

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1998

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 0-8360

IHOP CORP.

(Exact name of registrant as specified in its charter)

Delaware	95-3038279
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

525 North Brand Boulevard, Glendale, California 91203-1903	91203-1903
(Address of principal executive offices)	(Zip Code)

(818) 240-6055
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Class	Outstanding as of September 30, 1998
Common Stock, \$.01 par value	9,857,259

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS IHOP CORP. AND SUBSIDIARIES
(In thousands, except share amounts)

	September 30, 1998	December 31, 1997
Assets		
Current assets		
Cash and cash equivalents	\$ 2,622	\$ 5,964
Receivables	28,242	30,490
Reacquired franchises and equipment held for sale, net	2,637	2,321

Inventories	1,320	1,378
Prepaid expenses	211	629
Total current assets	35,032	40,782
Long-term receivables	197,704	171,967
Property and equipment, net	168,073	142,751
Reacquired franchises and equipment held for sale, net	14,940	13,151
Excess of costs over net assets acquired, net	12,161	12,481
Other assets	1,442	1,461
Total assets	\$429,352	\$382,593
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$ 4,997	\$ 4,973
Accounts payable	17,040	20,626
Accrued employee compensation and benefits	5,651	4,595
Other accrued expenses	8,236	4,602
Deferred income taxes	2,941	3,468
Capital lease obligations	1,301	1,062
Total current liabilities	40,166	39,326
Long-term debt	57,836	54,950
Deferred income taxes	32,455	28,862
Capital lease obligations and other	119,881	103,271
Shareholders' equity		
Preferred stock, \$1 par value, 10,000,000 shares authorized; shares issued and outstanding: no shares	-	-
Common stock, \$.01 par value, 40,000,000 shares authorized; shares issued and outstanding: September 30, 1998, 9,857,259 shares (net of 3,080 treasury shares); December 31, 1997, 9,709,261 shares (net of 1,529 treasury shares)	99	97
Additional paid-in capital	59,379	54,629
Retained earnings	118,567	100,158
Contribution to ESOP	969	1,300
Total shareholders' equity	179,014	156,184
Total liabilities and shareholders' equity	\$429,352	\$382,593

See the accompanying notes to the consolidated financial statements.

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

IHOP CORP. AND SUBSIDIARIES

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Revenues				
Franchise operations				
Rent	\$ 9,964	\$ 8,643	\$ 28,428	\$ 24,992
Service fees and other	23,427	20,644	67,581	59,357
	33,391	29,287	96,009	84,349
Company operations	16,855	16,055	52,891	44,897
Other	16,203	10,970	39,011	25,081
Total revenues	66,449	56,312	187,911	154,327
Costs and Expenses				
Franchise operations				
Rent	4,885	4,684	14,523	13,237
Other direct costs	9,449	8,453	27,289	24,303
	14,334	13,137	41,812	37,540
Company operations	15,941	14,966	49,598	41,990
Field, corporate and administrative	8,439	7,395	24,822	21,883
Depreciation and amortization	2,891	2,481	8,397	7,394
Interest	4,460	3,742	12,676	10,747
Other	8,507	5,192	20,427	11,296
Total costs and expenses	54,572	46,913	157,732	130,850
Income before income taxes	11,877	9,399	30,179	23,477
Provision for income taxes	4,632	3,666	11,770	9,156
Net income	\$ 7,245	\$ 5,733	\$ 18,409	\$ 14,321
Net Income Per Share				
Basic	\$ 0.74	\$ 0.59	\$ 1.88	\$ 1.50
Diluted	\$ 0.72	\$ 0.58	\$ 1.84	\$ 1.48
Weighted Average Shares Outstanding				
Basic	9,855	9,645	9,814	9,563
Diluted	10,051	9,860	10,005	9,702

See the accompanying notes to the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

