FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000944209-99-000370

FILER

PS GROUP HOLDINGS INC

CIK:**1013834**| IRS No.: **330692068** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **000-29404** | Film No.: **99574634**
SIC: **4700** Transportation services

Mailing Address
4370 LA JOLLA VILLAGE DR
STE 1050
SAN DIEGO CA 92122

Business Address
4370 LA JOLLA VILLAGE DR
STE 1050
SAN DIEGO CA 92122
6195465001

==

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

X Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998 or

___ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

COMMISSION FILE NUMBER: 1-7141

PS GROUP HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	33-0692068
(State or other jurisdiction of incorporation or organization)	(IRS employer identification no.)
4370 LA JOLLA VILLAGE DRIVE, SUITE 1050 SAN DIEGO, CALIFORNIA	92122
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (619) 642-2999

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock - $1 par value	New York Stock Exchange Pacific Exchange

Securities registered pursuant to Section 12(g) of the Act: none.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

State the aggregate market value of the voting stock held by non-affiliates* of the registrant.

$44,397,053 as of March 22, 1999

*Assumes Berkshire Hathaway Inc. (and its subsidiaries) and ESL Partners, L.P., owning approximately 19.9% and 19.7%, respectively, of the outstanding shares of common stock of the Company on March 12, 1999, are not affiliates of the Company.

The number of shares of common stock outstanding as of March 22, 1999 was

6,068,313.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Annual Report to Stockholders for the Year ended December 31, 1998............	PART I and PART II
Portions of Definitive Proxy Statement for the 1999 Annual Meeting of Stockholders.........	PART III

==

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this 1998 Form 10-K may be deemed forward-looking, such as: information relating to the future prospects of the aircraft lessees of PS Group, Inc. (PSG), the aircraft leasing subsidiary of PS Group Holdings, Inc. (the Company); the possible consequences of any unscheduled return of aircraft under lease; the possibility of 1999 sales of six BAe 146 aircraft owned by PSG or the potential future phase-out of six MD-80 aircraft owned by PSG from the fleet of the applicable lessee and the impact of such sales or phase-out on PSG's financial condition, results of operations, and net operating loss carryforwards; the potential liability for environmental contamination at the San Francisco International Airport (SFIA), the related cost of remediation and pending and potential litigation, and the recoverability of any portion of this cost from third parties; the possibility that future claims may be made regarding potential soil and groundwater pollution at the Los Angeles International Airport, the Oakland International Airport, or the Sacramento International Airport where PSG or PS Trading, Inc. (PST) own fuel storage facilities and/or pipelines; the estimated income tax liabilities due to the State of California for the tax years 1987 through 1990 and the estimated amounts due for other deferred tax liabilities; the tax treatment of the Company's special distributions to stockholders in 1995, 1996, 1997, and 1998; the availability of certain tax benefits, and the amount of otherwise-taxable income against which such benefits may be offset; the amount of 1999 capital additions; the estimated fair value of oil and gas properties owned by Statex Petroleum, Inc. (Statex), the oil and gas production and development segment of the Company, that was used in computing the impairment loss; the quantities of oil and gas reserves owned by Statex, and the related future net cash inflows from oil and gas producing activities; the volatility of the prices of crude oil and natural gas and the resultant effect on Statex including its ability to remain in compliance with financial loan covenants contained in its separate bank credit agreement and the Company's ability to pay the principal and interest outstanding under this credit agreement if the bank is unwilling to grant future waivers and declares the loan due and payable; and the impact of Year 2000 issues on the Company. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including, but not limited to: the impact of the financial condition and results of operations of the lessees of PSG's aircraft; the effect of any 1999 sales of BAe 146 aircraft or the potential future phase-out of six MD-80 aircraft from the fleet of the applicable lessee on the Company's financial condition, results of operations, and net operating loss carryforwards; the uncertainties inherent in estimating the cost of environmental remediation and related pending and potential litigation at SFIA; the uncertainties arising from the potentiality for future claims relating to pollution at three other airports; the possibility that the final disposition of tax deficiencies asserted by the State of California will involve litigation or will be for an amount in excess of the amount estimated by the Company; the possibility of future adjustments to the deferred income tax liability; the possibility that the ultimate tax treatment of the special distributions to stockholders would be different than that determined by the Company; the efficacy of the transfer restrictions on the Company's common stock in preserving the Company's substantial tax benefits, the Company's ability to realize such benefits, and the possible effect of the availability of such benefits if stockholders of the Company do not vote to extend such transfer restrictions beyond their scheduled expiration in the year 2000; the impact on 1999 cash flow and borrowings to finance capital additions if capital additions vary from the current estimate; the impact of the actual quantities of oil and gas reserves and the related impact of the volatility of the prices of crude oil and natural gas on Statex, including the possibility of future impairment losses, the possibility of future non-compliance with financial loan covenants by Statex, and the possible inability of Statex to obtain waivers from its bank with respect to such noncompliance; the impact on the business, financial condition and results of operations of the Company if the Company or its subsidiaries,

or third parties with which they have material business relationships, are unsuccessful in solving the Year 2000 issues in a timely manner; the impact of economic conditions on each business segment; the impact of competition; the impact of governmental legislation and regulation and possible future changes therein; and other risks detailed in this 1998 Form 10-K and in other filings the Company has made with the Securities and Exchange Commission. Should any of such risks or uncertainties materialize or should other assumptions prove incorrect, actual results or outcomes may vary materially from those contemplated in such forward-looking statements. The Company does not undertake to publicly update or revise its forward-looking statements.

PART I

ITEM 1. BUSINESS

GENERAL

PRINCIPAL BUSINESSES

The reportable segments of the Company, which are conducted through subsidiaries, are aircraft leasing (PSG), oil and gas production and development (Statex), and fuel storage and distribution (PST).

In October 1997, PST completed the sale of the assets of its wholesale fuel sales division located in Sacramento, California. This division was primarily engaged in the sale of diesel fuel and gasoline. In February 1998, PST sold the assets of its aviation fuel sales division located in Dallas, Texas. The sale of PST's fuel sales divisions has resulted in the discontinuance of the fuel sales business segment.

For general information with respect to the Company's businesses, reference is made to pages 6 through 18 of the Company's Annual Report to Stockholders, incorporated by reference herein (Exhibit 13).

REORGANIZATION AND RESTRICTIONS ON THE TRANSFER OF SHARES OF THE COMPANY

On June 5, 1996, the Company and PSG completed a holding company reorganization (the Reorganization). As a result of the Reorganization, each share of PSG was converted, on a tax-free basis, into one share of the Company. The Reorganization did not result in any change in the consolidated financial condition, business or assets of PSG. The Reorganization was accounted for on an historical cost basis and thus the financial statements for periods prior to the Reorganization have not been restated and represent the consolidated financial statements of PSG. The sole purpose of the Reorganization was to help preserve PSG's substantial net operating loss and investment tax credit carryforwards and other tax benefits by decreasing the risk of an "ownership change" for federal income tax purposes. The Reorganization was intended to accomplish this purpose by imposing certain restrictions on the transfer of common shares of the Company. In general, and subject to an exemption for certain dispositions of shares by persons who were "pre-existing 5% shareholders" (as defined in Article XI of the Company's Restated Certificate of Incorporation) on June 5, 1996, the transfer restrictions prohibit, without prior approval of the Board of Directors, the direct or indirect disposition or acquisition of any stock of the Company by or to any holder who owns, or would, as a result thereof, own (either directly or through the tax attribution rules) 5% or more of the stock upon such acquisition. The transfer restrictions, by their terms, are scheduled to expire immediately following the conclusion of the Company's annual meeting of stockholders for the year 2000, unless the stockholders pass a resolution extending such expiration date.

STATE OF INCORPORATION AND EXECUTIVE OFFICES

The Company was incorporated in Delaware in 1996, and through the Reorganization became the successor corporation to PSG. PSG was incorporated in Delaware in 1972 as the successor to a California corporation originally incorporated in 1945. The Company has its principal executive offices at 4370 La Jolla Village Drive, Suite 1050, San Diego, California, 92122; telephone number (619) 642-2999.

INFORMATION ON REPORTABLE SEGMENTS

Certain information required by "ITEM 1. BUSINESS" is incorporated by reference from pages 6 through 18 of the Company's 1998 Annual Report to Stockholders and Note 7 of the Notes to Consolidated Financial Statements included in the Company's 1998 Annual Report to Stockholders, incorporated by reference herein (Exhibit 13). This incorporated information includes financial information about the Company's reportable segments. Additional disclosure is made below in this Form 10-K under "CERTAIN ADDITIONAL INFORMATION."

CORPORATE EMPLOYEES

As of December 31, 1998, the Company had no employees. The corporate staff of PSG consisted of 5 full-time employees (plus two part-time employees) who manage the aircraft leasing operations and perform administrative functions including administrative services to the Company. The PSG corporate staff also provides some administrative services to its subsidiaries for which it is reimbursed. None of the employees of PSG or its subsidiaries are covered by union contracts.

CERTAIN ADDITIONAL INFORMATION

The following information supplements the information incorporated by reference herein from pages 6 through 18 of the Company's 1998 Annual Report to Stockholders, incorporated by reference herein (Exhibit 13).

STATEX PETROLEUM, INC. (STATEX) - OIL AND GAS PRODUCTION AND DEVELOPMENT

ACREAGE. The following table sets forth, by state, Statex well ownership and producing acreage as of December 31, 1998:

<TABLE>
<CAPTION>

	Gross Wells		Net Wells		Producing Acres	
	Oil	Gas	Oil	Gas	Gross	Net
Louisiana		2		0.04	22	3
New Mexico		1		0.07	120	8
North Dakota	77		3.17		14,240	703
Oklahoma	1	18	0.03	6.71	6,154	1,931
Texas	182	26	143.59	3.40	20,277	1,418
Wyoming	9		7.02		1,506	1,175
Total	269	47	153.81	10.22	42,319	5,238

</TABLE>

The following table sets forth, by states, undeveloped acreage ownership as of December 31, 1998:

<TABLE>
<CAPTION>

	Acres	
	Gross	Net
<S>	<C>	<C>
Oklahoma	1,708	214
Texas	3,778	2,298
Total	5,486	2,512

</TABLE>

RISKS. Statex's operations are subject to all risks inherent in the exploration for and production of oil and gas, including blowouts, cratering, and fires, which could result in damage to or destruction of oil and gas wells or formations, producing facilities or property, or could result in personal injury or loss of life. Such an event could result in substantial cost to Statex and could have a material adverse effect upon its financial condition if Statex is not fully insured against such risk. Statex carries substantial insurance coverage but may not be fully insured against all such risks.

GOVERNMENTAL REGULATION AND ENVIRONMENTAL ISSUES. Statex's operations are affected from time to time in varying degrees by political developments and federal and state laws and regulations. In particular, oil and gas production operations are affected by tax and other laws relating to the petroleum industry, changes in such laws and constantly changing administrative regulations. In addition, oil and gas operations are subject to regulation, interruption and termination by governmental authorities for environmental issues and other considerations. Additionally, in most, if not all, areas where Statex conducts activities, there are statutory provisions regulating the production of oil and gas. These provisions allow administrative agencies to promulgate rules in connection with the operation and production of both oil and gas wells, including the method of developing new fields, spacing of wells and the maximum daily production allowable for both oil and gas wells and various environmental issues.

ECONOMIC AND COMPETITIVE FACTORS AFFECTING STATEX. Statex is engaged primarily in the production and sale of crude oil and natural gas. Statex has literally hundreds of competitors, most of which are larger and have greater resources than Statex. Oil and natural gas are fungible commodities and, as such, the prices Statex receives for its products are directly related to the open market price for such products at the time of sale. These prices generally fluctuate and are for the most part controlled by the laws of supply and demand. The price for oil is particularly driven by worldwide production and demand. Statex has virtually no control over the establishment of prices for its products. To the extent there should be an oversupply of product and resulting lower prices, Statex's revenues and operating results would be negatively impacted.

PS TRADING, INC. (PST) -- FUEL STORAGE AND DISTRIBUTION

RISKS. PST's operations are subject to all risks inherent in the business of jet fuel storage and distribution including fuel contamination, spillage, and distribution accidents, which could result in damage to or destruction of property, or could result in personal injury or loss of life. Such an event could result in substantial cost to PST. PST carries limited insurance coverage but may not be fully insured against all such risks. All of PST's facilities are located and operated on airports under provisions of leases or operating permits. Such leases and permits have provisions to terminate operations and in some cases remove PST's facilities if the airport constructs new facilities or decides to modify the fueling systems.

GOVERNMENTAL REGULATION AND ENVIRONMENTAL ISSUES. PST's operations are affected from time to time in varying degrees by political developments and federal and state laws and regulations. In particular, fuel storage and distribution operations are affected by tax and other laws relating to the petroleum industry, changes in such laws and constantly changing administrative regulations. In addition, fuel storage and distribution operations are subject to regulation, interruption, and termination by governmental authorities for environmental issues and other considerations. Additionally, in most, if not all, areas where PST conducts activities, there are statutory provisions regulating fuel storage and distribution. These provisions allow administrative agencies to promulgate rules in connection with the operation of fuel storage and distribution facilities including effective capacity, configuration, and testing and safety requirements as well as various environmental issues.

Since PSG or PST own fuel storage facilities or pipelines at San Francisco International Airport (SFIA), Los Angeles International Airport, Oakland International Airport, and Sacramento International Airport, it is possible that future claims may be made against PSG or PST regarding potential soil and groundwater pollution. See "ITEM 3. LEGAL PROCEEDINGS" as to environmental claims at SFIA. PST operates at locations served by other companies including major airlines, oil companies, and airports, most of which have greater financial resources and higher levels of operations at the locations served than PST.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth the names, ages, and certain additional information concerning the executive officers of the Company.

<TABLE>
<CAPTION>

Name	Age on March 1, 1999	Positions with the Company and Principal Occupation
<S>	<C>	<C>
Lawrence A. Guske	54	Vice President - Finance and Chief Financial Officer of the Company since January 15, 1996, Vice President - Finance and Chief Financial Officer of PSG since 1987.
Charles E. Rickershauser, Jr.	70	Chairman of the Board, Chief Executive Officer and a director of the Company since January 15, 1996, Chairman of the Board of PSG since 1991, a director of PSG since 1984 and Chief Executive Officer of PSG since October 1994.
Johanna Unger	50	Vice President, Secretary, and Controller of the Company since January 15, 1996, Vice President and Controller of PSG since 1988 and Secretary of PSG since 1994.

</TABLE>

There are no family relationships between any of the Company's executive officers. Each of the Company's executive officers is elected annually and serves at the pleasure of the Board of Directors.

