the five fixed option plans during 1996 and 1995 was \$10.17 and \$8.42, respectively, for the incentive plans, \$9.24 and \$7.97, respectively, for the SWAPA Plan, and \$10.17 and \$8.42,

respectively, for other non-qualified plans. The weighted average fair value of options granted in 1996 to the Company's president and chief executive officer (no options were granted in 1995) was \$13.98. The weighted-average fair value of each purchase right under the ESPP granted in 1996 and 1995, which is equal to the ten percent discount from the market value of the common stock at the end of each purchase period, was \$2.56 and \$2.15, respectively.

8. EMPLOYEE PROFITSHARING AND SAVINGS PLANS

Substantially all of Southwest's Employees are members of the Southwest Airlines Co. Profitsharing Plan (the Plan). Total profitsharing expense charged to operations in 1996, 1995, and 1994, was \$59,927,000, \$54,033,000, and \$52,782,000, respectively.

The Company sponsors Employee savings plans under Section 401(k) of the Internal Revenue Code. The plans cover substantially all full-time Employees. The amount of matching contributions varies by Employee group. Company

contributions generally vest over five years with credit for prior years' service granted. Company matching contributions expensed in 1996, 1995 and 1994 were \$35,125,000, \$28,954,000, and \$19,817,000, respectively.

9. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred tax assets and liabilities at December 31, 1996 and 1995 are as follows (in thousands):

	1996	1995
<S>	<C>	<C>
Deferred tax liabilities:		
Accelerated depreciation _____	\$467,372	\$400,321
Scheduled airframe overhauls _____	30,984	27,129
Other _____	78,195	68,458
Total deferred tax liabilities	576,551	495,908
Deferred tax assets:		
Deferred gains from sale and leaseback of aircraft _____	114,514	106,119
Capital and operating leases _____	58,252	54,472
Alternative minimum tax credit carryforward _____	6,019	11,333
Other _____	59,339	52,810
Total deferred tax assets	238,124	224,734
Net deferred tax liability	\$338,427	\$271,174

The provision for income taxes is comprised of the following (in thousands):

	1996	1995	1994
<S>	<C>	<C>	<C>
Current:			
Federal _____	\$ 59,101	\$ 64,420	\$ 59,603
State _____	7,671	9,947	10,702
Total Current	66,772	74,367	70,305
Deferred:			
Federal _____	60,967	44,580	46,470
State _____	6,286	3,567	3,417
Total deferred	67,253	48,147	49,887
	\$134,025	\$122,514	\$120,192

Southwest 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 proposed with which it does not agree. The industry's difference with the IRS involves complex issues of law and fact that 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.

The effective tax rate on income before income taxes differed from the federal income tax statutory rate for the following reasons (in thousands):

	1996	1995	1994

Tax at statutory U.S. tax rates ____	\$119,477	\$106,799	\$104,833
Nondeductible items	5,168	4,488	3,689
State income taxes, net of federal benefit _____	9,072	8,784	9,177
Other, net _____	308	2,443	2,493
	_____	_____	_____
Total income tax provision _____	\$134,025 =====	\$122,514 =====	\$120,192 =====

10. NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE

Net income per common and common equivalent share is computed based on the weighted average number of common and common equivalent shares outstanding (151,840,187 in 1996, 148,850,512 in 1995 and 147,305,374 in 1994). Fully diluted earnings per share have not been presented as the fully dilutive effect of shares issuable upon the exercise of options under the Company's Stock Option Plans is not material.

REPORT OF ERNST & YOUNG LLP
INDEPENDENT AUDITORS
The Board of Directors and Shareholders
Southwest Airlines Co.

We have audited the accompanying consolidated balance sheets of Southwest Airlines Co. as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southwest Airlines Co. at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

/s/ ERNST & YOUNG LLP

Dallas, Texas
January 23, 1997

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

YEAR IN REVIEW

Southwest and the airline industry continued to post record profits in 1996. Southwest's net income for the first half of 1996 benefitted from the lapse in the ten percent federal ticket tax on December 31, 1995. Net income for the second half of 1996 fell below year ago levels primarily due to significant increases in jet fuel prices.

Southwest continued to maintain our advantage as the low cost leader in the industry. Despite this advantage, we continue pursuing numerous cost reduction efforts, which have proven to be beneficial.

We added 22 new Boeing 737-300 aircraft to our fleet in 1996 and retired three -200s. Our fleet remains one of the youngest fleets in the industry with an average age of 7.9 years. In October 1997, we will be the launch customer for the new Boeing 737-700 aircraft. In total for 1997, we will accept delivery of 15 -300s and four -700s. We currently plan to retire four -200s in fourth quarter 1997.