IHOP CORP. AND SUBSIDIARIES

	Nine Months Ended September 30,	
	1998	1997
Cash flows from operating activities		
Net income	\$ 18,409	\$ 14,321
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	8,397	7,394
Deferred taxes	3,066	753
Contribution to ESOP	969	894
Changes in current assets and liabilities		
Accounts receivable	2,493	(706)
Inventories	58	(343)
Prepaid expenses	418	147
Accounts payable	(3,586)	(248)
Accrued employee compensation and benefits	1,056	1,780
Other accrued expenses	3,634	276
Other, net	4,680	1,921
Cash provided by operating activities	39,594	26,189
Cash flows from investing activities		
Additions to property and equipment	(57,012)	(37,472)
Proceeds from sale and leaseback arrangements	11,684	16,852
Additions to notes, equipment contracts and direct financing leases receivable	(9,588)	(5,891)
Principal receipts from notes, equipment contracts and direct financing leases receivable	7,149	6,030
Additions to reacquired franchises held for sale	(1,289)	(1,072)
Cash used by investing activities	(49,056)	(21,553)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	6,535	1,440
Repayment of long-term debt	(3,341)	(47)
Principal payments on capital lease obligations	(526)	(400)
Issuance of common stock	3,452	3,811
Cash provided by financing activities	6,120	4,804
Net change in cash and cash equivalents	(3,342)	9,440
Cash and cash equivalents at beginning of period	5,964	8,658
Cash and cash equivalents at end of period	\$ 2,622	\$ 18,098
Supplemental disclosures		
Interest paid, net of capitalized amounts	\$ 11,373	\$ 9,425
Income taxes paid	7,598	7,978
Capital lease obligations incurred	18,017	16,178

See the accompanying notes to the consolidated financial statements.

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IHOP CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The accompanying consolidated financial statements for the nine months ended September 30, 1998 and 1997 have been prepared in accordance with generally accepted accounting principles ("GAAP"). These financial statements have not been audited by independent public accountants but include all adjustments, consisting of normal, recurring accruals, which in the opinion of management of IHOP Corp. and Subsidiaries ("IHOP" or the "Company") are necessary for a fair presentation of the financial position and the results of operations for the periods presented. The accompanying consolidated balance sheet as of December 31, 1997 has been derived from audited financial statements, but does not include all disclosures required by GAAP. The results of operations for the nine months ended September 30, 1998 are not necessarily indicative of the results to be expected for the full year ending December 31, 1998.
2. In May 1998, the Emerging Issues Task Force of the Financial Accounting Standards Board issued Issue No. 98-9 "Accounting for Contingent Rent in Interim Financial Periods" (EITF 98-9), which provides that recognition of contingent rental income be deferred until the specified target that triggers the contingent rent is achieved. EITF 98-9 became effective for financial statements issued after May 21, 1998. EITF 98-9 has not had a material impact on IHOP's financial position or results of operations as the Company has weekly targets for recognizing contingent rental income in its leases and subleases with its franchisees.
3. In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities," which establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of existing standards. Upon implementation, all derivatives are required to be recognized on the balance sheet as either assets or liabilities and measured at fair value. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999, but earlier application is permitted. Management believes that adoption of SFAS No 133 will not have any material impact on the Company's financial position or results of operations.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The following table sets forth certain operating data for IHOP restaurants.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	-----	-----	-----	-----
	(Dollars in thousands)			
Restaurant Data				
Effective restaurants (a)				
Franchise	589	540	576	536
Company	72	67	74	63
Area license	146	141	145	139

	----- 807 =====	----- 748 =====	----- 795 =====	----- 738 =====
Total				
System-wide				
Sales (b)	\$261,159	\$232,679	\$758,917	\$670,204
Percent increase	12.2%	11.6%	13.2%	13.3%
Average sales per effective restaurant	\$ 324	\$ 311	\$ 955	\$ 908
Percent increase	4.2%	4.0%	5.2%	5.3%
Comparable average sales per restaurant (c)	\$ 338	\$ 322	\$ 993	\$ 933
Percent increase	1.3%	2.5%	2.7%	3.8%
Franchise				
Sales	\$211,568	\$183,718	\$604,808	\$526,009
Percent increase	15.2%	12.7%	15.0%	14.3%
Average sales per effective restaurant	\$ 359	\$ 340	\$ 1,050	\$ 981
Percent increase	5.6%	5.3%	7.0%	6.2%
Comparable average sales per restaurant (c)	\$ 349	\$ 333	\$ 1,026	\$ 967
Percent increase	1.4%	2.8%	2.9%	4.0%
Company				
Sales	\$ 16,855	\$ 16,055	\$ 52,891	\$ 44,897
Percent increase	5.0%	11.9%	17.8%	15.8%
Average sales per effective restaurant	\$ 234	\$ 240	\$ 715	\$ 713
Percent change	(2.5%)	(1.2%)	0.3%	3.0%
Area License				
Sales	\$ 32,736	\$ 32,906	\$101,218	\$ 99,298
Percent change	(0.5%)	5.8%	1.9%	7.4%
Average sales per effective restaurant	\$ 224	\$ 233	\$ 698	\$ 714
Percent change	(3.9%)	(0.9%)	(2.2%)	2.0%