ITEM 2. PROPERTIES

EXECUTIVE OFFICES AND OTHER GROUND FACILITIES

The Company's executive offices and principal administrative offices consist of 3,000 square feet located at 4370 La Jolla Village Drive, Suite 1050, San Diego, California under a five-year lease entered into by PSG that expires in June 2001. Current base rent is $67,000 per year.

Statex leases approximately 5,000 square feet for executive offices at 1801 Royal Lane, Suite 110, Dallas, Texas under a lease that expires in August 2000. Base rent is $52,000 for 1999 and $37,000 for 2000. For information regarding Statex oil and gas properties see "Statex Petroleum, Inc. (Statex) - Oil and Gas Production and Development" under "ITEM 1. BUSINESS."

The Company believes that its present properties are adequate for its business in light of its current operations.

FLIGHT EQUIPMENT

The aircraft owned by PSG as of March 1, 1999 are listed in the following table:

Type of Aircraft	Number Owned
British Aerospace BAe 146-200	6 (a)
McDonnell Douglas MD-80	7 (b)
Boeing 737-300	2 (c)

(a) These aircraft are all leased to US Airways, Inc. (US Airways) for terms expiring in 2000.
(b) Six MD-80s are leased to US Airways for terms expiring from 1999 to 2004 and one is leased to Continental Airlines, Inc. (Continental) for a term expiring at the beginning of 2008.
(c) One aircraft is leased to Continental for a term expiring at the beginning of 2008 and one aircraft is leased to America West Airlines, Inc. for a term expiring in 2006.

ITEM 3. LEGAL PROCEEDINGS

As previously reported in the Company's Form 10-K for the year ended December 31, 1997, the City and County of San Francisco (CCSF), on July 11, 1997, filed a complaint in the Superior Court, State of California, County of San Francisco, against various present and former tenants who had operated fuel storage and other facilities at SFIA seeking to recover costs incurred in connection with the investigation and clean-up of contamination in and around SFIA. The action was removed to the United States District Court for the Northern District of California and is now captioned City and County of San Francisco v. ARCO, et. al., U.S. District Court, N. D. Cal., Case No. C97-2965 CAL (the CCSF Action). For additional information with respect to this action and two related cross actions, see Note 4 of the Notes

to Consolidated Financial Statements included in the Company's 1998 Annual Report to Stockholders, incorporated by reference herein (Exhibit 13).

The Company is unable to determine whether any of the claims mentioned above will ultimately have any material adverse consequences to it beyond the approximately $4.6 million (representing the unspent balance of the remediation liabilities recorded in 1997 and 1996) of environmental remediation liability recorded as of December 31, 1998 described in Note 4 of the Notes to Consolidated Financial Statements included in the Company's 1998 Annual Report to Stockholders, incorporated by reference herein (Exhibit 13).

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

The information required by Items 5 through 8 of this Part II is hereby incorporated by reference from page 1 and the pages 12 through 43 of the Company's 1998 Annual Report to Stockholders, incorporated by reference herein (Exhibit 13).

ITEM 5. Market for Registrant's Common Equity and Related Stockholder Matters

ITEM 6. Selected Financial Data

ITEM 7./(1)/ Management's Discussion and Analysis of Financial Condition and Results of Operation

ITEM 8. Financial Statements and Supplementary Data

(1) Item 7.A, "Quantitative and Qualitative Disclosures about Market Risk" is not applicable.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

The information required by Items 10 through 13 of this Part III, is hereby incorporated by reference from the Company's definitive Proxy Statement which will be filed with the Securities and Exchange Commission on or before April 26, 1999. Certain information concerning the Executive Officers of the Company is included in Part I, supra, under "EXECUTIVE OFFICERS OF THE COMPANY."

ITEM 10. Directors and Executive Officers of the Registrant.

ITEM 11. Executive Compensation.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management.

ITEM 13. Certain Relationships and Related Transactions.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements, Financial Statement Schedules, and Exhibits

1. Financial Statements: See Index to Financial Statements, Page F-1.
2. Financial Statements Schedules Required Under Item 8 and paragraph (d) of Item 14: None.
3. Exhibits: See Index to Exhibits following Page F-2.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

DATED: March 25, 1999.

PS GROUP HOLDINGS, INC.
(Registrant)

By: /s/ Lawrence A. Guske

____

LAWRENCE A. GUSKE
Vice President - Finance
and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each person whose signature appears below hereby authorizes Lawrence A. Guske and Johanna Unger, and each of them, as attorneys-in-fact, on his or her behalf, individually and in each capacity stated below, to sign and file any amendment to this Form 10-K Annual Report.

SIGNATURE	TITLE	DATE
/s/ C. E. Rickershauser, Jr. (C. E. Rickershauser, Jr.)	Chairman of the Board, Chief Executive Officer	March 25, 1999
/s/ J. P. Guerin (J. P. Guerin)	Vice Chairman of the Board	March 25, 1999
/s/ Lawrence A. Guske (Lawrence A. Guske)	Vice President - Finance and Chief Financial Officer (principal financial officer)	March 25, 1999
/s/ Johanna Unger (Johanna Unger)	Vice President, Controller, and Secretary (principal accounting officer)	March 25, 1999
/s/ Robert M. Fomon (Robert M. Fomon)	Director	March 25, 1999
/s/ William H. Borthwick (William H. Borthwick)	Director	March 25, 1999
/s/ Steven D. Broidy (Steven D. Broidy)	Director	March 25, 1999
/s/ Donald W. Killian, Jr. (Donald W. Killian, Jr.)	Director	March 25, 1999
/s/ Gordon C. Luce (Gordon C. Luce)	Director	March 25, 1999

/s/ Christopher H.B. Mills (Christopher H.B. Mills)	Director	March 25, 1999
/s/ Joseph S. Pirinea	Director	March 25, 1999

(Joseph S. Pirinea)

PS GROUP HOLDINGS, INC.
INDEX TO FINANCIAL STATEMENTS
[ITEM 14(A)]

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

The consolidated statements of financial position of PS Group Holdings, Inc. at December 31, 1998 and 1997 and the related statements of operations, cash flows, and stockholders' equity and the report of Ernst & Young LLP, independent auditors, are set forth on the pages indicated above in the Annual Report to Stockholders of PS Group Holdings, Inc. for the year ended December 31, 1998 and are incorporated herein by reference.

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of PS Group Holdings, Inc. of our report dated February 5, 1999, included in the 1998 Annual Report to Stockholders of PS Group Holdings, Inc.

/s/ Ernst & Young LLP

ERNST & YOUNG LLP

San Diego, California
March 25, 1999

INDEX TO EXHIBITS

(2) Plan of Reorganization - Restated Agreement and Plan of Reorganization dated January 31, 1996 among PS Group, Inc., the Company and PSG Merger Subsidiary. (Incorporated by reference from the Company's prospectus filed with the SEC on April 17, 1996 as part of the Company's Registration Statement on Form S-4 [Registration Statement No. 333-00821] filed on February 9, 1996, as supplemented by supplements dated May 1, May 14, and May 22, 1996.)

(3)(i) Articles of Incorporation - Restated Certificate of Incorporation, effective May 30, 1997. (Incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed on May 30, 1997.)

(3)(ii) Bylaws - Restated Bylaws as amended effective May 30, 1997. (Incorporated by reference to Exhibit 99.4 to the Company's Form 8-K filed on May 30, 1997.)

(10) Material Contracts:

(a) Form of Indemnity Agreement with the Directors and Officers of the Company. (Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-4 [Registration Statement No. 333-00821] filed on February 9, 1996.)

(b) Retirement Plan for Corporate Officers of PSA, Inc. (now PS Group, Inc.) and Participating Subsidiaries effective March 12, 1984, amending and restating the Retirement Plan for Corporate Officers of Pacific Southwest Airlines. (Incorporated by reference to Exhibit 10(d) to PSG's 1994 Annual Report on Form 10-K.)

(c) Split Dollar Insurance Agreement dated as of January 1, 1986 between PS Group, Inc. (PSG) and Lawrence A. Guske. This Agreement is substantially identical in all material respects to the Split Dollar Insurance Agreement between PSG and Johanna Unger. (Incorporated by reference to Exhibit 10(c) to the Company's 1997 Annual Report on Form 10-K.)

(d) Employment Agreement dated January 15, 1988 between PSG and Lawrence A. Guske. This Agreement is substantially identical in all material respects to the Employment Agreement between PSG and Johanna Unger. (Incorporated by reference to Exhibit 10(f) to the Company's 1996 Annual Report on Form 10-K.)

(e) Amendment dated April 1, 1989 to Employment Agreement between PSG and Lawrence A. Guske. This Amendment is substantially identical in all material respects to Amendment to Employment Agreement between PSG and Johanna Unger. (Incorporated by reference to Exhibit 10(g) to the Company's 1996 Annual Report on Form 10-K.)

(f) Letter dated January 30, 1996 from Charles E. Rickershauser, Jr. to Lawrence A. Guske relating to the relationship between the Employment Agreement referred to in Exhibit 10(b) and the Reorganization. This Letter is substantially identical in all material respects to the Letter between Charles E. Rickershauser, Jr. and Johanna Unger. (Incorporated by reference to Exhibit 10(h) to the Company's 1996 Annual Report on Form 10-K.)

(g) Letter dated February 8, 1999 from Charles E. Rickershauser, Jr. to Lawrence A. Guske clarifying the definition of "Change of Control" found in the Employment Agreement referred to in Exhibit 10(b) and the Reorganization. This Letter is substantially identical in all material respects to the Letter between Charles E. Rickershauser, Jr. and Johanna Unger.

(h) Amended and Restated Split Dollar Life Insurance Agreement dated as of January 1, 1999 between PSG and Janet Rickershauser (daughter of Charles E. Rickershauser, Jr.).

(i) Further Amended and Restated Executive Retirement Agreement between PSG and Charles E. Rickershauser, Jr. dated as of March 25, 1999.

(j) Agreement dated December 14, 1990 between Berkshire Hathaway Inc. (Berkshire) and PSG relating to Berkshire's acquisition of PSG's Common Stock. (Incorporated by reference to Exhibit 10(i) to the Company's 1996 Annual Report on Form 10-K.)

(12) Statement of Computation of Ratios.

(13) Annual report to stockholders - Inside front cover, page 1, and all the pages following the Letter to Stockholders.

(21) Subsidiaries of the registrant.

(23) Consent of independent auditors (see page F-2 of Item 14(a) of this Form 10-K).

(27) Financial data schedule.

EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

Matters relating to executive compensation plans and arrangements can be found within the index to exhibits as follows: (10)(a), (10)(b), (10)(c), (10(d), (10)(e), (10)(f), (10)(g), (10)(h), and (10)(i).

ALL EXHIBITS INCORPORATED BY REFERENCE ON OR AFTER JUNE 5, 1996 ARE FILED IN PS GROUP HOLDINGS, INC. DOCUMENTS (COMMISSION FILE NUMBER 1-7141); EXHIBITS INCORPORATED BY REFERENCE BEFORE JUNE 5, 1996 ARE FILED IN PSG DOCUMENTS (SAME COMMISSION FILE NUMBER AS PS GROUP HOLDINGS, INC.).

EXHIBIT (10)(G)

PS GROUP, INC.
4370 LA JOLLA VILLAGE DRIVE
SUITE 1050
SAN DIEGO, CALIFORNIA 92122

February 9, 1999

Mr. Lawrence A. Guske
PS Group, Inc.
4370 La Jolla Village Drive
San Diego, California 92122

Re: Employment Agreement

Dear Larry:

As you know, Section 10 of your Employment Agreement dated as of January 15, 1988, between you and PS Group, Inc. contains a definition of "Change of Control." In connection with the reorganization that resulted in the formation of PS Group Holdings, Inc. in 1996, it was PS Group, Inc.'s intention that your Employment Agreement would apply to a Change of Control of PS Group Holdings, Inc., as well as a Change of Control of PS Group, Inc. We now suggest that this intention be formalized. Your signature below constitutes your agreement that Section 10 of your employment agreement is amended to cover not only Changes of Control of PS Group, Inc., but also a "Change of Control" of PS Group Holdings, Inc.

Please execute this letter in the space provided below to confirm your agreement with the foregoing.

Sincerely,

/s/ Charles E. Rickershauser, Jr.

Charles E. Rickershauser, Jr.
Chairman of the Board and
Chief Executive Officer

AGREED AND ACCEPTED:

/s/ L. A. Guske

Lawrence A. Guske
Dated: February 9, 1999

EXHIBIT (10)(H)

PS GROUP, INC.

AMENDED AND RESTATED
SPLIT DOLLAR LIFE INSURANCE AGREEMENT

THIS AGREEMENT is made as of the 31st day of December, 1991 (the "Original Agreement"), and amended and restated as of the 1st day of January, 1999 (as so amended, "this Agreement"), by and between PS Group, Inc., a Delaware corporation (the "Company"), and Janet Rickershauser (the "Owner").

ARTICLE I
DEFINITIONS

1.1 Collateral Assignment shall mean the Collateral Assignment Agreement, dated December 1, 1991, assigning the Policy as collateral to the Company pursuant to paragraph 2.5 of the Original Agreement.

1.2 Cumulative Company Premiums shall mean the aggregate of (i) the cumulative premiums paid by the Company on the Policy pursuant to paragraph 2.3 of the Original Agreement, (ii) the premium paid by the Company on the Policy on January 27, 1998 pursuant to authorization of the Board of Directors of the Company and with the approval of the Company's parent corporation, and (iii) the cumulative premiums paid by the Company on the Policy pursuant to paragraph 2.3 of this Agreement.

1.3 Economic Benefit shall mean the value of the economic benefit of the life insurance coverage provided under this Agreement for income tax purposes as determined on the basis of the Internal Revenue Code and regulations and revenue rulings issued by the Internal Revenue Service and other applicable authorities.

1.4 Executive shall mean Charles E. Rickershauser, Jr.

1.5 Insurance Company shall mean Pacific Life Insurance Company.

1.6 Policy shall mean the life insurance policy on the life of the Executive, purchased by the Owner pursuant to paragraph 2.1 of this Agreement, or any other policy or policies substituted therefor.

ARTICLE 2
POLICY

2.1 Policy. The Owner has entered into a contract of life insurance with the Insurance Company insuring the life of the Executive. The Policy number is 1A2246221-0. The Owner hereby agrees that the Policy shall be subject to the term and conditions of this Agreement and Collateral Assignment.

2.2 Incidents of Ownership. The Owner shall hold all incidents of ownership in the Policy, except as otherwise provided in this Agreement and the Collateral Assignment.

2.3 Premiums. The Company shall make every annual premium Payment, the due date of which occurs on a date on which the Executive is employed by the Company or any parent or subsidiary of the Company. Any further premium payments necessary to maintain the policy will be paid by the Owner, at the discretion of the Owner.

2.4 Surrender, Borrowing and Withdrawal Rights. Neither the Owner nor the Company shall be entitled to surrender the Policy, to borrow against the Policy or to make withdrawals from the Policy, except by mutual consent evidenced by a written instrument executed by the Company and the Owner.