Our expansion into Florida in 1996 has been successful with strong load factors. We added Jacksonville, Florida service beginning January 15, 1997. Service to Providence, Rhode Island, which began October 27, 1996, also looks promising. Our current plans for capacity growth in 1997 will be primarily directed to cities we presently serve, either with increased frequencies or new routes. We may begin service to one more new city later in 1997.

Proposed FAA "funding reform" continues to present uncertainty as to how or if any changes would impact Southwest. While Congress reinstated the ten percent ticket tax in August 1996, the tax lapsed again as of December 31, 1996. At the current time, Southwest is unable to predict how this FAA funding issue will be resolved and what impact, if any, resolution of this uncertainty will have on future operating results.

RESULTS OF OPERATIONS

1996 COMPARED WITH 1995 The Company's consolidated net income for 1996 was \$207.3 million (\$1.37 per share), as compared to the corresponding 1995 amount of \$182.6 million (\$1.23 per share), an increase of 13.5 percent.

OPERATING REVENUES Consolidated operating revenues increased by 18.6 percent in 1996 to \$3,406.2 million, compared to \$2,872.8

million for 1995. This increase in 1996 operating revenues was derived primarily from an 18.4 percent increase in passenger revenues. Revenue passenger miles (RPMs) increased 16.1 percent in 1996, compared to a 12.6 percent increase in available seat miles (ASMs), resulting in an increase in load factor from 64.5 percent in 1995 to 66.5 percent in 1996. The 1996 ASM growth resulted from the net addition of 19 aircraft during the year: 22 additions and three retirements.

In December 1995, because of the impasse in the federal budget, Congress allowed the ten percent federal ticket tax to lapse. This benefitted Southwest's revenues until late August when Congress reimposed the tax through December 31, 1996. The reimposition of the ticket tax negatively impacted revenues in third and fourth quarters 1996 as compared to revenue trends in the first half of 1996.

In celebration of the Company's 25th Anniversary, Southwest launched a fare sale in July for travel between August 19 and October 31, 1996. The sale was extremely popular and resulted in record advance bookings, with more than four and a half million seats sold. Although July and early August load factors and revenues were negatively impacted by the telephone line congestion experienced during the sale, revenues for September and October 1996 were positively impacted with very heavy passenger volumes.

Freight revenues in 1996 were \$80.0 million, compared to \$65.8 million in 1995. The 21.5 percent increase in freight revenues exceeded the 12.6 percent increase in ASMs for the same period primarily due to increased air freight volumes and United States mail services primarily resulting from the development of new markets added in 1995 and early 1996.

Other revenues increased by 23.3 percent in 1996 to \$56.9 million, compared to \$46.2 million in 1995. This increase is primarily due to increased charter revenue.

OPERATING EXPENSES Consolidated operating expenses for 1996 were \$3,055.3

million, compared to \$2,559.2 million in 1995, an increase of 19.4 percent, compared to the 12.6 percent increase in capacity. Operating expenses per ASM increased 6.1 percent in 1996 compared to 1995, primarily due to significantly higher jet fuel prices along with the 4.3 cent per gallon federal jet fuel tax implemented October 1, 1995. Excluding jet fuel costs and related taxes, operating expenses per ASM were up 3.1 percent in 1996 compared to 1995.

Unit costs are expected to increase in first quarter 1997 versus first quarter 1996, due to higher jet fuel prices. (The

immediately preceding sentence is a forward-looking statement which involves uncertainties that could result in actual results differing materially from expected results. Such uncertainties include, but may not be limited to, the largely unpredictable levels of fuel prices.)

Operating expenses per ASM for 1996 and 1995 were as follows:

OPERATING EXPENSES PER ASM

<TABLE>
<CAPTION>

	1996	1995	INCREASE	PERCENT CHANGE
<S>	<C>	<C>	<C>	<C>
Salaries, wages, and benefits ...	2.22 (cents)	2.17 (cents)	.05 (cents)	2.3%
Employee profitsharing and savings plans ..	.23	.23	--	--
Fuel and oil	1.19	1.01	.18	17.8
Maintenance materials and repairs	.62	.60	.02	3.3
Agency commissions	.35	.34	.01	2.9
Aircraft rentals	.47	.47	--	--
Landing fees and other rentals ..	.46	.44	.02	4.5
Depreciation	.45	.43	.02	4.7
Other	1.51	1.38	.13	9.4
TOTAL	7.50 (cents)	7.07 (cents)	.43 (cents)	6.1%

Salaries, wages, and benefits per ASM increased 2.3 percent in 1996. This increase resulted primarily from a 16.2 percent increase in 1996 average headcount, which outpaced the 1996 capacity (ASM) increase of 12.6 percent, and offset a 0.8 percent decrease in average salary and benefits cost per Employee. The 16.2 percent increase in average headcount was primarily the result of a 24.3 percent increase in Reservations Sales Agents in 1996. Excluding Reservations Sales Agents, total average headcount increased 13.1 percent, in line with capacity.

