

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 June 30, 1995.

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-8957

ALASKA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-1292054
(I.R.S. Employer
Identification No.)

19300 Pacific Highway South, Seattle, Washington 98188
(Address of principal executive offices)

Registrant's telephone number, including area code: (206) 431-7040

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 ____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The registrant has 13,440,986 common shares, par value \$1.00, outstanding at June 30, 1995.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Attached are the following Alaska Air Group, Inc. (the Company or Air Group) unaudited financial statements: (i) consolidated balance sheets as of June 30, 1995 and December 31, 1994; (ii) consolidated statements of income for the quarters and six months ended June 30, 1995 and 1994; (iii) consolidated statement of shareholders' equity for the six months ended June 30, 1995; and, (iv) consolidated statements of cash flows for the six months ended June 30, 1995 and 1994. Also attached are the accompanying notes to the Company's consolidated financial statements that have changed significantly during the six months ended June 30, 1995. These statements, which should be read in conjunction with the financial statements in the Company's annual report on Form 10-K for the year ended December 31, 1994, include all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. The adjustments made were of a normal recurring nature.

Air Group is a holding company incorporated in Delaware in 1985. Its principal subsidiaries are Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Second Quarter 1995 Compared with Second Quarter 1994 The consolidated net income for the second quarter of 1995 was \$7.0 million, or \$.52 per primary share and \$.48 per fully diluted share, compared with net income of \$9.7 million, or \$.72 per primary share and \$.61 per fully diluted share, in 1994. Operating income for the second quarter of 1995 was \$24.5 million, the same as in 1994. A discussion of operating revenues and expenses for the two airlines follows.

Alaska Airlines Operating revenues increased 9.1% to \$292.9 million. Passenger revenues, which accounted for 87% of total operating revenues, increased 8.4% on a 17.9% rise in passenger traffic. Capacity increased 20.1%, primarily due to increases in the Pacific Northwest to California markets. The load factor dropped from 62.4% in 1994 to 61.3% in 1995. Passenger yields declined 8.1% to 11.9 cents in 1995, reflecting increased competition on the West Coast. However, yields increased 6.3% when compared against the first quarter of 1995.

MarkAir, a significant competitor in the Alaska marketplace since 1992, filed for Chapter 11 bankruptcy for the second time on April 14, 1995. Since then, it has withdrawn from all Alaska markets.

Freight and mail revenues increased 7.9% due to higher freight and mail volumes, resulting in part from the withdrawal of MarkAir from all Alaska markets. Other-net revenues rose 23.6% primarily due to increased revenues from travel partners in Alaska's frequent flyer program.

The table below shows the major operating expense elements on a cost per available seat mile (ASM) basis, for Alaska for the second quarters of 1995 and 1994.

Alaska Airlines	Operating Expenses Per ASM (In Cents)			
	1995	1994	Change	% Change
Wages and benefits	2.48	2.82	(.34)	(12)
Aircraft fuel	1.06	1.02	.04	4
Aircraft maintenance	.33	.41	(.08)	(20)
Aircraft rent	.98	1.16	(.18)	(16)
Commissions	.57	.66	(.09)	(14)
Depreciation & amortization	.42	.41	.01	2
Other	1.86	2.09	(.23)	(11)
Alaska Airlines Total	7.70	8.57	(.87)	(10)

Alaska's lower unit costs were due to continuing cost reduction efforts and better utilization of aircraft. Average daily aircraft utilization increased 7% from 10.1 block hours to 10.8 block hours. Wages and benefits per ASM decreased 12% primarily due to improved productivity. The number of full-time equivalent employees increased 8% while capacity increased 20% and traffic increased 18%. Fuel expense per ASM increased 4%, due to an 8% increase in the price of fuel, offset by the greater use of more fuel-efficient aircraft.

Aircraft maintenance per ASM decreased 20% due to increased aircraft utilization and lower than average engine repair work. Aircraft rent per ASM decreased 16% due to an increase in aircraft utilization, and a restructuring of B737-400 aircraft leases that resulted in lower rents.

Commission expense per ASM decreased 14% because passenger revenues, upon which commissions are paid, did not keep pace with ASM growth.

Depreciation and amortization expense per ASM increased 2%, in spite of a 20% increase in ASMs, primarily due to: (a) the reduction in estimated salvage value from 20% to 5% (effective January 1, 1995) for all MD-80 aircraft; and (b) depreciation on three B737-400 aircraft that were on operating leases in 1994. Other expense per ASM decreased 11% due to lower unit costs for building rentals, food, landing fees and outside services expenses.