2.5 Collateral Assignment. To secure the Company's interest in the Policy under this Agreement, the Owner has assigned the Policy to the Company as collateral under the Collateral Assignment and hereby agrees not to purport to revoke or modify the Collateral Assignment or take any action inconsistent therewith.

ARTICLE 3
DEATH BENEFIT

3.1 Except as provided in Section 3.2, in the event of the Executive's death (whether before or after he retires or otherwise terminates employment with the Company or any parent or subsidiary of the Company) prior to termination of this Agreement, the Company shall be entitled to receive from the proceeds of the Policy, if sufficient, an amount equal to the Cumulative Company Premiums. The balance of the proceeds, if any, shall he paid to the Owner and thereupon this Agreement and the Collateral Assignment shall both terminate.

3.2 Notwithstanding anything to the contrary in Section 3.1:

3.2.1 In the event of the Executive's death at a time when he is still employed by the Company or any parent or subsidiary of the Company, the maximum amount that the Company shall be entitled to receive from the proceeds of the Policy under Section3.1 shall be an amount equal to the lesser of (x)the Cumulative Company Premiums and (y)such amount as will not result in the proceeds of the Policy that are received by the Owner being less than $400,000; and

3.2.2 In the event of the Executive's death at a time when (for any reason whatsoever) he is no longer employed by the Company or any parent or subsidiary of the Company, the maximum amount that the Company shall be entitled to receive from the proceeds of the Policy under Section3.1 shall be an amount equal to the lesser of (x)the Cumulative Company Premiums and (y)such amount as will not result in the proceeds of the Policy that are received by the Owner being less than $200,000.

ARTICLE 4
AMENDMENT OR TERMINATION OF AGREEMENT

Except as otherwise provided in this Agreement, the Company shall not amend or terminate this Agreement without the written consent of the Owner. The Owner shall have the right to terminate this Agreement at any time by paying the Company an amount equal to the Cumulative Company Premiums, thereupon the Company shall release all rights and interest in the Policy to the Owner and this Agreement and the Collateral Assignment shall both terminate.

ARTICLE 5
MISCELLANEOUS

5.1 Binding Effect. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns.

5.2 Gender, Singular and Plural. All pronouns and any variations thereof shall be deemed to refer to the masculine , feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.

5.3 Captions. The captions of the articles and paragraphs of this Agreement are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

5.4 Validity. In the event any provision of this Agreement is held

invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provisions of this Agreement.

5.5 Notice. Any notice or filing required or permitted to be given to the Company or the Owner under this Agreement shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, in the case of the Company, to the principal office of the Company, directed to the attention of its President, and in the case of the Owner, to the address indicated at the end of this Agreement. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

5.6 Notice to Insurance Company. The Insurance Company shall not be a party to this Agreement. The Company shall be responsible for notifying the Insurance Company of any changes in the ownership rights and interest of the Company and the Owner and the Insurance Company shall be entitled to rely upon such notification received from the Company.

5.7 Waiver of Breach. The waiver by either party of any breach of any provision or condition under this Agreement shall not operate or be construed as a waiver of any subsequent condition or breach.

5.8 Arbitration. Any dispute relating to this Agreement shall be settled by arbitration, before three arbitrators in San Diego County, in accordance with the Rules of the American Arbitration Association. Each of the parties shall select one arbitrator, and these two arbitrators shall select the third arbitrator, provided that, if the third arbitrator cannot be agreed upon, he or she shall be selected by the presiding judge of the Superior Court of San Diego County, upon petition brought by either party. The award of the arbitrators in any arbitration proceeding shall be final and may be enforced in any court of competent jurisdiction. The unsuccessful party to such arbitration proceeding shall pay to the successful party (i) all costs and expenses (including reasonable attorney's fees) incurred therein by the successful party, all of which shall be included in, and as a part of, the award rendered in such proceeding, and (ii) all such costs and expenses incurred by the successful party in enforcing such arbitration award.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by authority of its Board of Directors, and the Owner has hereunto set her hand, on the day and year first above written.

PS GROUP, INC.

By: /s/ Johanna Unger

____

Johanna Unger
Vice President, Secretary, and
Controller

/s/ Janet Rickershauser

____

Janet Rickerhauser
230 Sycamore
San Carlos, California 94070

FURTHER AMENDED AND RESTATED EXECUTIVE RETIREMENT AGREEMENT

This Further Amended and Restated Executive Retirement Agreement is made this 25th day of March, 1999, by and between PS Group, Inc., a Delaware corporation (the "Company"), and Charles E. Rickershauser, Jr. (the "Executive"), with reference to the following facts:

A. The Executive has served as Chairman of the Board of the Company since 1991, and as Chief Executive Officer of the Company since October, 1994.

B. The Executive is not a participant in the Retirement Plan for Corporate Officers of PS Group, Inc. and Participating Subsidiaries.

C. The Company and the Executive are parties to an Executive Retirement Agreement dated March 12, 1997 (the "Original Agreement") that was entered into in order to compensate the Executive for his services to the Company by augmenting his accrued unfunded retirement benefit and to clarify terms and conditions under which such retirement benefit would be accrued and paid.

D. The Original Agreement was amended and restated effective March 23, 1998 (as so amended and restated, the "Amended Agreement") in order to provide for an increase in the amount of the unfunded retirement benefit to be credited to the Executive's Account (as hereinafter defined) for calendar year 1998 from $50,000 to $100,000.

E. This Agreement further amends and restates the Amended Agreement in order to provide for an increase in the amount of the unfunded retirement benefit to be credited to the Executive's Account for calendar year 1999 from $50,000 to $100,000.

NOW, THEREFORE, the Company and the Executive hereby agree as follows:

1. DEFINITIONS

For purposes of this Agreement, the following terms are defined as follows:

1.1 "Account" means the account maintained pursuant to Section 2 of this Agreement.

1.2 "Actuarial Equivalent" means a benefit of equivalent value when computed using the actuarial assumptions in effect at the time of computation for computing of the equivalency of benefits under the Retirement Plan for Corporate Officers of PS Group, Inc. and Participating Subsidiaries.

1.3 "Beneficiary" means the person or persons designated or determined pursuant to Section 3.4.

1.4 "Board" means the Board of Directors of the Company, without the participation of the Executive.

1.5 "Joint and 50% Survivor Annuity" means an annuity payable monthly for the life of the Executive with a survivor annuity payable monthly for the life of the spouse of the Executive which is equal to one-half (1/2) of the amount of the annuity payable during the joint lives of the Executive and his spouse, which is the Actuarial Equivalent of the balance in the Account on the Payment Trigger Date, and which is also the Actuarial Equivalent of a single life annuity for the life of the Executive.

1.6 "Payment Trigger Date" means the later of June 30, 2001, or the Termination Date.

1.7 "Previously Accrued Amounts" means the unfunded retirement benefit and interest thereon which accrued on or before December 31, 1996 pursuant to the previous agreement between the Company and the Executive, and which consists of:

(a) Fifty Thousand Dollars ($50,000.00) per year accrued on December 31 of each calendar year from 1991 through 1996, inclusive;

(b) Interest accrued during each calendar year from 1992 through 1996, inclusive, at the rate paid on one-year U.S. Treasury Bills as of January 1 of such calendar year.

1.8 "Termination Date" means the date on which the Executive ceases to perform services for any reason (including, but not limited to, the Executive's death, total and permanent disability, or retirement) for the Company either in the capacity of Chairman of the Board of Directors or in the capacity of Chief Executive Officer.

2. THE ACCOUNT

2.1 The Company shall establish and maintain the Account, which shall be credited with the following amounts:

(a) As of December 31, 1996, the Previously Accrued Amounts;

(b) As of December 31, 1996, the sum of Fifty Thousand Dollars ($50,000.00);

(c) As of the last day of each calendar month in each calendar year beginning with calendar year 1997, the sum of Eight Thousand Three Hundred Thirty-Three and 33/100 Dollars ($8,333.33), but subject to Section 2.2 if any calendar month includes the Termination Date;

(d) Interest during each calendar year beginning with 1997 compounded daily at the rate paid on one-year U.S. Treasury Bills as of January 1 of such calendar year; provided, however, that such interest shall cease to accrue on the Payment Trigger Date.

2.2 For the calendar month which includes the Termination Date, the full amount specified in Section 2.1(c) or Section 2.1(d), as the case may be, with respect to such month shall be credited to the Account on the Termination Date rather than on the last day of such month, and no amounts shall be credited to the Account under Section 2.1(c) or Section 2.1(d), as the case may be, with respect to any calendar month after the calendar month which includes the Termination Date.

2.3 In accordance with the provisions of Section 7, the Account shall be for bookkeeping purposes only, and the Company shall not

be required to acquire or maintain any investments corresponding to the Account balance.

3. PAYMENT OF BENEFITS

Payment of benefits under this Agreement shall commence as soon as administratively practicable following the Payment Trigger Date in accordance with the following provisions:

3.1 Unless the Executive elects otherwise at the time and in the manner set forth in Section 3.3, benefits will be paid: (a) if the Executive is not married on the Payment Trigger Date, in the form of a single life annuity payable monthly during the Executive's life which is the Actuarial Equivalent of the balance in the Account as of the Payment Trigger Date, or (b) if the Executive is married on the Payment Trigger Date, in the form of a Joint and 50% Survivor Annuity.

3.2 The Executive may elect, at the time and in the manner specified in Section 3.3, to receive, in lieu of the applicable form of benefits set forth in Section 3.1, benefits in one of the following optional forms, each of which shall be the Actuarial Equivalent of the applicable form of benefit under Section 3.1:

(a) A single life annuity payable monthly during the Executive's life;

(b) A monthly benefit payable during the Executive's life with the provision that, after the Executive's death, the same monthly benefit will be continued to the Beneficiary, if such Beneficiary survives the Executive, during the lifetime of such Beneficiary through the month in which the Beneficiary dies;

(c) A monthly benefit payable for the life of the Executive; provided, however, that if the Executive dies before having received one hundred twenty (120) monthly payments, monthly payments shall be continued to his Beneficiary for the remainder of the one hundred twenty (120) month certain period; or

(d) A monthly benefit payable for the life of the Executive; provided, however, that if the Executive dies before having received two hundred forty (240) monthly payments, monthly payments shall be continued to his Beneficiary for the remainder of the two hundred forty (240) month certain period.

3.3 To be effective, an election of one of the optional forms of benefit set forth in Section 3.2, or a revocation of such election, must be (a) in writing in a form acceptable to the Board, (b) signed by the Executive, (c) timely made, (d) name the Beneficiary (except in the case of a single life annuity), and (e) fulfill such other requirements as the Company may establish. To be timely made, an election must be delivered to the Board either (i) at least one (1) year before the Payment Trigger Date, or (ii) if accompanied by evidence of the Executive's good health satisfactory to the Board, at any time before the Payment Trigger Date. Any controversy regarding whether the Executive is in good health will be resolved by a medical doctor jointly selected by the Executive and the Board, or if they are unable to agree on a medical doctor, by a medical doctor selected jointly by the Executive's medical doctor and a medical doctor selected by the Board. An election pursuant to this Section 3.3 shall become irrevocable on the Payment Trigger Date, and may not be rescinded or modified thereafter.

3.4 If the Executive elects one of the alternate forms of benefit specified in Section 3.2(b), (c), or (d), the Executive shall designate in writing to the Board one or more persons (a "Beneficiary") to receive benefits if the Executive dies after the Payment Trigger Date. The Executive may change the designation of his Beneficiaries at any time by giving written notice of such change to the Board. The Executive may designate one or more contingent Beneficiaries to receive benefits in the event of the death of the Primary Beneficiaries. If, upon the death of the Executive, no designation of a Beneficiary is effective, or no designated Beneficiary survives, benefit payments shall be made to the following persons in the following order of priority: (a) the Executive's surviving spouse; (b) the Participant's surviving children, and any descendants of a deceased child by right of representation; (c) the Executive's surviving parents; (d) the Executive's surviving brothers and sisters, and the descendants of any deceased brother or sister by right of representation; and (e) the executor or administrator of the estate of the Executive. If benefits become payable to any of the persons specified in clauses (b) through (e) of the preceding sentence, the Executive's last designated Beneficiary, rather than any of such persons, shall be the measuring life for determining the amount of annuity payments.

4. CONFIDENTIAL INFORMATION; FORFEITURE OF BENEFITS

Notwithstanding any other provision of this Agreement to the contrary, benefits under this Agreement are paid with the understanding that the Executive does not engage or become involved in any occupation or any activity or relationship which involves the use or disclosure to others of

information or practices acquired or learned while employed by the Company or any of its subsidiaries or parent and which any of them reasonably regards as confidential or their property or trade secret, or in any other activity detrimental to any of them. If the Company, after a thorough investigation, finds that the Executive has violated the provisions of this Section 4, benefits payable hereunder shall be forfeited. Notwithstanding any other provision of this Agreement to the contrary, no benefits will be payable under this Agreement if the Executive confesses to, or is convicted of, an act of fraud, theft or dishonesty amounting to a felony and arising in the course of or in connection with his employment with the Company or any of its subsidiaries or parent, and, in such case, all such benefits will be forfeited.

5. RECEIPT OF RELEASES

Any payment of benefits under this Agreement shall, to the full extent thereof, be in full satisfaction of all claims against the Company and its subsidiaries and parent, and the Company may require the recipient thereof, as a condition precedent to such payment, to execute a receipt and release to such effect.

6. ERISA; ADMINISTRATION

6.1 This Agreement constitutes a pension benefit plan within the meaning of Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which is unfunded and maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees. This Plan constitutes the "summary plan description" required under ERISA, as well as the governing document of the Plan. The "administrator" of the Plan, within the meaning of Section 3(16) of ERISA, and the "named fiduciary" thereof, within the meaning of Section 402 of ERISA, is the Board. Attached hereto as Exhibit "A" is a statement of the Executive's rights under ERISA. Attached hereto as Exhibit "B" is a statement of the claims procedure under this Agreement and ERISA.

6.2 The Board, acting as the "administrator" under ERISA, shall have the full power, authority, and discretion to construe and interpret the terms and provisions of this Agreement, and to compute and certify to the amount and form of benefits payable under this Agreement. Any interpretation or construction of this Agreement by the Board shall be final and binding on all parties, including, but not limited to, the Executive and any Beneficiary.

7. UNSECURED GENERAL CREDITOR

The Executive and his Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interests in any specific property or assets of the Company. No assets of the Company shall be held under any trust, or held in any way as collateral security for the fulfilling of the obligations of the Company under this Agreement. This Agreement shall not cause any of the Company's assets to be pledged or restricted. The obligations of the Company under the Agreement shall be merely that of an unfunded and unsecured promise of the Company to pay money in the future, and the rights of the Executive and his Beneficiaries shall be no greater than those of unsecured general creditors. The Company may, but need not, acquire investments corresponding to the Account hereunder, and it is not under any obligation to maintain any investment it may make. Any such investments, if made, shall be in the name of the Company, and shall be its sole property in which neither the Executive nor any Beneficiary shall have any interest.