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- (a) "Effective restaurants" are the number of restaurants in a given fiscal period adjusted to account for restaurants open only a portion of the period.
- (b) "System-wide sales" are retail sales of franchisees, Company-operated restaurants, and area licensees as reported to the Company.
- (c) "Comparable average sales" reflects sales for restaurants that are operated for the entire fiscal period indicated as well as the entire prior fiscal period. Comparable average sales do not include data on area license restaurants located in Florida and Japan.

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The following table summarizes IHOP restaurant development and franchising activity:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998 ----	1997 ----	1998 ----	1997 ----
RESTAURANT DEVELOPMENT ACTIVITY (a)				
IHOP - beginning of period	804	746	787	729
New openings				
IHOP-developed	18	12	40	26
Investor program	3	3	9	6
Area license	-	2	2	6
Total new openings	21	17	51	38
Closings				
Company and franchise	(6)	(1)	(18)	(5)
Area license	-	-	(1)	-
IHOP - end of period	819	762	819	762
Summary - end of period				
Franchise	603	552	603	552
Company	70	68	70	68

Area license	146	142	146	142
	----	----	----	----
Total IHOP	819	762	819	762
	====	====	====	====
RESTAURANT FRANCHISING ACTIVITY (a)				

IHOP-developed	20	12	44	27
Investor program	3	3	9	6
Rehabilitated and refranchised	3	1	6	2
	----	----	----	----
Total restaurants franchised	26	16	59	35
Reacquired by Company	(5)	(7)	(14)	(15)
Closed	(4)	-	(13)	(3)
	----	----	----	----
Net addition	17	9	32	17
	====	====	====	====

(a) The Company reports restaurants in Canada as franchise restaurants although the eleven restaurants are operated under an area license agreement.

The following discussion and analysis provides information management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. The discussion should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997. Certain forward-looking statements are contained in this quarterly report. They use such words as "may," "will," "expect," "believe," "plan," or other similar terminology. These statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results to be materially different than those expressed or implied in such statements. These factors include, but are not limited to: availability of suitable locations and terms of the sites designated for development; legislation and government regulation including the ability to obtain satisfactory regulatory approvals; conditions beyond the Company's control such as weather or natural disasters; availability and cost of materials and labor; cost and availability of capital; competition; continuing acceptance of the International House of Pancakes brand and

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concept by guests and franchisees; the Company's overall marketing, operational and financial performance; economic and political conditions; adoption of new, or changes in, accounting policies and practices; and other factors discussed from time to time in the Company's filings with the Securities and Exchange Commission. Forward-looking information is provided by the Company pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of these factors. In addition, the Company disclaims any intent or obligation to update these forward-looking statements.

IHOP's quarterly results are subject to seasonal fluctuation with sales generally higher in the warmer months and during holiday periods. IHOP's results of operations are impacted by the timing of additions of new restaurants, by the timing of the franchising of those restaurants, and by the number of restaurants in the Company's inventory of restaurants that are available for refranchising. Revenues from sales of franchises and equipment and their associated costs of sales are affected by the mix and number of restaurants franchised, as follows: (i) franchise rights with respect to restaurants newly developed by IHOP normally sell for a franchise fee of \$200,000 to \$350,000, have little if any franchise cost of sales and have equipment in excess of \$300,000 that is usually sold at a price that includes little or no profit margin; (ii) franchise rights with respect to restaurants developed by franchisees normally sell for a franchise fee of \$50,000, have minor associated franchise cost of sales and do not include an equipment sale; and (iii) previously reacquired franchises normally sell for a franchise fee of \$100,000 to \$300,000, include an equipment sale, and may have substantial costs of sales associated with both the franchise and the equipment. As a consequence of the foregoing and other factors, the results of operations for the nine months ended September 30, 1998, are not necessarily indicative of the results

to be expected for the full year ending December 31, 1998.