Horizon Air Operating revenues increased 11.9% to \$70.2 million. Passenger revenues, which accounted for 95% of total operating revenues, increased 11.6% on a 21.6% rise in passenger traffic. Capacity increased 30.4% due to the addition of larger capacity Fokker F-28 jets and Dornier 328 turboprop aircraft. The load factor dropped from 61.5% in 1994 to 57.3% in 1995. Passenger yields declined 8.3% to 32.3 cents in 1995, reflecting increased competition and longer passenger trips. However, yields were up slightly when compared against the first quarter of 1995.

Freight, mail and other revenues increased 19.0% due to increased freight and mail volumes as well as increased revenues from providing services to other airlines.

The table below shows the major operating expense elements on cost per ASM basis for Horizon for the second quarters of 1995 and 1994.

Horizon Air	Operating Expenses Per ASM (In Cents)			
	1995	1994	Change	% Change

Wages and benefits	5.98	6.62	(.64)	(10)
Aircraft fuel	1.84	1.70	.14	8
Aircraft maintenance	2.29	2.15	.14	7
Aircraft rent	2.38	2.60	(.22)	(8)
Commissions	1.37	1.64	(.27)	(16)
Depreciation & amortization	.64	.82	(.18)	(22)
Other	4.59	4.94	(.35)	(7)
Horizon Air Total	19.09	20.47	(1.38)	(7)

Horizon's cost per ASM declined 7% to 19.09 cents due to the acquisition of higher capacity aircraft and cost reduction efforts.

Other Income (Expense) Non-operating expense increased \$4.7 million to \$11.5 million expense due to: (a) \$1.3 million more interest expense resulting from higher interest rates on variable debt and higher average debt balances; (b) \$1.8 million of vendor credits included in 1994; and (c) \$1.5 million of gains on debt retirements included in 1994.

Six Months 1995 Compared with Six Months 1994 The consolidated net loss for the six months ended June 30, 1995 was \$9.3 million, or \$.70 per share, compared with net income of \$3.4 million, or \$.25 per share, in 1994. Operating income for the first half of 1995 was \$6.2 million compared to operating income of \$21.6 million in 1994. A discussion of operating revenues and expenses for the two airlines follows.

Alaska Airlines Operating revenues increased 6.0% to \$525.6 million, primarily due to a 17.4% rise in passenger traffic. Capacity increased 22.2%, primarily due to increases in the Pacific Northwest to California markets. The load factor dropped from 61.4% in 1994 to 58.9% in 1995. Passenger yields declined 10.4% to 11.53 cents in 1995, reflecting increased competition on the West Coast.

Operating expenses increased 8.0% to \$516.3 million on a capacity increase of 22.2%. Unit costs decreased 11.6%, generally for the same reasons as noted above in the second quarter comparison.

Horizon Air Operating revenues increased 14.2% to \$133.0 million, primarily due to a 25.4% rise in passenger traffic. Capacity increased 32.0% due to the addition of larger capacity Fokker F-28 jets and Dornier 328 turboprop aircraft. The load factor dropped from 60.5% in 1994 to 57.5% in 1995. Passenger yields declined 9.4% to 32.1 cents in 1995, reflecting increased competition and longer passenger trips.

Operating expenses increased 21.1% to \$135.5 million on a capacity increase of 32.0%. Unit costs decreased 8%, generally for the same reasons as noted above in the second quarter comparison.

Other Income (Expense) Non-operating expense increased \$8.2 million to \$23.2 million for the same reasons as noted above in the second quarter comparison.

Income Tax Credit Accounting standards require the Company to provide for income taxes each quarter based on its estimate of the effective tax rate for the full year. The volatility of air fares and the seasonality of the Company's business make it very difficult to estimate full-year pretax results. In addition, a relatively small change in pretax results can cause a significant change in the effective tax rate due to the magnitude of nondeductible expenses, such as goodwill amortization and employee per diem costs. In estimating the 45.2% tax rate for the first half of 1995, the Company considered a variety of factors, including the 45.0% tax rate used for full year 1994. This rate is evaluated each quarter and adjustments are made if necessary.

Liquidity and Capital Resources

The table below presents the major indicators of financial condition and liquidity.