8. RESTRICTION AGAINST ASSIGNMENT

The Company shall pay all amounts payable hereunder only to the person or persons designated by this Agreement and not to or for any other person. No part of the Account shall be liable for the debts, contracts, or engagements of the Executive, any Beneficiary, or successors in interest, nor shall the Account be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. Any purported alienation, anticipation, transfer, commutation, pledge, encumbrance, or assignment shall be void and of no effect. If the Executive, any Beneficiary, or successor in interest is adjudicated bankrupt, and such person's rights to distribution or payment under this Agreement are subject to involuntary transfer or assignment in any such proceeding, the Board may in its discretion cancel such distribution or payment (or any part thereof) to or for the benefit of the Executive, such Beneficiary or successor in interest.

9. WITHHOLDING

There shall be deducted from each payment to the Executive or a Beneficiary made under this Agreement all taxes which are required to be withheld by the Company from such payment. If any taxes, including employment taxes with respect to the Account, are required to be withheld prior to the time of payment, the Company may withhold such amounts from other compensation paid to the Executive.

10. AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION

The Board may amend, modify, suspend or terminate this Agreement in whole or in part, except that no amendment, modification, suspension or termination shall have any retroactive effect to reduce any amounts allocated to the Account.

11. GOVERNING LAW

This Agreement shall be construed, governed and administered in accordance with the laws of the State of California, to the extent such laws are not preempted by ERISA.

12. PAYMENTS ON BEHALF OF PERSONS UNDER INCAPACITY

In the event that any amount becomes payable under this Agreement to a person who, in the sole judgment of the Board, is considered by reason of physical or mental condition to be unable to give a valid receipt or release therefor, the Board may direct that such payment be made to any person found by the Board, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Board and the Company.

13. NO EMPLOYMENT RIGHTS

This Agreement shall not confer upon the Executive any right to be employed by or serve as a director of the Company or any of its subsidiaries or parent, or any other right not expressly provided hereunder.

14. HEADINGS NOT PART OF AGREEMENT

Headings and subheadings in this Agreement are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

15. COUNTERPARTS

This Agreement may be executed in two counterparts, each of which shall constitute an original document but both of which together shall constitute a single instrument.

IN WITNESS WHEREOF, the Company and the Executive have executed this Agreement as of the date first above written.

The "Company"

PS GROUP, INC.

By: /s/ L. A. Guske
Lawrence A. Guske
Vice President-Finance

The "Executive"

/s/ C. E. Rickershauser, Jr.
Charles E. Rickershauser, Jr.

EXHIBIT A

INFORMATION PROVIDED UNDER ERISA. This Executive Retirement Agreement constitutes an unfunded Plan of deferred compensation, maintained on a calendar year basis. The Company is the Plan sponsor, Plan Administrator, and agent for service of legal process. The Company bears the costs of all benefits under the Plan.

The Company's address, telephone number, and employer identification number are as follows:

4370 La Jolla Village Drive, Suite 1050
San Diego, CA 92122
Attn: Ms. Johanna Unger
Telephone No.: (619) 642-2999
Employer Identification No.: 33-0692068

The Plan number assigned to the Plan is 003.

STATEMENT OF ERISA RIGHTS. A Participant in this Plan is entitled to certain rights and protections under a federal law known as "ERISA." ERISA provides that all Plan Participants shall be entitled to examine, without charge, at the Plan Administrator's office, all Plan documents and the Plan's annual report. Copies of these documents and other Plan information may also be obtained upon written request to the Plan Administrator. A reasonable charge may be made for copies.

In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of this Plan. The people who operate this Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in your interest. No one, including your employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining benefits or exercising your rights under ERISA. If your claim for benefits is denied in whole or in part, you must receive a written explanation of the reason for this denial. You have the right to have the Plan Administrator review and reconsider your claim, as described in Exhibit B to the letter to which this Exhibit is attached.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the Plan and do not receive them within 30 days, you may file a claim in Federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to $100 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file a claim in Federal or state court. If you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file a lawsuit in Federal court. The court will decide who should pay the costs and legal fees of lawsuit. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

If you have any questions about your Plan, you should contact the Plan Administrator. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest Area Office of the U.S. Labor Management Services Administration, Department of Labor.

EXHIBIT B

If you believe you are entitled to a benefit under this Agreement, you may make a claim for such benefit by filing with the Company a written statement setting forth the amount and type of payment so claimed. The statement shall also set forth the facts supporting the claim. The claim may be filed by mailing or delivering it to the Board of Directors of the Company.

Within sixty (60) calendar days after receipt of such a claim, the Board shall notify you in writing of its action on such claim and if such claim is not allowed in full, shall state the following in a manner calculated to be understood by you:

(a) The specific reason or reasons for the denial;

(b) Specific reference to pertinent provisions of this Agreement on which the denial is based;

(c) A description of any additional material or information necessary for you to be entitled to the benefits that have been denied and an explanation of why such material or information is necessary; and

(d) An explanation of this Agreement's claim review procedure.

If you disagree with the action taken by the Board, you or your duly authorized representative may apply to the Board for a review of such action. Such application shall be made within one hundred twenty (120) calendar days after receipt by you of the notice of the Board's action on your claim. The application for review shall be filed in the same manner as the claim for benefits. In connection with such review, you may inspect any documents or records pertinent to the matter and may submit issues and comments in writing to the Board. A decision by the Board shall be communicated to you within sixty (60) calendar days after receipt of the application. The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by you, and specific references to the pertinent provisions of this Agreement on which the decision is based.

EXHIBIT (12)

STATEMENT OF COMPUTATION OF RATIOS

The debt to equity ratios set forth on page 1 of the Company's 1998 Annual Report to Stockholders are derived by dividing total debt at the end of each year by stockholders' equity at the end of each year.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this 1998 Annual Report to Stockholders may be deemed forward-looking, such as: information relating to the future prospects of the aircraft lessees of PS Group, Inc. (PSG), the aircraft leasing subsidiary of PS Group Holdings, Inc. (the Company); the possible consequences of any unscheduled return of aircraft under lease; the possibility of 1999 sales of six BAe 146 aircraft owned by PSG or the potential future phase-out of six MD-80 aircraft owned by PSG from the fleet of the applicable lessee and the impact of such sales or phase-out on PSG's financial condition, results of operations, and net operating loss carryforwards; the potential liability for environmental contamination at the San Francisco International Airport (SFIA), the related cost of remediation and pending and potential litigation, and the recoverability of any portion of this cost from third parties; the estimated income tax liabilities due to the State of California for the tax years 1987 through 1990 and the estimated amounts due for other deferred tax liabilities; the tax treatment of the Company's special distributions to stockholders in 1995, 1996, 1997, and 1998; the availability of certain tax benefits, and the amount of otherwise-taxable income against which such benefits may be offset; the amount of 1999 capital additions; the estimated fair value of oil and gas properties owned by Statex Petroleum, Inc. (Statex), the oil and gas production and development segment of the Company, that was used in computing the impairment loss; the quantities of oil and gas reserves owned by Statex, and the related future net cash inflows from oil and gas producing activities; the volatility of the prices of crude oil and natural gas and the resultant effect on Statex including its ability to remain in compliance with financial loan covenants contained in its separate bank credit agreement and the Company's ability to pay the principal and interest outstanding under this credit agreement if the bank is unwilling to grant future waivers and declares the loan due and payable; and the impact of Year 2000 issues on the Company. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including, but not limited to: the impact of the financial condition and results of operations of the lessees of PSG's aircraft; the effect of any 1999 sales of BAe 146 aircraft or the potential future phase-out of six MD-80 aircraft from the fleet of the applicable lessee on the Company's financial condition, results of operations, and net operating loss carryforwards; the uncertainties inherent in estimating the cost of environmental remediation and related pending and potential litigation at SFIA; the possibility that the final disposition of tax deficiencies asserted by the State of California will involve litigation or will be for an amount in excess of the amount estimated by the Company; the possibility of future adjustments to the deferred income tax liability; the possibility that the ultimate tax treatment of the special distributions to stockholders would be different than that determined by the Company; the efficacy of the transfer restrictions on the Company's common stock in preserving the Company's substantial tax benefits, the Company's ability to realize such benefits, and the possible effect of the availability of such benefits if stockholders of the Company do not vote to extend such transfer restrictions beyond their scheduled expiration in the year 2000; the impact on 1999 cash flow and borrowings to finance capital additions if capital additions vary from the current estimate; the impact of the actual quantities of oil and gas reserves and the related impact of the volatility of the prices of crude oil and natural gas on Statex, including the possibility of future impairment losses, the possibility of future non-compliance with financial loan covenants by Statex, and the possible inability of Statex to obtain waivers from its bank with respect to such noncompliance; the impact on the business, financial condition and results of operations of the Company if the Company or its subsidiaries, or third parties with which they have material business relationships, are unsuccessful in solving the Year 2000 issues in a timely manner; the impact of economic conditions on each business segment; the impact of competition; the impact of governmental legislation and regulation and possible future changes therein; and other risks detailed in this 1998 Annual Report to Stockholders and in filings the Company has made with the Securities and Exchange Commission. Should any of such risks or uncertainties materialize or should other assumptions prove incorrect, actual results or outcomes may vary materially from those contemplated in such forward-looking statements. The Company does not undertake to publicly update or revise its forward-looking statements.

RESTRICTIONS ON THE TRANSFER OF COMMON SHARES

There are certain restrictions imposed on the transfer of common shares of the Company. In general, and subject to an exemption for certain dispositions of shares by persons who were "pre-existing 5% shareholders" (as defined in the Company's Restated Certificate of Incorporation) on June 5, 1996, the transfer restrictions prohibit, without prior approval of the Board of Directors, the direct or indirect disposition or acquisition of any stock of the Company by or to any holder who owns, or would, as a result thereof, own (either directly or through the tax attribution rules) 5% or more of the stock upon such acquisition. These restrictions have been imposed in order to help preserve the Company's substantial net operating loss and investment tax credit carryforwards and other tax benefits by decreasing the risk of an "ownership change" for federal income tax purposes. The transfer restrictions, by their terms, are scheduled to expire immediately following the conclusion of the Company's annual meeting of stockholders for the year 2000, unless the stockholders pass a resolution extending such expiration date.

(inside front cover)

PS GROUP HOLDINGS, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS

The Company (NYSE Symbol: PSG) operates, through subsidiaries, three reportable segments - aircraft leasing, oil and gas production and development, and fuel storage and distribution (principally at two California airports).

<TABLE>
<CAPTION>

FOR THE YEAR	1998	1997	1996	1995	1994
(in thousands, except per share data and ratios)					
<S>	<C>	<C>	<C>	<C>	<C>
Revenues from continuing operations	$ 32,251	$ 43,765	$ 48,031	$ 46,189	$ 47,116
Income (loss) from continuing operations	3,161	(562)	10,276	2,696	(5,178)
Income (loss) from discontinued operations		(2,048)	(666)	336	12,414
Net income (loss)	3,161	(2,610)	9,610	3,032	7,236
Basic and diluted earnings (loss) per share:					
Continuing operations	.52	(.09)	1.69	.44	(.85)
Discontinued operations		(.34)	(.11)	.06	2.04
Net income (loss) per share	.52	(.43)	1.58	.50	1.19
Cash distributions per share/(a)/	3.00	4.00	1.50	1.50	
Capital additions	1,897	5,409	4,110	1,263	448
AT YEAR END					
Total assets	171,729	225,022	280,083	299,312	351,347
Total debt	56,311	73,722	105,785	122,609	137,225
Stockholders' equity	81,664	96,708	123,591	123,082	129,151
Stockholders' equity per share	13.46	15.94	20.37	20.28	21.28
Debt to equity ratio	.69 to 1	.76 to 1	.86 to 1	1 to 1	1.06 to 1

</TABLE>

COMPARABILITY

As more fully described elsewhere in this Annual Report to Stockholders, the income (loss) from continuing operations is not comparable between years due, in part, to the following significant unusual items (all amounts except (ii) are pretax): (i) in 1998 and 1997, impairment losses of $12.8 million and $.5 million, respectively, were recorded on oil and gas properties; (ii) in 1998 and 1996, an $8 million and $5.6 million, respectively, reduction of income tax liabilities was recorded; (iii) in 1997 and 1996, $5.5 million and $1.2 million, respectively, of environmental remediation expenses were recorded; (iv) in 1998 and 1997, $.7 million and $3.5 million, respectively, of additional depreciation expense was recorded on five (two in 1998) BAe 146 aircraft; (v) in 1997, a $.5 million gain was recorded on the sale of one BAe 146 aircraft; (vi) in 1996, a $1.8 million gain was recorded on the sale of an interest in six 737-200 aircraft; (vii) in 1995, a $1.7 million loss on disposition of 747 aircraft was recorded and in 1994, a write-down of $7.2 million was recorded related to 747 aircraft previously leased to airlines which had declared bankruptcy; (viii) in 1994, an accrual of $5 million was made for the settlement of securities litigation; and (ix) in 1994, a gain (net of losses) of $.6 million was recorded on marketable equity securities' transactions.

During the fourth quarter of 1997 and the first quarter of 1998, the assets of the wholesale and aviation fuel sales divisions, respectively, of PS Trading, Inc. (PST), a wholly-owned subsidiary of PSG, were sold. Accordingly, fuel sales is shown as discontinued in all periods presented. In 1994, the assets of the travel management segment and the major asset of the metallic waste recycling segment were sold. Accordingly, these two segments are shown as discontinued operations in 1994.

(a) The special cash distributions in 1998, 1997, 1996, and 1995 are not precedents for future distributions. See page 43 for additional information on these distributions.

AIRCRAFT LEASING

The aircraft leasing business, conducted by PSG, represents the major portion of the Company's assets and its largest source of cash flow and revenues. Aircraft leasing contributed $23.9 million to 1998's consolidated revenues from continuing operations, or 74% of the total. As of December 31, 1998, twelve PSG aircraft were under lease to US Airways, Inc. (US Airways), two to Continental Airlines, Inc. (Continental), and one to America West Airlines, Inc. (America West). All of these aircraft meet Federal Stage 3 noise requirements and qualify for operation in the United States without modification beyond 1999. Of the 15 aircraft, nine are operated by the lessees in scheduled passenger service in the continental United States. The remaining six aircraft are subleased by US Airways although US Airways continues to be responsible for the leases. Refer to Management's Discussion and Analysis of Financial Condition for information on the operating results of the leasing segment for the years 1996 to 1998 and known trends.

