

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 1996

Commission File Number 1-6659

PHILADELPHIA SUBURBAN CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Pennsylvania

23-1702594

-----  
(State or other jurisdiction of  
incorporation or organization)

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

762 Lancaster Avenue, Bryn Mawr, Pennsylvania

19010

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code: (610)-527-8000  
-----

Indicate by check mark whether the registrant (1) 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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 1996.

18,837,369  
-----

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars)

	June 30, 1996 ----- (Unaudited)	December 31, 1995 ----- (Audited)
Property, plant and equipment, at cost	\$541,183	\$529,364
Less accumulated depreciation	98,236	92,459
Net property, plant and equipment	442,947	436,905
Current assets		
Cash	1,356	2,387
Accounts receivable, net	21,619	22,112
Inventory, materials and supplies	1,931	1,878
Prepayments and other current assets	2,045	537
Total current assets	26,951	26,914
Regulatory assets	48,689	48,757

Deferred charges and other assets, net	6,665	5,475
	-----	-----
	\$525,252	\$518,051
	=====	=====
Common stockholders' equity	\$166,921	\$156,976
Preferred stock of subsidiary with mandatory redemption requirements	4,214	5,643
Long-term debt, excluding current portion	192,720	175,395
Commitments	-	-
Current liabilities		
Current portion of preferred stock of subsidiary with mandatory redemption requirements	1,429	1,500
Current portion of long-term debt	4,440	13,590
Loans payable	3,130	6,455
Accounts payable	5,400	9,694
Accrued interest	3,591	3,601
Other accrued liabilities	14,240	15,380
	-----	-----
Total current liabilities	32,230	50,220
Deferred credits and other liabilities		
Deferred income taxes and investment credits	72,244	70,980
Customers' advances for construction	24,513	25,880
Other non-current liabilities	9,205	9,762
	-----	-----
Total deferred credits and other liabilities	105,962	106,622
Contributions in aid of construction	23,205	23,195
	-----	-----
	\$525,252	\$518,051
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)

(UNAUDITED)

	Six Months Ended June 30,	
	1996	1995
	----	----
Earned revenues	\$59,973	\$54,539
Costs and expenses		
Operating expenses	25,684	24,123
Depreciation	6,505	5,575
Amortization	139	(2)
Taxes other than income taxes	4,325	3,847
	-----	-----
	36,653	33,543
Operating income	23,320	20,996
Interest and debt expenses	7,572	7,100
Dividends on preferred stock	250	322
Allowance for funds used during construction	(82)	(89)
	-----	-----
Income before income taxes	15,580	13,663
Provision for income taxes	6,331	5,689
	-----	-----
Net income	\$ 9,249	\$ 7,974
	=====	=====
Net income per share	\$ .49	\$ .45
	=====	=====
Average common and common equivalent shares outstanding during the period	18,730	17,747
	=====	=====

See notes to consolidated financial statements on page 5 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended June 30,	
	1996	1995
Earned revenues	\$30,683	\$28,827
Costs and expenses		
Operating expenses	12,614	12,357
Depreciation	3,250	2,805
Amortization	70	15
Taxes other than income taxes	2,008	1,874
	17,942	17,051
Operating income	12,741	11,776
Interest and debt expenses	3,789	3,704
Dividends on preferred stock	123	155
Allowance for funds used during construction	(50)	(49)
Income before income taxes	8,879	7,966
Provision for income taxes	3,598	3,307
Net income	\$ 5,281	\$ 4,659
Net income per share	\$ .28	\$ .26
Average common and common equivalent shares outstanding during the period	18,854	17,798

See notes to consolidated financial statements on page 5 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands of dollars)

(UNAUDITED)

	Six Months Ended June 30,	
	1996	1995
Cash flows from operating activities:		
Net income	\$ 9,249	\$ 7,974
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	6,644	5,573
Deferred taxes, net of taxes on customers'		

advances	607	1,059
Net increase in receivables, inventory and prepayments	(1,858)	(1,260)
Net decrease in payables and other accrued liabilities	(4,519)	(3,062)
Net increase (decrease) in accrued interest	(9)	313
Other	(2)	105
	-----	-----
Net cash flows from operating activities	10,112	10,702
	-----	-----
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$82 and \$89	(10,373)	(11,276)
Acquisitions of water systems	(2,377)	(25,711)
Other	(240)	(42)
	-----	-----
Net cash flows used in investing activities	(12,990)	(37,029)
	-----	-----
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction, net of income tax payments	93	1,156
Repayments of customers' advances	(1,442)	(1,564)
Net proceeds (repayments) of short-term debt	(3,325)	1,625
Proceeds of long-term debt	27,540	31,044
Repayments of long-term debt	(20,054)	(850)
Redemption of preferred stock of subsidiary	(1,500)	(2,857)
Proceeds from issuing common stock	7,827	4,072
Repurchases of common stock	(4)	(5)
Dividends paid	(7,127)	(6,577)
Other	(161)	(150)
	-----	-----
Net cash flows from financing activities	1,847	25,894
	-----	-----
Net decrease in cash	(1,031)	(433)
Cash balance beginning of year	2,387	1,243
	-----	-----
Cash balance at end of period	\$ 1,356	\$ 810
	-----	-----

See notes to consolidated financial statements on page 5 of this report.