	June 30, 1995	December 31, 1994	Change
(In millions, except debt-to-equity and per share amounts)			
Cash and marketable securities	\$230.8	\$ 104.9	\$125.9
Working capital (deficit)	(40.5)	(147.1)	106.6
Long-term debt	699.6	589.9	109.7
Shareholders' equity	183.2	191.3	(8.1)
Book value per common share	\$13.63	\$ 14.27	\$ (.64)

Debt-to-equity

79%:21%

76%:24%

NA

In June 1995, the Company issued \$132.3 million of 6-1/2% convertible senior debentures due 2005. Each debenture is convertible into 46.512 shares of common stock, reflecting a conversion price of \$21.50 per share. During the third quarter of 1995, the Company will redeem all of its 7-1/4% zero coupon, convertible subordinated notes, which are due in 2006 but which contain an option whereby the holder can put the notes to the Company in April 1996.

The Company's cash and marketable securities portfolio increased by \$126 million during the first six months of 1995. Operating activities provided \$74 million of cash during this period. An additional \$129 million of cash was provided by the issuance of new long-term debt. Cash was used for airframe and engine overhauls and other capital expenditures (\$35 million), the repayment of debt (\$27 million), and the net repayment of short-term borrowings (\$25 million).

The working capital deficit decreased by \$107 million primarily due to proceeds from issuance of long-term debt, offset by debt repayments.

PART II. OTHER INFORMATION

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

(a) Air Group's annual meeting of stockholders was held on May 16, 1995.

(b) Not applicable.

(c) Three directors were elected with the following results:

Director	Votes For	Votes Against or Withheld	Broker Non-Votes
W.H. Clapp	12,037,261	84,128	0
R.F. Cosgrave	12,036,731	84,658	0
R.M. Langland	12,031,034	90,355	0

ITEM 5. Other Information

In May 1995, Alaska's clerical, office and passenger service employees approved an amended four-year contract between the International Association of Machinists (IAM) and Alaska.

In April 1995, Horizon's mechanics and related classifications of the Transport Workers Union of America ratified a new three-year contract.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibit 11 - Statement regarding computation of per-share earnings.

Exhibit 27 - Financial data schedule.

(b) Registrant filed a Current Report on Form 8-K, dated June 8, 1995, in respect to the sale of its 6-1/2% convertible senior debentures due 2005. Exhibits related to the underwriters, trustee and accountants were filed (Item 7).

Signitures

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALASKA AIR GROUP, INC.

Registrant

Date: July 31, 1995

/s/ John F. Kelly

John F. Kelly

Chairman, President and Chief Executive Officer

/s/ Harry G. Lehr

Harry G. Lehr

Senior Vice President/Planning and Finance
(Principal Financial Officer)

CONSOLIDATED BALANCE SHEET

Alaska Air Group, Inc.

ASSETS

June 30,

Dec 31,

(In Thousands)	1995	1994
Current Assets		
Cash and cash equivalents	\$128,641	\$11,605
Marketable securities	102,125	93,337
Receivables - net	89,780	70,055
Inventories and supplies	42,891	40,250
Prepaid expenses and other assets	54,857	57,396
Total Current Assets	418,294	272,643
Property and Equipment		
Flight equipment	796,150	776,551
Other property and equipment	213,265	208,502
Deposits for future flight equipment	42,117	52,885
	1,051,532	1,037,938
Less accum. depreciation and amort.	285,937	260,001
	765,595	777,937
Capital leases		
Flight and other equipment	103,076	103,076
Less accumulated amortization	23,901	21,676
	79,175	81,400
Total Property and Equipment - Net	844,770	859,337
Intangible Assets - Subsidiaries	64,651	65,671
Other Assets	128,539	118,120
Total Assets	\$1,456,254	\$1,315,771

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

(In Thousands)	June 30, 1995	Dec 31, 1994
Current Liabilities		
Accounts payable	\$55,407	\$48,592
Accrued aircraft rent	42,319	43,762
Other accrued liabilities	70,024	59,591
Accrued wages and related	43,377	47,364
Short-term borrowings	-	25,000
Air traffic liability	175,490	123,433
Current portion of long-term debt and capital lease obligations	72,127	72,005
Total Current Liabilities	458,744	419,747
Long-Term Debt and Capital Lease Obligations	699,648	589,904
Other Liabilities and Credits		
Deferred income taxes	22,831	28,585
Deferred income	21,163	23,018
Other liabilities	70,639	63,239
	114,633	114,842
Shareholders' Equity		
Common stock, \$1 par value		
Authorized: 30,000,000 shares		
Issued: 1995 - 16,594,579 shares		
1994 - 16,553,679 shares	16,595	16,554
Capital in excess of par value	153,386	152,756
Treasury stock, at cost:		
1995-3,153,593; 1994-3,153,589 sh	(71,807)	(71,807)
Deferred compensation	(4,098)	(4,697)
Retained earnings	89,153	98,472
	183,229	191,278
Total Liabilities and Shareholders' Equity	\$1,456,254	\$1,315,771

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Alaska Air Group, Inc.