Southwest's mechanics are subject to an agreement with the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America (the Teamsters), which became amendable August 16, 1995. The Company reached an agreement with the Teamsters which was ratified by its membership in March 1996. 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.

Fuel and oil expenses per ASM increased 17.8 percent in 1996, primarily due to an 18.6 percent increase in the average jet fuel cost per gallon from 1995. The average price paid for jet fuel in 1996 was \$.6547 compared to \$.5522 in 1995. During fourth quarter 1996, the average cost per gallon increased 25.0 percent to \$.7323 compared to \$.5859 in fourth quarter 1995. In January 1997, fuel prices have averaged approximately \$.76 per gallon.

Maintenance materials and repairs per ASM increased 3.3 percent in 1996 compared to 1995 primarily as a result of increased scheduled airframe inspections during 1996.

Agency commissions per ASM increased 2.9 percent in 1996 compared to 1995, which was slightly slower than the 5.2 percent increase in passenger revenues per ASM.

Landing fees and other rentals per ASM increased 4.5 percent in 1996 compared to 1995, which included an airport credit of \$4.9 million.

Depreciation expense per ASM increased 4.7 percent in 1996 compared to 1995 due to an increase in the percentage of owned aircraft.

Other operating expenses per ASM increased 9.4 percent in 1996 compared to 1995. This increase was primarily due to increased advertising costs resulting from the expansion into Florida and Providence, Rhode Island, as well as a new advertising campaign; the 4.3 cents per gallon tax on commercial aviation jet fuel purchased for use in domestic operations, which became effective October 1, 1995; and increased airport security costs. The additional fuel tax increased 1996 and 1995 "other operating expenses" by \$32.7 million and \$7.4 million, respectively.

OTHER "Other expenses (income)" included interest expense, capitalized interest, interest income, and nonoperating gains and losses. Capitalized interest decreased \$9.1 million in 1996 as a result of certain amendments to aircraft purchase contracts during third quarter 1995 that affected the timing of payments. Interest income for 1996 increased \$5.7 million primarily due to higher invested cash balances.

INCOME TAXES The provision for income taxes, as a percentage of income before taxes decreased in 1996 to 39.3 percent from 40.2 percent in 1995. The decrease was primarily the result of lower effective state tax rates.

1995 COMPARED WITH 1994 The Company's consolidated net income for 1995 was \$182.6 million (\$1.23 per share), as compared to the

corresponding 1994 amount of \$179.3 million (\$1.22 per share), an increase of 1.8 percent.

Operating Revenues Consolidated operating revenues increased by 10.8 percent in 1995 to \$2,872.8 million, compared to \$2,591.9 million for 1994. This increase in 1995 operating revenues was derived from a 10.5 percent increase in passenger revenues. RPMs increased 7.9 percent in 1995, compared to a 12.6 percent increase in ASMs, resulting in a decrease in load factor from 67.3 percent in 1994 to 64.5 percent in 1995. The 1995 ASM growth resulted from the addition of 25 aircraft during the year.

Freight revenues in 1995 were \$65.8 million, compared to \$54.4 million in 1994. The 21.0 percent increase in freight revenues exceeded the 12.6 percent increase in ASMs for the same period primarily due to increased air freight volumes and United States mail services primarily resulting from the development of new markets added throughout 1994 and 1995.

Operating Expenses Consolidated operating expenses for 1995 were \$2,559.2 million, compared to \$2,275.2 million in 1994, an increase of 12.5 percent, compared to the 12.6 percent increase in ASMs. For the second consecutive year, operating expenses on a per-ASM basis decreased year-over-year, down .1 percent in 1995.

Salaries, wages, and benefits per ASM increased 1.9 percent in 1995. This increase resulted primarily from a 17.8 percent increase in 1995 average headcount, which outpaced the 1995 capacity (ASM) increase of 12.6 percent, and offset a 2.6 percent decrease in average salary and benefits cost per Employee. The 17.8 percent increase in average headcount was primarily the result of a 44.6 percent increase in Reservations Sales Agents in 1995. Excluding Reservations Sales Agents, total average headcount increased only 11.4 percent. The Reservations Sales Agent increase coincided with increased demand for reservations capacity following 1994 enhancements to Southwest's ticket delivery systems for direct Customers.