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## PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands of dollars, except per share amounts)

#### Note 1 Basis of Presentation

The accompanying consolidated balance sheet of Philadelphia Suburban Corporation at June 30, 1996, the consolidated statements of income for the six months and quarter ended June 30, 1996 and 1995, and the consolidated cash flow statements for the six months ended June 30, 1996 and 1995 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position at June 30, 1996, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 1995 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

Certain prior year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income.

#### Note 2 Common Stock Split

On May 16, 1996, the Company's Board of Directors declared a three-for-two common stock split effected in the form of a 50% stock distribution, to shareholders of record on June 18, 1996. The new shares were distributed on July 10, 1996. The Company's par value of \$.50 per share remained unchanged and

\$3,140 was transferred, in July 1996, from Capital in Excess of Par Value to Common Stock to record the transaction. All per share data for all periods presented in the accompanying financial statements and notes has been restated to give effect to the stock split.

In addition, the Company's Shareholders approved an increase in the number of shares of common stock authorized from 20,000,000 shares to 40,000,000 shares.

Note 3

Acquisitions

Since December 31, 1995, PSW has purchased the water utility and related assets of three water systems for a combined purchase price of \$2,377. These systems serve customers near PSW's existing service territory and have combined annual operating revenues of approximate \$130.

PSW is also a party to preliminary agreements to acquire five other water systems for a combined purchase price of approximately \$52,000, including, subject to final negotiations, the issuance of up to \$4,000 of the Company's preferred stock. These systems are adjacent or near to PSW's service territory. The combined annual revenues of these systems is approximately \$7,000. Final closings are subject to completion of due diligence and are likely to extend, in certain cases, into 1997.

In addition, PSW continues to hold discussions with several other water systems that are near or adjacent to it's service territory.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENT (continued)  
(In thousands of dollars, except per share amounts)

Note 4

Long-Term Debt

In April 1996, PSW retired \$10,000 First Mortgage Bonds 10.65% Series due 2006, at a premium of 5.04% or \$504. The premium was capitalized and is being amortized, in accordance with the Uniform Systems of Accounts prescribed by the Pennsylvania Public Utility Commission, over the life of the long-term debt used to fund the redemption.

In April 1996, PSW issued \$10,000 First Mortgage Bonds 6.99% Series due 2006. In July 1996, PSW issued \$10,000 First Mortgage Bonds 7.4% Series due 2003. The proceeds of these issues were used to repay amounts outstanding under PSW's revolving credit agreement, to fund the debt retirement noted above and to fund PSW's ongoing construction program. The effects of these transactions on the Company's Sinking Fund payments for the next five years was to reduce the payments by \$1,450 annually from 1997 to 2001.

Note 5

Restricted Cash

In August 1995, PSW issued \$22,000 First Mortgage Bonds as security for an equal amount of bonds issued by the Delaware County Industrial Development Authority. The proceeds from these bonds are restricted to funding the costs of certain capital projects. As of June 30, 1996, the Trustee for this issue held \$451 in an interest bearing account pending completion of the remainder of the projects financed with this issue. The amount held by the Trustee is included in the balance sheet as cash.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(In thousands of dollars, except per share amounts)

Philadelphia Suburban Corporation ("PSC" or "the Company"), a Pennsylvania corporation, is the holding Company of Philadelphia Suburban Water Company ("PSW"), a regulated water utility. PSW provides water to approximately 266,000 customers in 82 municipalities within its 410 square-mile service territory. PSW's service territory is located north and west of the City of Philadelphia.

Financial Condition

During the first half of 1996, the Company acquired the water utility assets of three small water companies for a combined purchase price of \$2,377; made \$10,373 of expenditures related to routine capital improvements and replacements for PSW; retired \$20,054 in long term debt; repaid \$1,442 of customer advances for construction and redeemed \$1,500 of Preferred Stock.

During the first six months, internally generated funds, available working capital, funds available under the revolving credit facility, and the proceeds from common stock and long-term debt issues were sufficient to fund the cash requirements discussed above, and to pay dividends. Proceeds from the issuance of common stock, primarily through the Company's Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan amounted to approximately \$7,827. Effective with the September 1, 1996 payment, the Company has increased the quarterly dividend on common stock from \$.193 per share to \$.2025 per share.