Quarter Ended June 30 (In Thousands except Per share Amounts)	1995	1994
Operating Revenues		
Passenger	\$320,795	\$294,245
Freight and mail	24,386	22,359
Other - net	17,011	13,871
Total Operating Revenues	362,192	330,475
Operating Expenses		
Wages and benefits	108,477	100,334
Aircraft fuel	43,860	34,415
Aircraft maintenance	19,680	17,869
Aircraft rent	42,985	41,104
Commissions	24,986	23,654
Depreciation and amortization	16,992	14,276
Other	80,743	74,332
Total Operating Expenses	337,723	305,984
Operating Income	24,469	24,491
Other Income (Expense)		
Interest income	1,950	1,711
Interest expense	(13,069)	(11,810)
Interest capitalized	-	95
Loss on sale of assets	(693)	(327)
Other - net	266	3,442
	(11,546)	(6,889)
Income before income tax	12,923	17,602
Income tax expense	5,902	7,921
Net Income	\$7,021	\$9,681
Primary Earnings Per Share	\$0.52	\$0.72
Fully Diluted Earnings Per Share	\$0.48	\$0.61
Shares used for computation:		
Primary	13,446	13,366
Fully diluted	19,255	19,740

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Alaska Air Group, Inc.

Six Months Ended June 30 (In Thousands except Per share Amounts)	1995	1994
Operating Revenues		
Passenger	\$580,177	\$542,466
Freight and mail	45,484	42,595
Other - net	31,104	25,796
Total Operating Revenues	656,765	610,857
Operating Expenses		
Wages and benefits	208,288	193,129
Aircraft fuel	83,078	67,342
Aircraft maintenance	40,319	34,670
Aircraft rent	84,681	80,512
Commissions	45,273	43,651
Depreciation and amortization	33,930	27,203
Other	155,028	142,787
Total Operating Expenses	650,597	589,294
Operating Income	6,168	21,563
Other Income (Expense)		
Interest income	3,311	3,135
Interest expense	(26,398)	(21,687)
Interest capitalized	-	198
Loss on sale of assets	(706)	(502)
Other - net	611	3,883
	(23,182)	(14,973)
Income (loss) before income tax	(17,014)	6,590

Income tax expense (credit)	(7,695)	3,222
Net Income (Loss)	\$ (9,319)	\$3,368
Earnings (Loss) Per Share	\$ (0.70)	\$0.25
Shares used for computation	13,405	13,364

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
Alaska Air Group, Inc.

(In Thousands)	\$1 Par Value	Common Stock Capital in Excess of Par Value	Treasury Stock at Cost	Deferred Compen- sation	Retained Earnings	Total
Balances at December 31, 1994	\$16,554	\$152,756	\$ (71,807)	\$ (4,697)	\$98,472	\$191,278
Net loss for the six months ended June 30, 1995					(9,319)	(9,319)
Stock issued under stock plans	41	630				671
Employee Stock Ownership Plan shares allocated				599		599
Balances at June 30, 1995	\$16,595	\$153,386	\$ (71,807)	\$ (4,098)	\$89,153	\$183,229

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Alaska Air Group, Inc.