The PSG aircraft leases expire in the following years:

<TABLE>
<CAPTION>

Aircraft Type	1999	2000	2001	2004	2006	2008	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BAe 146-200		6					6
MD-80	1		3	2		1	7
737-300					1	1	2
							15

</TABLE>

POTENTIAL EARLY LEASE TERMINATIONS AND AIRCRAFT SALES. US Airways has advised the Company that it may exercise its lease termination rights during the first half of 1999 to acquire the remaining six BAe 146 aircraft it currently leases from PSG at specified lease termination values. If all six of these aircraft were acquired by US Airways under its lease termination rights in 1999, there would be a net gain of approximately $.9 million and the net cash proceeds would aggregate approximately $13.8 million after debt repayment of approximately $9.3 million. The tax gains on these sales would utilize all of the remaining estimated $15.5 million net operating loss carryforwards and approximately $2 million of the investment tax credit carryforward. PSG has no control over US Airways' possible additional sales of any of the remaining six leased BAe 146 aircraft and there are no assurances such sales will occur.

TYPE OF AIRCRAFT LEASES. In general, substantially all the obligations connected with the operation and maintenance of the leased aircraft, including maintaining insurance at specified levels in the leases, are assumed by the lessee and minimal obligations are imposed upon PSG. PSG carries supplemental total loss insurance coverage on certain leased aircraft when the insured value specified in the lease and provided by the lessee is less than the current estimated market value of the aircraft. The leases also generally provide options to the lessee to extend the lease at stipulated or fair market value lease rates or purchase the aircraft at a stipulated amount or at fair market value at the end of the lease term or earlier in certain cases. Most of the PSG leases and related aircraft are encumbered by debt that will be fully amortized on or before the end of the lease term.

AIRCRAFT LEASING - CONTINUED

PSG'S AIRCRAFT LESSEES. Since PSG's leases are relatively long-term and are net leases, PSG is affected by both the current and long-term futures of its three lessees. A summary of the recent results and current status of each of PSG's lessees follows. ALL INFORMATION (EXCEPT AS OTHERWISE EXPRESSLY INDICATED) CONTAINED IN THIS ANNUAL REPORT RELATING TO PSG'S THREE AIRCRAFT LESSEES WAS OBTAINED FROM PUBLISHED MEDIA REPORTS. PSG REFERS READERS TO PUBLIC INFORMATION REGARDING US AIRWAYS, CONTINENTAL, AND AMERICA WEST FOR FURTHER DETAILS RELATING TO THEIR FINANCIAL CONDITION AND ASSUMES NO RESPONSIBILITY FOR THE ACCURACY OF SUCH INFORMATION.

. US AIRWAYS leases six MD-80 aircraft and six BAe 146-200 aircraft from PSG. Lease revenues from US Airways were 81% of total lease revenues for 1998.

All of the BAe 146 aircraft are subleased and generally the subleases extend through US Airways' primary lease term which expires in the fall of 2000. These sublessees are smaller commuter airlines, most of which are start-up carriers. Three of the BAe 146's are subleased by US Airways to a U.S. airline and the remainder are subleased to two European airlines.

In October 1997, US Airways announced an agreement to acquire up to 400 A320-type aircraft manufactured by Airbus Industrie G.I.E. (Airbus). In a press release dated February 2, 1999, US Airways confirmed that it has 128 Airbus aircraft on firm order. In its Form 10-K for the year ended December 31, 1998, it had indicated that, as of March 19, 1999, ten of these aircraft had been delivered, 29 were scheduled to be delivered during the remainder of 1999, and 89 were scheduled to be delivered in the years 2000-2002. US Airways has also announced that the Airbus aircraft deliveries would result in the phase-out of US Airways' MD-80's, as well as its earlier generation DC-9-30's and 737-200 aircraft. US Airways has advised PSG that it is not currently in a position to indicate to PSG the specific effect of the aircraft phase-out on the six MD-80's which are leased from PSG. US Airways operates 31 MD-80's. PSG believes that US Airways' older aircraft (DC-9-30's and 737-200's) will be phased-out first as US Airways takes delivery of Airbus aircraft.

US Airways reported record pretax income of $936 million for 1998. US Airways' unit costs declined slightly in 1998 but remain the highest of the major U.S. airlines. During 1997, US Airways reached agreement with its pilots on a new five-year labor contract which provides concessions in pay increases and work rules. The agreement also allows US Airways to establish a low-cost, low-fare product to compete directly against Southwest, Delta Express, and AirTran Airlines. As part of the labor contract, US Airways agreed to "grow" the airline by at least 2.5% per year. As a result of this growth commitment, US Airways ordered the 128 new Airbus aircraft, as mentioned above. US Airways is continuing negotiations with its other labor unions for similar concessions to those received from the pilots. US Airways' third quarter 1998 Form 10-Q stated, in part: "The Company continues to be highly leveraged, as evidenced by the Company's high debt burden. The Company and its subsidiaries require substantial working capital in order to meet scheduled debt and lease payments and to finance day-to-day operations. The Company's agreements to acquire up to 430 new Airbus aircraft, accompanying jet engines and ancillary assets will increase the Company's financing needs and result in a significant increase in its financial obligations and debt burden. Adverse changes in certain factors that are generally outside the

==

==

Company's control, such as an economic downturn, additional government regulations, intensified competition from lower-cost competitors or increases in the cost of aviation fuel, could have a material adverse effect on the Company's results of operations, financial condition, and future prospects. The Company's results of operations and financial condition are particularly susceptible to adverse changes in general economic and market conditions due to US Airways' high cost structure relative to its major competitors." In US Airways' January 20, 1999 press release reporting 1998 results, the President and CEO of US Airways indicated that progress was made in 1998 by stating, in part: "During this year a comprehensive, fundamental platform for improved market position was established, and the professionalism and team spirit of our employees are reflected in these results and other accomplishments of 1998." At December 31, 1998, US Airways' cash, cash equivalents, and short-term investments remained strong totaling approximately $1.2 billion.

. CONTINENTAL leases one MD-80 and one 737-300 from PSG. Continental reported a record pretax profit of $770 million for 1998. Continental's cash and cash equivalents were approximately $1.4 billion at December 31, 1998. While still highly leveraged, Continental has strengthened its financial position and operating results.

. AMERICA WEST leases one 737-300 aircraft from PSG. America West is partially owned by Continental (1% ownership interest, 8.3% voting interest) and both carriers have implemented various programs to cross-feed passengers and reduce common costs. America West continued to expand operations in 1998. America West reported record pretax profits of $185 million for 1998. Cash, cash equivalents, and short-term investments totaled approximately $183 million at Septembber 30, 1998. America West continues to be one of the lowest-cost airline operators.

<TABLE>
<CAPTION>

OPERATING STATISTICS (at year-end)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
NET AIRCRAFT LEASED:/(a)/					

BAe 146-200 aircraft/(b)/	6.0	6.0	10.0	10.0	10.0
MD-80 aircraft	7.0	7.0	7.0	7.0	7.0
737-300 aircraft	2.0	2.0	2.0	2.0	2.0
737-200 aircraft/(c)/	-	-	-	2.0	2.3
Total aircraft leased	15.0	15.0	19.0	21.0	21.3
Aircraft leased under operating leases	10.0	10.0	14.0	16.0	16.3
Aircraft leased under financing leases	5.0	5.0	5.0	5.0	5.0
AIRCRAFT HELD FOR SALE - 747-100 aircraft/(d)/	-	-	-	-	2.0

</TABLE>

(a) At December 31, 1998, PSG had a 100% interest in all aircraft shown.
(b) These aircraft have not been operated by US Airways since the spring of 1992 and at December 31, 1998, all are subleased by US Airways to other airlines. In the fourth quarter of 1997, US Airways exercised its lease termination rights by purchasing (and subsequently selling) four of the BAe 146 aircraft.
(c) During 1996, PSG sold its 1/3 interest in the six 737-200 aircraft to the lessee and, during 1995, one 737-200 aircraft, in which PSG had a 1/3 interest, was declared a casualty loss.
(d) During 1995, the two 747-100 aircraft were sold.

==

OIL AND GAS PRODUCTION AND DEVELOPMENT
==

Oil and gas operations are conducted by Dallas-based Statex Petroleum, Inc. (Statex), a wholly-owned subsidiary of PSG. Statex had 1998 revenues of $6.1 million which represented 19% of the Company's 1998 consolidated revenues. Statex is an independent oil and gas producing company which focuses primarily on properties with secondary recovery and/or development potential. Most of Statex's oil and gas properties are located in North-Central and West Texas, and in Western Oklahoma. Statex sells its oil and gas at the point of production.

Statex was materially affected by the significant decrease in the prices of crude oil and natural gas during 1998. The average 1998 price for oil was 34% less than in 1997 and the average price for gas was 21% less. Principally as a result of these declines, Statex recorded impairment losses totaling $12.8 million during 1998 versus a $.5 million impairment loss in 1997 (refer to Note 1 of the Notes to the Consolidated Financial Statements for complete information). Statex's pretax results, before the impairment losses, were also significantly affected. In 1998, there was a pretax loss (before impairment loss) of $1.6 million versus a pretax profit of $1.1 million in 1997. Refer to Management's Discussion and Analysis of Financial Condition for additional information on Statex's operating results for 1996 to 1998 and known trends. As a result of these lower prices, management has instituted strict cost control procedures especially since the main Statex properties involve secondary recovery with extremely high volumes of water injection which results in high operating costs. During the latter part of 1998, a number of wells were "shut-in" and the volume of water injected was reduced in order to trim costs.

During 1998, Statex borrowed $.8 million under its bank credit agreement bringing the total borrowings to $5.8 million. Due to losses in the third and fourth quarters of 1998, Statex did not meet a financial covenant contained in this agreement relating to the fixed charge ratio - refer to Management's Discussion and Analysis of Financial Condition for additional information, including the waiver of this covenant by the bank for the fourth quarter of 1998.

PRODUCTION AND RESERVES. The dramatic drop in oil and gas prices affected both the volumes produced as well as Statex's economic remaining reserves at December 31, 1998. December 1998 net sales volumes declined 26% from the December 1997 levels (776 barrels of oil per day (BOPD) compared to 1,051 BOPD in 1997). Over all, yearly production decreased from 1,066 BOPD and 1,942 MCF of gas per day (MCFPD) in 1997 to 985 BOPD and 1,408 MCFPD in 1998. This represented an 8% decline in oil and a 27% decline in gas production. The low oil prices have also rendered several undeveloped projects uneconomic, thereby significantly reducing the total oil reserves as of December 31, 1998. As shown in Note 10 of the Notes to the Consolidated Financial Statements, there was a 16% reduction in oil reserves due to revisions of prior estimates, which were largely attributable to certain undeveloped projects becoming uneconomic.

ACTIVITIES. The decline in oil and gas prices also sharply reduced Statex's acquisition and development programs during 1998. Reduction of costs and maximization of injection effectiveness were the key priorities. Capital additions decreased from $5.3 million in 1997 to $1.9 million in 1998. The 1998 capital additions were principally for infield and lease maintenance drilling, as well as for the acquisition of an interest in two producing properties described below. 1999 capital additions are budgeted at $1.6 million, approximately $.6 million of which is for lease maintenance drilling and approximately $1 million is for acquisitions. Any

Any additional drilling or acquisitions in 1999 will be based on the economics of the current lower market prices for oil and gas. If available, State's bank credit agreement will be used to finance or assist in financing its planned capital additions.

As a result of the lower oil and gas prices, only 12 wells were drilled in 1998 compared to 29 in 1997. No drilling was done at State's 100%-owned core property, Eliasville, located in Stephens County, Texas. Six wells were drilled in Viejos, a Pecos County, Texas outside operated property, which is primarily gas. In addition, at the beginning of 1998 Statex drilled two wells in Howard County, Texas.

Two small acquisitions were made by Statex late in 1998, both operated by others; one in West Texas, the other in North Dakota. While both have substantial reserves, future market prices will determine the final economics.

<TABLE>
<CAPTION>

OPERATING STATISTICS	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Proved reserves at year-end:					
Crude oil (Mbbls)	4,106	4,912	5,051	4,886	5,082
Natural gas (MMcf)	4,255	4,653	2,811	2,960	3,026
Undeveloped oil and gas acreage at year-end:					
Gross/(a)/	5,486	6,006	6,235	3,388	6,586
Net/(b)/	2,512	2,592	2,494	615	902
Producing wells at year-end:					
Gross/(a)/	316	260	214	121	107
Net/(b)/	164	175	147	83	81
Production:					
Crude oil (Mbbls)	365	395	338	337	405
Natural gas (MMcf)	566	767	469	552	520
Wells drilled:/(c)/					
Gross/(a)/	12	29	15	2	-
Net/(b)/	5	21	12	1	-
Average price during year:					
Crude oil - per barrel	$13.18	$20.07	$21.90	$17.56	$16.21
Natural gas - per thousand cubic feet	$ 2.02	$ 2.56	$ 2.11	$ 1.59	$ 1.99
Year-end price:					
Crude oil - per barrel	$ 9.50	$15.50	$24.25	$18.00	$16.00
Natural gas - per thousand cubic feet	$ 1.86	$ 2.23	$ 3.27	$ 1.90	$ 1.50
Average production costs per equivalent barrel	$10.36	$ 9.49	$ 9.07	$ 8.74	$ 7.88
Employees at year-end	9	9	8	8	8

</TABLE>

Mbbls = thousands of barrels
MMcf = millions of cubic feet

(a) Gross refers to the total amount owned by all participants.
(b) Net refers to Statex's ownership interest in the gross amount.
(c) One of the wells drilled in 1998 was an exploratory well and it was a dry hole. There were no wells in process at year-end.

FUEL STORAGE AND DISTRIBUTION

The fuel storage and distribution segment is operated by PST. PST owns limited fuel storage and distribution facilities at San Francisco International Airport (SFIA), Los Angeles International Airport (LAX), Oakland International Airport (OAK), and Sacramento International Airport (SMF). Revenues of this segment amounted to only $.8 million, or 2% of 1998's total revenues.

PST's revenues, which are primarily based on usage, are derived from the SFIA and LAX facilities which are operated or maintained by third parties under agreements that specify that PST is responsible for the cost of all repairs and maintenance.

SFIA is constructing a major new international terminal which, when completed, will result in the demolition of the existing terminal served by PST's fuel distribution lines. The latest estimate provided by SFIA is that the new international terminal will be completed in 2000. PST has been advised by the third-party operator of its fuel storage tanks at SFIA that its current estimate is that these tanks will be taken out of service as early as 2001 when new fuel storage tanks are constructed by third parties. When the existing SFIA terminal is demolished and when the PST storage tanks are taken out of service, PST will then be required to remove its fuel pipelines and storage tanks and remediate known soil and ground water contamination. The liability for the estimated cost of removal and site remediation is included in the environmental remediation liability described in Note 4 of the Notes to the Consolidated Financial Statements.