System-wide retail sales for the third quarter and first nine months of 1998 grew 12.2% and 13.2%, respectively, over system-wide retail sales for the comparable 1997 periods. This was due to growth in the number of effective restaurants of 7.9% and 7.7%, respectively, and increases in average per unit revenues of 4.2% and 5.2%, respectively, over the prior year periods. System-wide comparable average sales per restaurant (exclusive of area license restaurants) for the third quarter and first nine months of 1998 grew 1.3% and 2.7%, respectively, over those in the comparable 1997 periods. Management continues to pursue growth in sales through the Company's restaurant development program, its advertising and marketing efforts, improvements in customer service and operations, and the Company's remodeling program.

Franchise operations revenues for the third quarter and first nine months of 1998 grew 14.0% and 13.8%, respectively, over revenues for the comparable 1997 periods. This was primarily due to growth in the number of effective franchise restaurants of 9.1% and 7.5% coupled with increases in average per unit revenues of 5.6% and 7.0% in the third quarter and the first nine months of 1998, respectively, over the prior year periods. Franchise operations costs and expenses for the third quarter and first nine months of 1998 increased 9.1% and 11.4%, respectively, over costs and expenses for the comparable 1997 periods. As a result of franchise revenues increasing in excess of franchise expenses, the margin from franchise operations improved to 57.1% in the third quarter and to 56.5% in the first nine months of 1998 versus 55.1% and 55.5% in the comparable 1997 periods. The improvements in margin were primarily because of improved rent margins due, in part, to an increase in the relative number of IHOP-owned restaurants which do not have rent expense coupled with growth in interest income associated with IHOP's financing of sales of franchises and equipment to its franchisees.

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Company-operated restaurant revenues for the third quarter and first nine months of 1998 grew 5.0% and 17.8%, respectively, over revenues for the comparable 1997 periods. This was primarily due to increases in the number of effective Company-operated restaurants of 7.5% and 17.5% in the third quarter and the first nine months of 1998, respectively, over the comparable 1997 periods. In the third quarter of 1998, the growth was mitigated by a decrease of 2.5% in revenues per effective company-operated restaurant versus the comparable prior year period. For the first nine months of 1998, the growth was augmented by an increase of 0.3% in revenues per effective company-operated restaurant versus the first nine months of 1997. Company-operated restaurant costs and expenses for the third quarter and first nine months of 1998 increased 6.5% and 18.1%, respectively, over those in the comparable 1997 periods. Margin from Company-operated restaurants was 5.4% and 6.2% in the third quarter and first nine months of 1998, respectively, versus margins of 6.8% and 6.5% in the comparable 1997 periods. The changes in margin were primarily due to increases in compensation-related expenses as a percentage of revenues.

Other revenues for the third quarter and first nine months of 1998 grew 47.7% and 55.5%, respectively, over other revenues for the comparable 1997 periods. The primary reason for the changes were sales of franchises and equipment which were \$12,649,000 and \$28,725,000 in the third quarter and first nine months of 1998, respectively, versus \$7,765,000 and \$16,797,000 in the same prior year periods. The Company franchised 26 and 59 restaurants in the third quarter and first nine months of 1998, respectively, compared to 16 and 35 restaurants in the comparable 1997 periods. Augmenting the increases were gains in interest income from direct financing leases. Other costs and expenses for the third quarter and first nine months of 1998 increased 63.8% and 80.8%, respectively, from the 1997 periods. The changes were primarily due to franchise and equipment costs of sales which were \$7,256,000 and \$16,423,000, in the third quarter and first nine months of 1998 respectively, versus \$4,476,000 and \$9,359,000 in the comparable 1997 periods.

Field, corporate and administrative expenses for the third quarter and first nine months of 1998 increased 14.1% and 13.4%, respectively, over the comparable

1997 periods. The increases were principally due to increases in employee-related compensation and expenses. Field, corporate and administrative expenses were 3.2% and 3.3% of system-wide sales in the third quarter and first nine months of 1998, respectively, the same as the percentages in the comparable 1997 periods.

Depreciation and amortization expense increased 16.5% and 13.6% in the third quarter and first nine months of 1998, respectively, over the comparable 1997 periods primarily reflecting the addition of new, larger restaurants and an increase in the number of Company-operated restaurants.