In April 1996, PSW issued \$10,000 of First Mortgage Bonds 6.99% series due 2006 and retired \$10,000 of First Mortgage Bonds at 10.65%, series due 2006. In July 1996, PSW issued \$10,000 of First Mortgage Bonds 7.4% series due 2003. These bonds were issued through the Medium Term Note Program. The proceeds from these issuances were used for the retirement of First Mortgage Bonds to repay amounts outstanding under PSW's revolving credit agreement and to fund PSW's ongoing capital program.

At June 30, 1996, PSW had \$7,115 available under its revolving credit facility and the Company and PSW had \$5,870 and \$1,000, respectively, available under short-term lines of credit.

Management believes that internally generated funds along with the existing credit facilities, the issuance of long-term debt and proceeds from the issuance of common stock, primarily through the Company's Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan are adequate to meet the Company's financing requirements for the balance of the year and beyond.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

Results of Operations

Analysis of First Six Months of 1996 Compared to First Six Months of 1995

Revenues increased \$5,434 or 10.0% primarily due to the 5.3% rate increase granted PSW in October 1995 and additional water revenues associated with the acquisition of Media Borough ("Media") and four smaller water systems purchased during 1995, offset partially by a decrease in the customer consumption of water. The decreased water consumption is attributable to the wetter and cooler weather experienced in the second quarter of 1996 as compared to 1995.

Operating expenses increased by \$1,561 or 6.5% primarily due to an increase in treatment expenses resulting from lower raw water quality; higher electric rates and usage; to the increased sendout in the first quarter and to additional maintenance expenses caused by the severe winter weather. Included in the year-to-date expenses were a full six months of production and maintenance costs to operate the Media system. These increased operating costs were partially offset by lower employee benefit expenses, and a reduction in purchased water.

Depreciation increased by \$930 or 17.0% reflecting the impact of utility plant placed in service, including the assets from acquisitions, in the past year. Depreciation was approximately 2.41% and 2.35% of average utility plant in service in the first half of 1996 and 1995, respectively.

Amortization was a charge of \$139 compared to a credit of \$2 in the first half of 1995. The increase is due to the amortization of additional debt issuance costs and amortization of premiums on early retirement of debt since 1995.

Taxes other than income taxes increased by \$478 or 12.4% primarily due to increases in the Pennsylvania Capital Stock Tax associated with increased equity, a higher Public Utility Real Estate Tax assessment, resulting from the Media acquisition, and increased employment taxes.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

Interest expense increased by \$472 or 6.6% reflecting an increase in the average amount of borrowings outstanding. The increase in borrowings were used to fund the Media acquisition and ongoing capital projects.

Allowance for funds used during construction decreased by \$7 primarily due to the decrease in the balance of Construction Work in Progress ("CWIP") to which AFUDC is applied. The majority of the decrease in CWIP is associated with a \$4,600 operations center, which was placed in service in the fourth quarter of 1995. The AFUDC rate decreased due to a lower average cost of borrowings under the Company's revolving credit facility in the first half of 1996 compared to 1995.

The Company's effective income tax rate was 40.6% in the first half of 1996 and 41.6% in 1995. The decrease in the effective tax rate is primarily due to a reduction in the Pennsylvania Corporate Net Income tax rate.

Net income increased by \$1,275 or 16% primarily as a result of increased revenues, partially offset by increased operating expenses, interest expense, depreciation and amortization. On a per share basis, earnings increased \$0.04 or 8.9% reflecting the improvement in net income, offset by a 5.5% increase in the average number of shares outstanding. The increased number of shares outstanding reflects additional shares sold since the first half of 1995 through the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan.

Analysis of Second Quarter of 1996 Compared to Second Quarter of 1995

Revenues for the quarter increased \$1,856 or 6.4% primarily due to the 5.3% rate increase granted PSW in October 1995 and the acquisition of water systems, particularly the May 1995 acquisition of the Media system, offset

partially by a decrease in the customer consumption of water. The decreased water consumption is attributable to the wetter and cooler weather experienced in the second quarter of 1996 as compared to 1995.

Operating expenses increased \$257 or 2.1% primarily as a result of additional production and maintenance expense related to the Media system and additional treatment costs due to lower raw water quality. The increase in maintenance and production costs were partially offset by lower employee benefit costs, including reduced pension costs and lower medical insurance premium costs.

Depreciation increased by \$445 or 15.9% reflecting the impact of utility plant placed in service since the second quarter of 1995. Depreciation was approximately 2.41% and 2.35% of average utility plant in service in the second quarter of 1996 and 1995, respectively.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

Amortization was \$55 higher than the second quarter of 1995 due to the amortization of additional debt issuance costs and amortization of premiums on early retirements of debt since 1995.