The ground lease for the LAX fuel distribution lines extends through 2016, but under the terms of the lease, the airport would have the right to terminate the lease early if it so desires. PST is attempting to sell its OAK fuel storage facility which is on property leased through January 2011. The ground lease for the SMF fuel storage facility has expired and the two small above ground tanks will be sold or demolished.

Refer to Management's Discussion and Analysis of Financial Condition for information on PST's operating results for 1996 to 1998 and known trends.

==

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

==

Reference is made to the item captioned "Forward-Looking Statements" on the inside front cover of this Annual Report to Stockholders.

In addition to the information set forth below, reference is made to the individual sections on each reportable segment presented elsewhere in this Annual Report (which are incorporated by reference herein) for a description of each of the Company's reportable segments and certain risks and uncertainties.

FINANCIAL CONDITION

Refer to the Consolidated Statements of Cash Flows for detailed components of the Company's cash flow activities. At December 31, 1998, the Company's principal sources of liquidity were cash, cash equivalents, and U.S. Government securities totaling $4.4 million, a $12.4 million decrease from December 31, 1997. The major components of the change in liquidity are as follows (in thousands):

From continuing operations:	
Sources of liquidity:	
Operations, before tax payment shown below	$ 14,454
Financing leases and other	7,501
Sales of securities and reduction in cash collateral	2,091
Bank borrowings by Statex	800
Uses of liquidity:	
Payment of long-term obligations	(18,211)
Cash distributions to stockholders	(18,205)
Payment of prior years' state income tax liability	(6,040)
Capital additions	(1,897)
Net use by continuing operations	(19,507)
Cash provided from discontinued operations	7,154
Net decrease in liquidity	$(12,353)
Components of net decrease in liquidity:	
Decrease in cash and cash equivalents	$ (7,174)
Decrease in U.S. Government securities	(5,179)
Net decrease in liquidity	$(12,353)

At December 31, 1998, PSG had $1.4 million outstanding under its October 1995 bank credit agreement consisting entirely of letters of credit (LC's). No additional LC's or any borrowings are permitted under the agreement which expires in 2000. All outstanding LC's require cash collateralization and PSG is required to maintain at least $1 million in cash and cash equivalents.

Statex has a separate bank credit agreement collateralized by its major oil and gas properties. As of December 31, 1998, $5.8 million was borrowed under this agreement. Due to losses in the third and fourth quarters of 1998, Statex did not meet a financial covenant contained in its bank loan agreement relating to the fixed charge ratio. In November 1998 and March 1999, Statex obtained waivers from the bank relating to its non-compliance with this financial

==

==

covenant in the third and fourth quarters of 1998. It is possible that future losses could cause Statex to again be out of compliance with this financial covenant or with other covenants in its bank credit agreement. There can be no assurances that the bank will be willing to grant additional waivers in the future. If any needed additional waivers are not granted, the bank could by notice to Statex declare the outstanding principal and interest due and payable. The Company believes that if the bank declared the Statex note due and payable, and if the Company felt it was appropriate, then it would have adequate funds to advance to Statex to pay the outstanding principal and interest.

PSG's aircraft lease portfolio represents the major portion of the Company's assets and its largest source of cash flow. The lease portfolio consists of 15 aircraft, the preponderance of which are 12 aircraft leased to US Airways. As of December 31, 1998, PSG had $92.3 million of assets related to aircraft leased to US Airways for which realization is substantially dependent upon the future performance of US Airways.

Refer to Note 6 of Notes to the Consolidated Financial Statements for a description of the payment of prior years' state income tax liability.

The Company believes that its cash, cash equivalents, and U.S. Government securities, plus projected cash flow, are adequate to meet the operating and capital needs of the Company in both the short and long-term. All of the Company's budgeted 1999 capital additions of approximately $1.6 million relate to Statex. If available, Statex's bank credit agreement will be used to finance or assist in financing its planned capital additions.

YEAR 2000 ISSUES

The Company and each of its subsidiaries are working to resolve the potential impact of the Year 2000 on the ability of their computerized information systems to accurately process information that may be date sensitive. Any system that recognizes a date using "00" as the year 1900 rather than the year 2000 could result in errors or systems failures. The Company, PSG and PST share a number of common computer systems in their operations. In addition, Statex uses a number of computer systems in its operations. Since all of these systems use only standardized computer programs developed by major software vendors, the Company and its subsidiaries are dependent on those software vendors to make the needed modifications to accommodate the Year 2000. Some of these programs have already been modified. For other programs, the vendors have indicated that the modifications will be completed in advance of the Year 2000, although some of the vendors have stated that there are no assurances that this will be accomplished. As a contingency, if any vendor does not modify its software to address the Year 2000 issues on a timely basis, the Company believes that there will be appropriate alternative software available that is Year 2000 compliant and that can be substituted with no material effect on operations. The Company and its subsidiaries believe, based on advice from outside consultants, that their computer hardware is already Year 2000 compliant. Based on information currently available, the Company believes that the costs to address the Year 2000 issues discussed above will be less than $100,000 and that the software modifications using existing or substitute vendors will be completed by mid-1999.

The Company and its subsidiaries are dependent upon third party providers to perform many services including insurance coverage, employee benefit programs, shareholder related services, printing, utilities, and communications. The Company has received correspondence from most

==

==

of these providers which indicates that they expect to address their significant Year 2000 issues on a timely basis. The Company will continue to monitor the progress of all of its significant third party providers. The Company has no control over these providers becoming Year 2000 compliant. As a contingency, if a provider does not become Year 2000 compliant in a timely manner, the Company, in many cases, may be able to change to another service provider that is compliant. Such a contingency plan is expected to be in place by mid-1999.

The Company's largest revenue source is aircraft lease revenue from US Airways, America West Airlines, and Continental Airlines. Lease revenue represented 74% of total revenues for the year ending December 31, 1998. Revenue from US Airways alone represented 60% of total revenues for the same period. The Company has approached each lessee regarding its compliance with Year 2000 issues. Each has indicated to the Company and in filings made with the Securities and Exchange Commission that it is not currently Year 2000 compliant. However, each has disclosed that they are working toward becoming compliant. These lessees have further indicated that they could suffer material adverse effects on their results of operations and financial condition if they or third parties they rely upon are not Year 2000 compliant. Such an adverse effect could jeopardize the lessees' ability to make lease payments to the Company. The Company has no control over these lessees becoming Year 2000 compliant and there is no contingency plan. In the event that failure to become Year 2000 compliant on the part of any lessee adversely affects its ability to make lease payments to the Company, the Company is unable to estimate the amount of lease revenue, if any, that would not be paid. It is possible that the Company could sustain a significant interruption in its revenue stream that would affect the Company's ability to make its debt payments on loans secured by leased aircraft.

Oil and gas revenues generated by Statex amounted to 19% of consolidated revenues for the year ending December 31, 1998. Approximately 66% of Statex's revenues comes directly or indirectly from Sunoco, Inc. Sunoco has disclosed in public filings that, while it is not yet compliant, it is working to resolve its Year 2000 issues. To the extent that Sunoco or other current purchasers from Statex were unable to purchase oil and gas due to Year 2000 issues, Statex expects that, at least in most cases, it will be able to find alternative purchasers. However, there is no assurance that this could be done or that pricing from alternative purchasers would be the same as that obtained from current purchasers. A contingency plan for alternative purchasers is expected to be in place by mid-1999. Most of Statex's power to operate its production equipment comes from one large Texas utility. In public filings, this utility has disclosed that, while it is not yet Year 2000 compliant, it is working to resolve these issues. Statex's operations could be negatively impacted if this utility company or any of its other utility providers were not Year 2000 compliant and could not provide their services. The Company is unable to estimate the potential impact on its operations if Statex's customers or its utility providers are not Year 2000 compliant.

If the Company or its subsidiaries, or any third parties with which they have material business relationships, are unsuccessful in solving the Year 2000 issues in a timely manner it could have a material adverse effect on the Company's business, financial condition, and results of operations. Beyond the information disclosed above, the Company is unable to determine the extent of such potential adverse effects.

==

==

USAGE OF TAX LOSS CARRYFORWARDS

The Company has substantial net operating loss carryforwards, investment tax credit carryforwards, and other tax benefits (the Tax Benefits) for use in offsetting future taxable income. As discussed in Note 6 of the Notes to Consolidated Financial Statements, as of December 31, 1998, the Company believes it had approximately $15.5 million of federal net operating loss carryforwards and $12.5 million of federal investment tax credit carryforwards, plus other state and federal tax benefits. Besides the customary financial and legal difficulties ordinarily involved in using these Tax Benefits, there is a special limitation on the use of these Tax Benefits that arises when an "ownership change" occurs for federal income tax purposes. Generally speaking, an "ownership change" occurs whenever, within a three-year period, the aggregate ownership of a company's stock by its "5-percent shareholders" (as defined by the applicable federal income tax regulations) increases by more than 50 percentage points. Making the calculation is complex and uncertain. The Company believes that as of December 31, 1998, no "ownership change" had occurred with respect to the Company, but that the aggregate percentage point increase in the ownership of the Company's stock by "5-percent shareholders" during the preceding three-year period was approximately 7%. Certain "5-percent shareholders' " ownership interests are not included in the 7% because such shares have been held for more than three years. If such shares (held more than three years by "5-percent shareholders"), which approximate 45% ownership at December 31, 1998, are sold, they would be reflected in the change in ownership percentage calculation for three years from the date of sale and could, dependent on the number of shares sold, result in an "ownership change." The sole purpose of the Reorganization, described in Note 1 of Notes to the Consolidated Financial Statements, was to help preserve the Tax Benefits by decreasing the risk of an ownership change for federal income tax purposes. The Reorganization was intended to accomplish this purpose by imposing certain Transfer Restrictions (as described in Note 1 of Notes to the Consolidated Financial Statements) on the transfer of shares of the Company. The transfer restrictions, by their terms, are scheduled to expire immediately following the conclusion of the Company's annual meeting of stockholders for the year 2000, unless the stockholders pass a resolution extending such expiration date. While the Company believes that the Transfer Restrictions will be enforceable, if the binding nature of the Transfer Restrictions were challenged, there is no assurance that a court would hold that the Transfer Restrictions are enforceable. Furthermore, while the Company believes that the remedies provided in the Transfer Restrictions are generally sufficient, it is possible that the relevant tax authorities will take the position the Transfer Restrictions do not provide adequate remedies for tax purposes with respect to every transaction that the Transfer Restrictions purport to prevent. Therefore, even with the Transfer Restrictions in place, it is possible that transactions could occur that would severely limit the Company's ability to utilize the Tax Benefits. In addition, there can be no assurance that legislation will not be adopted that would limit the Company's ability to utilize the Tax Benefits in future periods. However, the Company is not aware of any proposed legislation for changes in the tax laws that could materially impact the ability of the Company to utilize the Tax Benefits.

==

==

RESULTS OF OPERATIONS FROM 1996 TO 1998 AND KNOWN TRENDS

Refer to Note 7 of Notes to the Consolidated Financial Statements for revenues; interest; depreciation, depletion, and amortization; and segment profit or loss shown by reportable segment.

AIRCRAFT LEASING SEGMENT

Aircraft leasing revenues declined each year since 1996 for the following reasons: (i) certain lease revenues were discontinued during the last three years due to the sale of four BAe 146 aircraft in the fourth quarter of 1997 and the sale of an interest in six 737-200 aircraft in December 1996; (ii) there was reduced revenue recognition associated with aircraft leased under financing leases; (iii) there were lease rate resets on certain aircraft leases tied to lower interest rates (these lower lease rates were matched by lower interest expense amounts on the related debt); and (iv) 1996 included a $1.8 million gain from the sale of an interest in six 737-200 aircraft while 1997 included a $.5 million gain from the sale of a BAe 146 aircraft. In future years, leasing revenues will decline from the 1998 level because of the reduced revenue recognition associated with aircraft leased under financing leases, lease rate resets on certain aircraft, and potential future aircraft sales.

Interest expense related to aircraft leasing has decreased each year as a result of (i) lower levels of outstanding debt which resulted from normal loan amortization and aircraft sales and (ii) the lease rate resets described above.

The decrease in depreciation, depletion, and amortization expense between 1997 and 1998 primarily reflects the reduction in the number of aircraft owned due to the sale of the four BAe 146 aircraft in the fourth quarter of 1997 and a $2.8 million reduction in 1998 in the effect of a change in estimate for depreciation expense recorded on five BAe 146 aircraft described in Note 1 of Notes to the Consolidated Financial Statements. The increase in depreciation expense between 1996 and 1997 was due to a $3.5 million 1997 effect of the depreciation change described above.

The segment profit for aircraft leasing is greater in 1998 than in 1997 principally because of the change in depreciation described above. The segment profit is lower in 1997 than in 1996 also because of the change in depreciation and because 1996 includes $1.3 million more in aircraft sale gains than 1997.

US Airways has advised the Company that it may exercise its lease termination rights during the first half of 1999 to acquire the remaining six BAe 146 aircraft it currently leases from PSG at specified lease termination values. If all six of these aircraft were acquired by US Airways under its lease termination rights in 1999, there would be a net gain of approximately $.9 million and the net cash proceeds would aggregate approximately $13.8 million after debt repayment of approximately $9.3 million. The tax gains on these sales would utilize all of the remaining estimated $15.5 million net operating loss carryforwards and approximately $2 million of the investment tax credit carryforward. PSG has no control over US Airways' possible additional sales of any of the remaining six leased BAe 146 aircraft and there are no assurances such sales will occur. As additional aircraft are sold, leasing revenues and operating results will be reduced.

Because of the cyclical nature of the airline business, the long-term prospects of all airlines, except for the largest and best capitalized, are uncertain. The long-term prospects for US Airways (which has the highest unit cost structure in the industry and limited equity for its size) and Continental and America West (both of which emerged from bankruptcy in 1993 and 1994, respectively, and remain highly leveraged) are even more unpredictable. It is possible that all of the leased aircraft will remain with PSG's existing lessees and, based on recent publicly reported financial results, prospects are significantly improved as to that possibility. On the other hand, if there is economic deterioration of PSG's lessees, some or all of the aircraft could be returned to PSG or the leases could be renegotiated on terms less favorable to PSG.