Interest expense increased 19.2% and 18.0% in the third quarter and first nine months of 1998, respectively, over the comparable 1997 periods due to interest associated with increased capital lease obligations.

Provision for income taxes was 39.0% of income before income taxes in the third quarter and first nine months of both 1998 and 1997.

The balance of long-term receivables at September 30, 1998, increased over that of the prior year-end primarily due to IHOP's financing activities associated with the sale of franchises and equipment and the leasing of restaurants to its franchisees.

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Balances of property and equipment, net and capital lease obligations and other at September 30, 1998, increased over those of the prior year end primarily due to new restaurant development and the Company's capital lease obligations associated with that development.

Liquidity and Capital Resources

The Company invests available funds into its business through the development of additional restaurants and the remodeling of older, Company-operated restaurants.

In 1998, IHOP and its franchisees and area licensees plan to develop and open approximately 73 to 76 restaurants. Included in that number are the development of 56 or 57 restaurants by the Company and 17 to 19 by IHOP franchisees and area licensees. The Company's prior forecast for restaurant development in 1998 was 70 to 85 new restaurants comprised of 50 to 60 restaurants developed by the Company and 20 to 25 by franchisees and area licensees. Capital expenditures projected for 1998, which include IHOP's portion of the above development program, are approximately \$70 million to \$75 million. In November 1998, the third annual installment of \$4.6 million in principal becomes due on the Company's senior notes due 2002. The Company expects that funds from operations, sale and leaseback arrangements (estimated to be about \$25 to \$30 million) and its revolving line of credit will be sufficient to cover its operating requirements, its projected capital expenditures and its principal repayment on its senior notes in 1998. At September 30, 1998, \$17 million was available to be borrowed under the Company's unsecured bank revolving credit agreement. In June 1998, the Company's unsecured bank revolving credit agreement was extended one year, through June 30, 2001, under similar terms and conditions, although certain borrowings would be subject to more favorable interest rates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Part II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

Exhibits not incorporated by reference are filed herewith. The remainder of the exhibits have heretofore been filed with the Commission and are incorporated herein by reference.

- 3.1 Certificate of Incorporation of IHOP Corp. Exhibit 3.1 to IHOP Corp.'s Form 10-K for the fiscal year ended December 31, 1997, Commission file number 0-8360, (the "1997 Form 10-K") is hereby incorporated by reference.
- 3.2 Bylaws of IHOP Corp. Exhibit 3.2 to IHOP Corp.'s 1997 Form 10-K is hereby incorporated by reference
- 11.0 Statement Regarding Computation of Per Share Earnings.
- 27.0 Financial Data Schedule.

(b) No reports on Form 8-K were filed during the quarter ended September 30, 1998.

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SIGNATURES

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

IHOP Corp.

(Registrant)

October 29, 1998

(Date)

BY: /s/ Richard K. Herzer

Richard K. Herzer
Chairman of the Board, President and
Chief Executive Officer
(Principal Executive Officer)

October 29, 1998

(Date)

BY: /s/ Frederick G. Silny

Frederick G. Silny
Vice President-Finance and Treasurer
(Principal Financial Officer)

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EXHIBIT 11.0
 IHOP CORP. AND SUBSIDIARIES
 STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS
 (In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
NET INCOME PER COMMON SHARE - BASIC				
Weighted average shares outstanding	9,855	9,645	9,814	9,563
	=====	=====	=====	=====
Net income available to common shareholders	\$ 7,245	\$5,733	\$18,409	\$14,321
	=====	=====	=====	=====
Net income per share - basic	\$ 0.74	\$.59	\$ 1.88	\$ 1.50
	=====	=====	=====	=====
NET INCOME PER COMMON SHARE - DILUTED				
Weighted average shares outstanding	9,855	9,645	9,814	9,563
Net effect of dilutive stock options based on the Treasury stock method using the average market price.	196	215	191	139
	-----	-----	-----	-----
Total	10,051	9,860	10,005	9,702
	=====	=====	=====	=====
Net income available to common shareholders	\$ 7,245	\$5,733	\$18,409	\$14,321
	=====	=====	=====	=====
Net income per share - diluted	\$ 0.72	\$.58	\$ 1.84	\$ 1.48
	=====	=====	=====	=====

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF IHOP CORP. AND SUBSIDIARIES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<FN> <F1>Represents basic earnings per share.

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