Six Months Ended June 30 (In Thousands)	1995	1994
Cash and cash equivalents at beginning of period	\$11,605	\$27,179
Cash flows from operating activities:		
Net income (loss)	(9,319)	3,368
Adjustments to reconcile net income (loss) to cash:		
Depreciation and amortization	33,930	27,203
Amortization of airframe and engine ovhls	12,230	10,268
Loss (gain) on disposition of assets and debt retirement	648	(1,043)
Deferred income taxes	(5,754)	2,749
Increase in accounts receivable	(19,725)	(8,002)
Decrease (increase) in other current assets	(102)	4,687
Increase in air traffic liability	52,057	44,885
Increase in other current liabilities	11,818	23,197
Interest on zero coupon notes	4,536	5,089
Leased acft return payments and other-net	(5,867)	(12,319)
Net cash provided by operating activities	74,452	100,082
Cash flows from investing activities:		
Proceeds from disposition of assets	1,492	3,501
Purchases of marketable securities	(42,542)	(28,217)
Sales and maturities of marketable securities	33,754	24,137
Restricted deposits	(1,658)	(5,254)
Flight equipment deposits returned	8,883	3,115
Additions to flight equipment deposits	-	(826)
Additions to property and equipment	(34,949)	(128,837)
Net cash used in investing activities	(35,020)	(132,381)
Cash flows from financing activities:		
Proceeds from short-term borrowings	4,000	-
Repayment of short-term borrowings	(29,000)	(20,000)
Proceeds from issuance of long-term debt	128,795	104,000
Long-term debt and capital lease payments	(26,920)	(31,981)
Proceeds from issuance of common stock	671	274
Gain on debt retirement	58	1,545
Net cash provided by financing activities	77,604	53,838
Net increase in cash and cash equivalents	117,036	21,539
Cash and cash equivalents at end of period	\$128,641	\$48,718
Supplemental disclosure of cash paid (received) during the period for:		
Interest (net of amount capitalized)	\$28,059	\$20,896
Income taxes (refunds)	(1,943)	(6,715)
Noncash investing and financing activities:	None	None

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THAT HAVE CHANGED
SIGNIFICANTLY DURING THE SIX MONTHS ENDED JUNE 30, 1995
Alaska Air Group, Inc.

Note 1. Summary of Significant Accounting Policies (See Note 1 to
Consolidated Financial Statements at December 31, 1994)

Property, Equipment and Depreciation

Effective January 1, 1995, the estimated salvage value of MD-80 flight equipment was changed to 5% from 20%. The new estimate was adopted to recognize the lower expected salvage values for this aircraft type. The effect of the change on the three months and six months ending June 30, 1995 was to decrease net income \$757,000 (\$.06 per share) and \$1.5 million (\$.11 per share), respectively.

Note 2. Long-Term Debt and Capital Lease Obligations (See Note 4 to
Consolidated Financial Statements at December 31, 1994)

In June 1995, the Company issued \$132.3 million of 6-1/2% convertible senior debentures due 2005. Each debenture is convertible to 46.512 shares of common stock, reflecting a conversion price of \$21.50 per share.

During the third quarter of 1995, the Companys plans to repurchase all of it's 7-1/4% zero coupon, convertible subordinated notes.

Note 3. Commitments (See Note 5 to Consolidated Financial Statements at
December 31, 1994)

During the second quarter of 1995, Alaska took delivery of two new MD-83 aircraft under 16-year operating leases. At June 30, 1995, total aircraft commitments were approximately \$223 million.

Alaska Air Group, Inc.
Computation of Earnings Per Common Share
(In thousands, except per share)

EXHIBIT 11

	Three Months Ended June 30,		Six Months Ended June 30,	
	1995	1994	1995	1994
Primary -				
Net income	\$7,021	\$9,681	(\$9,319)	\$3,368
	=====	=====	=====	=====
Average number of shares outstanding	13,411	13,359	13,405	13,354
Assumed exercise of stock options reduced by the number of shares purchased with the proceeds from exercise of such options	35	7	-	10
	-----	-----	-----	-----
Average shares as adjusted	13,446	13,366	13,405	13,364
	=====	=====	=====	=====
Earnings per common share	\$0.52	\$0.72	(\$0.70)	\$0.25
	=====	=====	=====	=====
Fully Diluted -				
Net income	\$7,021	\$9,681	(\$9,319)	\$3,368
After tax interest on convertible securities	2,206	2,396	4,314	4,744
	-----	-----	-----	-----
Income applicable to common shares	\$9,227	\$12,077	(\$5,005)	\$8,112
	=====	=====	=====	=====
Average number of shares outstanding	13,411	13,359	13,405	13,354
Assumed exercise of stock options	83	8	57	10
Assumed conversion of 6.5% debentures	203	0	102	0
Assumed conversion of 7.75% debentures	508	512	508	515
Assumed conversion of 6.875% debentures	1,608	1,708	1,608	1,750
Assumed conversion of 7.25% zero coupon notes	3,442	4,153	3,503	4,214
Assumed conversion of preferred shares	0	0	0	0
	-----	-----	-----	-----
Average shares as adjusted	19,255	19,740	19,183	19,843
	=====	=====	=====	=====
Earnings per Common Share	\$0.48	\$0.61	(\$0.26)	\$0.41
	=====	=====	=====	=====

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*

* Anti-dilutive

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ALASKA AIR GROUP INC SECOND QUARTER 1995 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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