Employee profitsharing and savings plans expense per ASM increased 4.5 percent in 1995. The increase is primarily the result of increased matching contributions to Employee savings plans resulting from increased Employee participation and higher matching rates in 1995 for non-contract Employees and certain Employee groups covered by collective bargaining agreements.

Fuel and oil expenses per ASM increased 1.0 percent in 1995, primarily due to a 2.4 percent increase in the average jet fuel cost per gallon from 1994. Jet fuel prices remained relatively stable throughout most of 1995, with quarterly averages through

the first three quarters ranging from \$.53 to \$.55 per gallon. During fourth quarter 1995, the average cost per gallon increased to \$.59 and, in January 1996, averaged approximately \$.62 per gallon.

Maintenance materials and repairs per ASM increased 1.7 percent in 1995 compared to 1994 primarily as a result of performing more engine overhauls during 1995.

Agency commissions per ASM decreased 17.1 percent in 1995 compared to 1994, due to a lower mix of travel agency sales in 1995. The lower travel agency sales mix resulted from 1994 enhancements to Southwest's ticket delivery systems for direct Customers, as described below.

In response to actions taken by our competitor-owned reservations systems in 1994, 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 consumers (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.

Aircraft rentals per ASM increased 11.9 percent in 1995. The increase primarily resulted from second and third quarter 1995 sale/leaseback transactions involving ten new 737-300 aircraft and a higher percentage of the fleet consisting of leased aircraft.

Other operating expenses per ASM decreased 2.8 percent in 1995 compared to 1994. This decrease was primarily due to operating efficiencies resulting from the transition of Morris operating functions to Southwest commencing first quarter 1994, and lower communications costs. Communications costs decreased approximately 15 percent per ASM primarily due to lower negotiated rates, increased reservations operations efficiencies, and enhancements to the Company's ticket delivery system.

In August 1993, the Revenue Reconciliation Act of 1993 was enacted, which, among other things, included an assessment of a 4.3 cents per gallon tax on commercial aviation jet fuel purchased for use in domestic operations, which became effective September 30, 1995. This additional fuel tax increased 1995 "other operating expenses" by \$7.4 million. Other "Other expenses (income)" included interest expense, capitalized interest, interest income, and nonoperating gains and losses. Interest expense increased \$5.4 million in 1995 due to the March 1995 issuance of \$100 million senior unsecured 8% Notes due 2005. Capitalized interest increased \$5.0 million in 1995 as a result of higher levels of progress payments on aircraft compared to 1994. Interest income for 1995 increased \$10.9 million primarily due to higher invested cash balances and higher short-term interest rates.

Income Taxes The provision for income taxes as a percentage of income before taxes was relatively unchanged year over year.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operations was \$615.2 million in 1996, compared to \$456.4 million in 1995. During 1996, additional funds of \$330.0 million were generated from the sale and leaseback of ten new 737-300 aircraft subject to long-term operating leases (increasing total commitments for operating leases by \$588.8 million).

During 1996, capital expenditures of \$677.4 million primarily were for the purchase of 22 new 737-300 aircraft, one used 737-200 aircraft previously leased by the Company, and progress payments for future aircraft deliveries. At December 31, 1996, capital commitments of the Company consisted primarily of scheduled aircraft acquisitions.

The Company recently announced its intention to order 20 hushkits for our 737-200 fleet, with an option for 14 more, for delivery in 1997-1999. These hushkits, with an approximate cost of \$1.0 million per aircraft, will make the Stage 2 -200 aircraft compliant with Stage 3 noise requirements.

As of January 1997, Southwest had 78 new 737s on firm order, including 19 to be delivered in 1997, with options to purchase another 67. Aggregate funding required for firm commitments approximated \$1,960.1 million through the year 2001 of which \$515.1 million related to 1997. See Note 2 to the Consolidated Financial Statements for further information.

In September 1996, the Company's Board of Directors reaffirmed a 1990 authorization for the Company to purchase shares of its common stock from time-to-time on the open market. The authorization reaffirmed the purchase of up to 2,500,000 shares. As of February 21, 1997, no shares have been purchased pursuant to this authority since 1990.

The Company has various options available to meet its capital and operating commitments, including cash on hand at December 31, 1996

of \$581.8 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 December 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 \$114.4 million of public debt securities which it currently intends to utilize for aircraft financings in 1997.

Cash provided from operations was \$456.4 million in 1995 as compared to \$412.7 million in 1994. During 1995, additional funds of \$321.7 million were generated from the sale and leaseback of ten new 737-300 aircraft subject to long-term operating leases (increasing total commitments for operating leases by \$607.9 million). In addition, \$98.8 million was generated from the March 1995 issuance of \$100 million in senior unsecured 8% Notes due 2005. These proceeds were primarily used to finance aircraft-related capital expenditures and to provide working capital.