While the unscheduled return of aircraft appears unlikely at present, should PSG's lessees default on their leases, or file bankruptcy and reject certain aircraft leases, there could be a material decrease in the market value of the aircraft leased to PSG's lessees due to an increased availability of those aircraft for lease or sale. In such a case, PSG could suffer significant losses on the ultimate disposal of the related aircraft or upon the ultimate repossession of the aircraft by the lenders. Should any of PSG's leased aircraft be returned before the end of the respective lease terms, PSG would have to continue to make the principal and interest payments to the aircraft lenders to be able to pursue a sale or lease of the aircraft in order to maintain or salvage some of PSG's equity interest (most of PSG's leased aircraft have debt obligations - all non-recourse debt except for $3.9 million at December 31, 1998 of recourse debt on two BAe 146's). Whether PSG undertook such a course of action would be dependent on PSG having sufficient liquidity to maintain the debt payments and a viable market for the specific type of used aircraft PSG would be marketing. Both of these factors are uncertain. If the lenders took control and sold the aircraft, PSG would likely lose most or all its equity in the aircraft. If, in the future, PSG had sufficient liquidity after a lessee defaulted and elected to pay the scheduled debt service to the lender(s), then PSG would be required to find purchasers or new lessees for the aircraft. When marketing aircraft, PSG competes with many airline and leasing companies that have greater financial resources and broader marketing and support capabilities to effect a sale or lease than PSG. To the extent that sales prices were less than PSG's carrying value or less favorable lease rates were obtained, PSG would be negatively affected.

OIL AND GAS PRODUCTION AND DEVELOPMENT SEGMENT

Oil and gas revenues decreased 40% from 1997 to 1998 due to a 34% decrease in oil prices, a 21% decrease in gas prices, and reduced production which was largely attributable to the lower prices. Lower prices made some secondary recovery production uneconomic. Revenues increased 17% from 1996 to 1997 due to a 17% increase in oil production, a 64% increase in gas production, and a 21% increase in average gas prices. These increases were partially offset by an 8% decrease in average crude oil prices. There is significant volatility in oil and gas prices and such volatility is expected to continue.

Depreciation, depletion, and amortization varied in each year because of changes in levels of production.

Interest expense was higher each year because of increased borrowings under Statex's bank credit agreement.

The segment loss in 1998 is the result of the $12.8 million impairment loss for oil and gas properties described in Note 1 of Notes to the Consolidated Financial Statements and the loss from operations which occurred primarily because of the significant decrease in the market price of oil and gas. Segment results for 1997 were lower than in 1996 due to the $.5 million impairment loss, higher interest expense, and increased well maintenance costs.

FUEL DISTRIBUTION SEGMENT

Fuel distribution revenues were 21% higher in 1998 than in 1997 and 18% lower in 1997 than in 1996, in each case because several fuel storage tanks at SFIA were out of service for repairs and upgrade during most of 1997. It is estimated (based on information provided by SFIA and the third-party operator) that the SFIA fuel distribution lines and storage tanks will be taken out of service in 2000 and 2001, respectively, and the related revenues eliminated. Such revenues amounted to $.4 million in 1998.

The fuel distribution segment recorded losses in 1997 and 1996 because of environmental remediation expenses at SFIA totaling $5.5 million in 1997 and $1.2 million in 1996. As described in Note 4 of Notes to the Consolidated Financial Statements, these remediation efforts will continue for several years and the estimated future SFIA environmental remediation expenses which have been recorded may require future revision.

OTHER

INTEREST AND OTHER REVENUES (EXCEPT FROM REPORTABLE SEGMENTS). Interest income varied in each year as a result of changes in the amounts of outstanding cash, U.S. Government securities, and notes receivable, and the interest rates earned. 1996 also included non-recurring items classified as other income.

UNALLOCATED CORPORATE GENERAL AND ADMINISTRATIVE EXPENSES. The increase in unallocated general and administrative expenses from 1997 to 1998 is due to increases in employee benefits which were partially offset by reduced legal services. The decrease in unallocated general and administrative expenses from 1996 to 1997 was primarily because of $.6 million of expenses associated with the 1996 Reorganization described in Note 1 of Notes to the Consolidated Financial Statements. In addition, 1997 reflected reduced legal services, fees for professional tax services, and employee benefits.

CREDIT FOR TAXES. Refer to Notes 1 and 6 of Notes to the Consolidated Financial Statements for an explanation of the elements included in the credit for taxes including an $8 million and a $5.6 million reduction in the income tax liability recorded in the years ended December 31, 1998 and 1996, respectively.

==

PS GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1998 AND 1997
(IN THOUSANDS EXCEPT PER SHARE AMOUNT)

==

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,747	$ 10,921
U.S. Government securities, partially pledged	636	5,815
Accounts and notes receivable	4,894	6,090
Current portion of aircraft leases, pledged	8,366	8,630
Prepaid expenses and other current assets	1,271	1,631
Net current assets of discontinued operation	139	7,293
Total current assets	19,053	40,380
Oil and gas properties, at cost, pledged	46,135	44,364
Less accumulated depreciation, depletion, and amortization	(35,916)	(21,658)
	10,219	22,706
Other property and equipment, at cost	6,001	6,190
Less accumulated depreciation	(5,240)	(5,124)
	761	1,066
Aircraft under operating leases, at cost, partially	171,264	171,264

pledged		
Less accumulated depreciation	(108,905)	(98,820)
	62,359	72,444
Investment in aircraft financing leases, pledged	74,944	82,067
Other assets	4,393	6,359
	$ 171,729	$225,022
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accrued interest	$ 1,023	$ 4,404
Accounts payable and other accrued liabilities	1,897	2,057
Environmental remediation liability	1,076	1,384
Current portion of long-term obligations	19,706	18,211
Total current liabilities	23,702	26,056
Long-term obligations	36,605	55,511
Deferred income taxes	18,680	36,450
Environmental remediation liability	3,498	3,716
Other liabilities	7,580	6,581
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 1,000 shares authorized, none issued		
Common stock, par value $1 per share, 10,500 shares authorized, 6,068 shares issued and outstanding	6,068	6,068
Additional paid-in capital	75,596	90,640
Retained earnings		
Total stockholders' equity	81,664	96,708
	$ 171,729	$225,022

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

PS GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATION
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Continuing operations:			
Revenues:			
Aircraft leasing	$ 23,855	$30,605	$34,073
Gain on aircraft sales		514	1,846
Oil and gas production	6,054	10,016	8,573
Fuel storage and distribution	790	655	776
Interest and other income	1,552	1,975	2,763
	32,251	43,765	48,031
Costs and expenses:			
Cost of sales	5,131	5,899	4,471
Depreciation, depletion, and amortization	11,892	18,202	16,250
Impairment loss on oil and gas properties	12,800	489	
Environmental remediation expenses		5,533	1,238
General and administrative expenses	3,452	3,129	4,225
Interest expense	6,957	11,370	13,800
	40,232	44,622	39,984
Income (loss) from continuing operations before taxes	(7,981)	(857)	8,047
(Credit) for taxes	(11,142)	(295)	(2,229)
Income (loss) from continuing operations	3,161	(562)	10,276
Discontinued operation, net of tax:			
Loss from operations		(1,465)	(666)
Loss on disposition		(583)	

Loss from discontinued operation		(2,048)	(666)
Net income (loss)	$ 3,161	$(2,610)	$ 9,610
Basic and diluted earnings (loss) per share:			
Continuing operations	$ .52	$ (.09)	$ 1.69
Loss from operations of discontinued operation		(.24)	(.11)
Loss on disposition of discontinued operation		(.10)	
Net income (loss) per share	$ .52	$ (.43)	$ 1.58
Shares used in determination of basic and diluted earnings (loss) per share	6,068	6,068	6,068

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

PS GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(IN THOUSANDS)

<TABLE>
<CAPTION>

	1998	1997	1996
Cash flows from operating activities:			
Income (loss) from continuing operations	$ 3,161	$ (562)	$ 10,276
Payment of prior years' state income tax liability	(6,040)		
Non-cash items:			
Depreciation, depletion, and amortization	11,892	18,202	16,250
Impairment loss for oil and gas properties	12,800	489	
(Gains) losses on aircraft sales		(514)	(1,846)
Environmental remediation liability		5,100	250
Deferred taxes and other	(10,826)	2,198	(2,434)
Changes in non-cash working capital affecting cash from operating activities:			
Accounts receivable	1,128	2,373	280
Prepaid and other current assets	175	(290)	(550)
Other current liabilities	(3,876)	(1,387)	425
Net cash provided from operating activities	8,414	25,609	22,651
Cash flows from investing activities:			
Purchase of available-for-sale securities	(21,096)		
Sales proceeds from available-for-sale securities	3,492	956	7,225
Maturity of available-for-sale securities	23,011		
Maturity of held-to-maturity securities	891	940	1,090
Reduction in collateral for letters of credit	972	3,111	156
Proceeds from disposition of equipment		18,514	3,154
Capital additions	(1,897)	(5,409)	(4,110)
Changes in finance leases and other	7,501	9,035	5,900
Net cash provided from investing activities	12,874	27,147	13,415
Cash flows from financing activities:			
Additions to long-term obligations	800	2,000	3,000
Reductions in long-term obligations	(18,211)	(34,063)	(19,825)
Special cash distributions to stockholders	(18,205)	(24,273)	(9,101)
Net cash used in financing activities	(35,616)	(56,336)	(25,926)
Discontinued operation:			
Loss from operations		(1,465)	(666)
Loss on disposition		(583)	
Deferred taxes		(1,418)	(436)
(Increase) decrease in net assets	7,154	10,677	(5,739)
Net cash provided from (used in) discontinued operation	7,154	7,211	(6,841)
Net increase (decrease) in cash and cash equivalents	(7,174)	3,631	3,299
Cash and cash equivalents at beginning of year	10,921	7,290	3,991

Cash and cash equivalents at end of year	$ 3,747	$ 10,921	$ 7,290

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

PS GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	Common Stock		Additional	
	Shares	Amount	Paid-In Capital	Retained Earnings
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	6,068	$6,068	$ 98,420	$ 18,594
Net income				9,610
Special cash distribution ($1.50 per share)				(9,101)
Balance at December 31, 1996	6,068	6,068	98,420	19,103
Net loss				(2,610)
Special cash distributions ($4.00 per share)			(7,780)	(16,493)
Balance at December 31, 1997	6,068	6,068	90,640	-
Net income				3,161
Special cash distribution ($3.00 per share)			(15,044)	(3,161)
Balance at December 31, 1998	6,068	$6,068	$ 75,596	$ -

</TABLE>

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION - These consolidated financial statements include the accounts of PS Group Holdings, Inc. (PSGH) and its subsidiaries. As used in the following footnotes, "the Company" refers to PS Group Holdings, Inc. and its subsidiaries, "PSG" refers to PS Group, Inc., "Statex" refers to Statex Petroleum, Inc., and "PST" refers to PS Trading, Inc.

BUSINESS AND BASIS OF PRESENTATION - PSGH operates, through subsidiaries, three reportable segments - aircraft leasing through PSG, oil and gas production and development through Statex, and fuel storage and distribution through PST. As more fully described in Note 2, the fuel sales divisions of PST are shown as a discontinued operation.

REORGANIZATION AND RESTRICTIONS ON THE TRANSFER OF COMMON SHARES - On June 5, 1996, PSGH and PSG completed a holding company reorganization (the Reorganization). As a result of the Reorganization, each share of PSG was converted, on a tax-free basis, into one share of PSGH. The Reorganization did not result in any change in the consolidated financial condition, business, or assets of PSG. The Reorganization was accounted for on an historical cost basis and thus the financial statements for periods prior to the Reorganization have not been restated and represent the consolidated financial statements of PSG. The sole purpose of the Reorganization was to help preserve PSG's substantial net operating loss and investment tax credit carryforwards and other tax benefits by decreasing the risk of an "ownership change" for federal income tax purposes. The Reorganization was intended to accomplish this purpose by imposing certain restrictions on the transfer of common shares of PSGH. In general, and subject to an exemption for certain dispositions of shares by persons who were "pre-existing 5% shareholders" (as defined in PSGH's Restated Certificate of Incorporation) on June 5, 1996, the transfer restrictions prohibit, without prior approval of the Board of Directors, the direct or indirect disposition or acquisition of any stock of PSGH by or to any holder who owns, or would, as a result thereof, own (either directly or through the tax attribution rules) 5% or more of the stock upon such acquisition. The transfer restrictions, by their terms, are scheduled to expire immediately following the conclusion of the Company's annual meeting of stockholders for the year 2000, unless the stockholders pass a resolution extending such expiration date.

RECLASSIFICATION - Certain reclassifications have been made to the 1997 and 1996 financial statements to make them comparable to the presentation of the 1998 financial statements.

ACCOUNTING ESTIMATES - 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 disclosures made in the accompanying notes to the consolidated financial statements. Actual results could differ from those estimates.

CASH EQUIVALENTS - The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

DEPRECIATION AND AMORTIZATION - Depreciation is generally recorded to estimated residual values (which is sometimes equal to the stipulated lease termination values) using the

==

==

straight-line basis over the estimated useful lives of the related assets, which are generally 15 to 18 years for leased aircraft and from 3 to 20 years for other property and equipment. See the discussion below for the depreciation method used for five BAe 146 aircraft.

CHANGE IN ACCOUNTING ESTIMATE FOR DEPRECIATION - In the second quarter of 1997, PSG started to record increased depreciation expense on five of the ten BAe 146 aircraft which were then leased to US Airways, Inc. (US Airways) to reflect lower interim termination values. With respect to these five aircraft, the specified lease termination values were below the net book values of the aircraft. This additional depreciation was recorded to reflect the notification received in the second quarter of 1997 from US Airways that it might exercise its lease termination rights with respect to four of the ten BAe 146 aircraft (including three of these five aircraft on which additional depreciation is being recorded) at specified lease termination values. In light of the notification and the improved market for possible sales by US Airways, PSG adjusted its depreciation to reflect the lease termination values on these five aircraft (two in 1998). PSG was previously depreciating all ten aircraft to the final lease termination amounts on a straight-line basis. The additional pretax depreciation expense relating to this change was $.7 million in 1998 and $3.5 million in 1997. The after-tax effect was $.4 million ($.07 per share) in 1998 and $2.1 million ($.34 per share) in 1997. In the fourth quarter of 1997, US Airways did exercise its lease termination rights on four of the aircraft (see Note 5).

ACCOUNTING FOR OIL AND GAS PRODUCING ACTIVITIES - The Company follows the successful efforts accounting method for oil and gas producing activities, as described below:

LEASE ACQUISITIONS - The Company defers the costs of acquiring unproven oil and gas leases until they are either assigned or sold to other parties or retained by the Company for possible future development. An allowance for the abandonment of unproven leases is provided using the straight-line method over the life of the leases.

EXPLORATION AND DEVELOPMENT COSTS - The costs of drilling and equipping all development wells are capitalized. The costs of drilling exploratory wells are initially deferred. If proved reserves are discovered, the costs of the wells are capitalized. If proved reserves are not discovered, the costs of drilling the wells, net of any salvage value, are charged to expense.

DEPRECIATION, DEPLETION, AND AMORTIZATION - Depletion of producing leases is computed for individual properties using the unit-of-production method based on estimated proved reserves. Depreciation of wells and related equipment is computed using the unit-of-production method, based on proved developed reserves.