Taxes other than income taxes increased \$134 or 7.2% as a result of increases in the Pennsylvania Capital Stock Tax associated with increased equity and a higher Pennsylvania Public Utility Realty Tax Assessment resulting from the Media acquisition.

Interest expense increased \$85 or 2.3% reflecting an increased level of borrowings. The increase was partially offset by lower interest rates.

Dividends on preferred stock decreased \$32 or 20.6% due to the reduced number of preferred stock shares outstanding for the quarter.

The Company's effective income tax rate was 40.5% in 1996 and 41.5% in 1995. The decrease in the effective tax rate is primarily due to a reduction in the Pennsylvania Corporate Net Income tax rate.

Net income for the quarter increased by \$622 or 13.4% principally due to increased water revenues. Earnings per share, however, increased only \$.02 per share or 7.7% due to the higher number of average shares outstanding.

Recent Events

The cooler, wetter weather experienced in the second quarter continued into July and August of this year causing a decline in water consumption as compared to the same period of 1995 in which we had higher than normal levels of sendout. Water consumption tends to be impacted by weather conditions, particularly during the summer months when nonessential and recreational use of water is at its highest. As a result of the reduced water consumption, revenues to date in the third quarter are less than would be expected if normal weather conditions prevailed.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES



Item 1. Legal Proceedings

There are no pending legal proceedings to which the Registrant or any of its subsidiaries is a party or to which any of their properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant. Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1995, which is included by a reference herein.

Item 4. Results of Vote of Security Holders

The Annual Meeting of Shareholders of Philadelphia Suburban Corporation (the "Company") was held on May 16, 1996 at the headquarters of the Company, 762 Lancaster Avenue, Bryn Mawr, Pennsylvania, pursuant to the Notice sent on or about April 1, 1996 to all shareholders of record at the close of business on March 18, 1996. At that meeting, the following nominees were elected as directors of the Company for terms expiring in 1999 and received the votes set forth after their names below:

Name of Nominee -----	For ---	Withheld -----
John W. Boyer, Jr.	10,147,367	139,570
Nicholas DeBenedictis	10,162,924	124,013
G. Fred DiBona, Jr.	10,126,446	160,491

Since the Board of Directors is divided into three classes with one class elected each year to hold office for a three-year term, the term of office for the following directors continued after the Annual Meeting: John H. Austin; Mary C. Carroll; Joseph C. Ladd; Richard H. Glanton, Esq.; John F. McCaughan; and Harvey J. Wilson.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Part II. Other Information (continued)

Item 4., Continued

In addition to the election of directors, the following proposals were presented at the Annual Meeting and received the votes set forth below:

- a. Approval of adoption by the Board of Directors of Amendment 1994-2 to the 1994 Equity Compensation Plan

For ---	Against -----	Abstentions -----	Broker Non-votes -----
9,261,722	768,712	256,503	0

- b. Approval of an amendment to the Company's Amended and Restricted Articles of Incorporation to increase the number of shares of the Company's Common Stock for issuance from 20,000,000 to 40,000,000.

For ---	Against -----	Abstentions -----	Broker Non-votes -----
------------	------------------	----------------------	------------------------------

9,384,556            754,982            147,399            0

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description -----
27	Financial Data Schedule

(b) Report on Form 8-K

Current report on Form 8-K filed May 16, 1996 responding to Item 5, Other Events (related to the Company's announcement of a 3-for-2 stock split in the form of a stock distribution and an increase to the quarterly dividend effective September 1, 1996).

Current report on Form 8-K filed June 12, 1996 responding to Item 5, Other Events (related to the Company's announcement that its primary subsidiary, Philadelphia Suburban Water Company, had received a letter of intent to begin negotiations to purchase the assets of the Bristol Borough Water Authority).

Current report on Form 8-K filed July 3, 1996 responding to Item 5, Other Events (related to the receipt by the Company's primary subsidiary, Philadelphia Suburban Water Company, of a letter of intent from the Horsham Water Authority to negotiate the acquisition of the water system assets of the Authority).

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SIGNATURE

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

August 13, 1996

PHILADELPHIA SUBURBAN CORPORATION  
-----

Registrant

Nicholas DeBenedictis  
-----

Nicholas DeBenedictis  
Chairman and President

Michael P. Graham  
-----

Michael P. Graham  
Senior Vice President - Finance

and Treasurer

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EXHIBIT INDEX

Exhibit No.	Description	Page No.
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<ARTICLE> UT

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AT JUNE 30, 1996, AND THE CONSOLIDATED STATEMENTS OF INCOME AND CASH FLOW FOR THE SIX MONTHS ENDED JUNE 30, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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