HELD-TO-MATURITY SECURITIES - At December 31, 1998, PSG had $1.2 million of U.S. Treasury bills maturing on January 7, 1999 ($.6 million was carried as non-current pursuant to a collateral agreement). At December 31, 1997, PSG had $2 million of U.S. Treasury bills maturing on January 8, 1998 ($1.2 million were carried as non-current pursuant to a collateral agreement). The fair market value of these investments approximated cost.

AVAILABLE-FOR-SALE SECURITIES - At December 31, 1997, PSG had $5 million of U.S. Government securities. These securities matured in August 1998. At December

31, 1998 there were no available-for-sale securities.

ENVIRONMENTAL EXPENDITURES - The Company complies with Statement of Position 96-1, "Environmental Remediation Liabilities," issued by the American Institute of Certified Public Accountants. In accordance with that statement and, as more fully described in Note 4, PST recorded environmental remediation expenses of $5.5 million in 1997 and $1.2 million in 1996.

IMPAIRMENT LOSS - In accordance with Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company reviews the carrying value of its long-lived assets whenever events or changes in circumstances indicate that such carrying value may not be recoverable. This review consists of a comparison of the carrying value of the asset with the asset's expected future undiscounted cash flow. If the carrying value of the asset exceeds the expected future cash flow, an impairment exists and is measured by the excess of the carrying value over the estimated fair value of the asset. During the third and fourth quarters of 1998, Statex recorded noncash impairment losses of $10.2 and $2.6 million, respectively, relating to the impairment of specific oil and gas properties owned by Statex. The impairment occurred primarily because of the significant decrease in the market value of oil and gas and related properties. Fair value was based on the current indicated price for oil and gas properties, estimated discounted future net cash flows, and input and discussions with oil and gas professionals. In 1997, Statex recorded a $.5 million impairment loss related to one oil and gas property.

BASIC AND DILUTED EARNINGS (LOSS) PER SHARE - Basic and diluted earnings (loss) per share are based on the weighted-average number of common shares outstanding during the period. Because the Company has no dilutive securities, basic and diluted earnings (loss) per share are the same.

INVESTMENT TAX CREDITS - Investment tax credits are accounted for using the flow-through method.

2. SALE OF THE ASSETS OF THE FUEL SALES DIVISIONS OF PST

In October 1997, PST completed the sale of the assets of its wholesale fuel sales division located in Sacramento, California. This division was primarily engaged in the sale of diesel fuel and gasoline. As a result of the sale, the realization of accounts receivable, and the liquidation of fuel inventories, PST recorded a third quarter 1997 pretax loss of $1 million. The loss included severance and benefits for terminated employees and the estimated losses on the future collection of accounts receivable which were indemnified by PST.

In February 1998, PST sold the assets of its aviation fuel sales division located in Dallas, Texas. The shut-down did not result in any material gain or loss.

The sale of both fuel sales divisions of PST resulted in the discontinuance of that reportable segment. Operating revenues of the discontinued fuel sales divisions of PST were $163.3 million in 1997 and $227 million in 1996. The loss from discontinued operation shown on the Consolidated Statement of Operations is net of applicable income tax credits of $1 million in 1997 and $.4 million in 1996. The loss on disposition shown for 1997 is net of tax credits of $.4

million. Intercompany interest expense, based on outstanding advances from PSG, recorded by the discontinued operation was $.2 million in 1997 and $.3 million in 1996.

As of December 31, 1998 and 1997, the net assets and liabilities of the discontinued operation were as follows (in thousands):

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Accounts receivable	$ 1,395	$ 7,557
Fuel inventory		3,504
Other current assets		2,424

Office condominium and equipment, net of accumulated depreciation		727
Current liabilities	(1,256)	(6,919)
Net assets	$ 139	$ 7,293

</TABLE>

3. LONG-TERM OBLIGATIONS

At December 31, 1998, PSG had $1.4 million outstanding under its October 1995 amended bank credit agreement consisting entirely of letters of credit (LC's). No additional LC's or any borrowings are permitted under the agreement which expires in 2000. All outstanding LC's require cash collateralization and, in addition, PSG is required to maintain at least $1 million in cash and cash equivalents.

Statex has a separate bank credit agreement collateralized by its major oil and gas properties. As of December 31, 1998, $5.8 million was borrowed under this agreement. Due to losses in the third and fourth quarters of 1998, Statex did not meet a financial covenant contained in its bank loan agreement relating to the fixed charge ratio. In November 1998 and March 1999, Statex obtained waivers from the bank relating to its non-compliance with this financial covenant in the third and fourth quarters of 1998. It is possible that future losses could cause Statex to again be out of compliance with this financial covenant or with other covenants in its bank credit agreement. There can be no assurances that the bank will be willing to grant additional waivers in the future. Therefore, the outstanding balance of this debt is classified as current even though it is not due until September 2000. If any needed additional waivers are not granted, the bank could by notice to Statex declare the outstanding principal and interest due and payable. The Company believes that if the bank declared the Statex note due and payable, and if the Company decided the bank should be paid, then it would have adequate funds to advance to Statex to pay the outstanding principal and interest.

==

==

Long-term obligations at December 31, excluding current maturities, consist of the following (in thousands):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Loans secured by six BAe 146 aircraft; bearing interest at 6.4% to 12%; due 2000	$ 4,738	$ 9,253
Loans secured by two MD-80 aircraft; bearing interest at 6.9% and 6.5%; due 2004 and 2006	16,516	18,251
Note payable secured by one Boeing 737 aircraft; bearing interest at 6.1%; due 2006	10,129	10,909
Note payable secured by one Boeing 737 aircraft; bearing interest at 11.6%; due 2002	5,222	7,090
Loan secured by two MD-80 aircraft; bearing interest at 10.7%; due 1999		5,008
Bank credit agreement secured by producing oil and gas property; bearing interest at prime plus 1%; due 2000		5,000
	$36,605	$55,511

</TABLE>

Interest payments of $9.7 million, $9.9 million, and $14.3 million were made in 1998, 1997, and 1996, respectively.

Principal payments on existing long-term obligations in each of the four years after 1999 are as follows: $9.6 million in 2000; $5 million in 2001; $4.8 million in 2002; and $5.2 million in 2003. Payments after 2003 total $12 million.

4. ENVIRONMENTAL REMEDIATION LIABILITY AND RELATED LITIGATION

Environmental remediation expenses of $5.5 million and $1.2 million were recorded in 1997 and 1996, respectively. These expenses relate to actual and estimated costs for the investigation and remediation (I&M) of potential soil and groundwater pollution at San Francisco International Airport (SFIA) where PST, as the operator of various fuel storage and distribution facilities, has been named as a potentially responsible party (PRP) and has been sued in the lawsuit discussed below. The environmental liability has not been discounted since the expected amounts to be paid are not subject to a stipulated payment plan. During 1998, PST paid $.5 million of environmental expenses related to SFIA which reduced the estimated accrued environmental remediation liability to approximately $4.6 million at December 31, 1998. Payment of portions of the remaining estimated amounts accrued as environmental remediation expenses is expected to continue through 2005.

PST's remaining estimate of the I&M costs ($4.6 million) relates primarily to expenditures incurred or anticipated to be incurred in response to claims by the City and County of San Francisco (CCSF) and other SFIA tenants for: (i) the removal or cementing-in-place of a 3.4 mile underground pipeline which has not been used since 1987; (ii) PST's estimated portion of claims by CCSF for both specific projects and airport-wide I&M expenditures through April 30, 1998 for consultant costs and May 31, 1998 for construction costs (this is the latest update of costs

==

==

in which CCSF is seeking a total reimbursement in excess of $23.6 million from 31 tenants, and other firms which operated at SFIA), plus PST's estimated portion of estimated future CCSF claims subsequent to the spring of 1998; (iii) PST's portion of additional estimated I&M expenses related to future SFIA construction that will continue past the year 2000; and (iv) claims by other SFIA tenants contending that PST is liable for contamination at particular locations at SFIA. There is a substantial likelihood that PST's estimate of SFIA expenditures may change in the near and long-term to reflect updated information concerning: (i) the level, area, and method of remediation of contamination; (ii) possible changes in PST's allocation of remediation expenses; (iii) the possibility of claims, other than the Atlantic Richfield Company (ARCO) claims described below, being filed against PSG or PST by other PRPs; (iv) other PRPs not being able or willing to fund their allocated portion of expenses; and (v) the size and complexity of the litigation described below, particularly if current efforts to mediate a resolution of claims, also described below, are unsuccessful.

On July 11, 1997, CCSF filed a complaint against various present and former tenants who had operated fuel storage and other facilities at SFIA seeking to recover costs incurred in connection with the investigation and cleanup of contamination in and around SFIA (the CCSF Action). The CCSF Action is pending in the United States District Court for the Northern District of California (the Court), and alleges claims based on the California Water Code, breach of contract, violation of CCSF rules and regulations, nuisance, waste, trespass, negligence, equitable indemnity, and declaratory relief. Neither the Company nor any of its subsidiaries is a named defendant in the CCSF Action. PSG and PST, along with the majority of present and former tenants at SFIA, have entered into a tolling agreement with CCSF which tolls the statute of limitations and other time-based defenses that any of the parties to the tolling agreement have against the others, and permits the parties to attempt to resolve their disputes regarding environmental cleanup at SFIA without the necessity of litigation. None of the parties to the tolling agreement are named defendants in the CCSF Action, but the tolling agreement does not stop the future filing of lawsuits against PST or PSG by CCSF or others. The defendants in the CCSF Action are all present and former tenants who declined to sign the tolling agreement. The tolling agreement tolls any claims by CCSF and other participating tenants against PST or PSG arising out of PST's fuel storage and distribution facilities at SFIA. It also tolls any claims PST or PSG may have against CCSF or any of the participating tenants relating to environmental investigatory and cleanup costs at SFIA.

In September 1997, a defendant in the CCSF Action, ARCO, filed two related cross-actions. In the first cross-action, which is a counterclaim against PSG and other parties, ARCO denies that it has any liability for any investigatory or remediation costs at SFIA and it also denies that it is jointly and severally liable for any environmental costs. ARCO seeks a judicial declaration stating the rights, obligations, and responsibilities of all of the parties for the contamination-related costs alleged in the CCSF Action. The second cross-action is a third party complaint against PSG, in which ARCO alleges that PSG agreed to defend and indemnify ARCO in various lease agreements (covering certain pipelines, equipment, and facilities at SFIA) for all the contamination claims alleged against ARCO in the CCSF Action. ARCO seeks unspecified damages for breach of contract, a declaration of ARCO's rights under such contracts, and ARCO's costs and attorney's fees in the CCSF Action.

==

==

On October 21, 1997, the Court entered an order, based upon a stipulation, staying discovery in the CCSF Action and the related ARCO cross-actions, staying the parties' disclosure obligations, staying any motion practice, and staying any parties' obligations to file responsive pleadings or cross-actions to permit the parties and potential parties to meet and confer for the purpose of developing a mediation and/or case management plan for the case. Consequently, PSG has not filed a responsive pleading to the counterclaim or the third party complaint, and it has not filed any cross-actions.

On December 12, 1997, the Court, with the consent of the parties, issued a Case Management Order (Order). This Order provided for the parties to undertake a process which might ultimately lead to the claims being settled by alternative dispute resolution. This process involved additional fact gathering and settlement negotiation prior to entering into a mediation phase. In early 1998, there was an informal production of documents by the parties. On May 28, 1998, the Court, at the request of the parties, issued another Case Management Order (New Order). This New Order provided additional time for (i) the parties to investigate and analyze the CCSF claims and (ii) the parties to meet and attempt to negotiate final settlements and confer regarding selection of a mediator, a structure and schedule for mediation and a methodology to allocate mediator fees. Subsequently, a mediator was selected and initial mediation sessions were held in September 1998. The mediation process has continued into 1999, with subsequent sessions with the mediator, some of which included PST. In early December 1998, CCSF announced settlement with five tenants. Some of these settlements involved future claims as well as past claims by CCSF. If the parties to the CCSF Action and the related ARCO cross-actions are unsuccessful in resolving all of the claims in the mediation process, then litigation of the unresolved claims will proceed in the CCSF Action. CCSF has also petitioned the Court to set pretrial and trial dates in the CCSF Action. The Court is considering CCSF's request which includes the trial starting in May 2000. PST and CCSF are continuing to mediate. CCSF is also continuing the mediation process with other tenants.

The Company is unable to determine the extent, if any, to which any expenditures which PST incurs in connection with environmental costs at SFIA may be recoverable from third parties, including the prior lessees of the facilities that PST took by way of assignment, other tenants at SFIA, or PST's insurers. Both the prior lessees and PST insurers have disputed PST's claims for recovery of SFIA environmental costs. One of the prior lessees, ARCO, has asserted indemnification claims against PSG and the remaining prior lessee has indicated that it will assert a similar claim against PST.

The Company is subject to numerous local, state, and federal environmental laws, rules, and regulations, which expose the Company to the possibility of judicial or administrative actions for remediation and/or penalties. As a result of other future remediation projects or changes in regulatory requirements, the Company could incur additional future liabilities.

==

==

5. AIRCRAFT LEASES AND AIRCRAFT SOLD

At December 31, 1998, PSG leased 15 jet aircraft to three commercial airlines under agreements accounted for as operating or financing leases.

The future minimum lease payments scheduled to be received on aircraft currently under lease are as follows (in thousands):

<TABLE>
<CAPTION>

<S>	Operating Leases <C>	Financing Leases <C>
1999	$18,856	$11,519
2000	18,650	8,737
2001	8,228	8,789
2002	2,424	8,844
2003	2,424	9,166
Later years	6,868	24,532
Total	$57,450	$71,587

</TABLE>

Information on financing leases at December 31 (in thousands):

<TABLE>
<CAPTION>

	1998	1997
Total investment	$83,310	$90,697
Unguaranteed residual values (included in total investment)	28,240	28,240
Unearned income	16,517	26,903

Aircraft under operating leases are depreciated to estimated residual values (which is sometimes equal to the stipulated lease termination values) totaling $31.2 million, or 18% of original cost.

During the fourth quarter of 1997, US Airways exercised its lease termination rights on four BAe 146 aircraft. As described in Note 1, three of these aircraft were being depreciated at a rate such that the net book values would equal the termination values and, accordingly, there were no gains or losses on the sale of these aircraft. PSG recorded a pretax gain of $.5 million on the sale of the fourth aircraft. Gross proceeds to PSG for the four aircraft, including debt repaid, totaled $18.5 million.

On December 31, 1996, PSG sold its one-third interest in six Boeing 737-200 aircraft at the end of the lease term to the lessee and recorded a pretax gain of $1.8 million on gross proceeds of $3.1 million.

6. CREDIT FOR TAXES

The credit for taxes from continuing operations was comprised of (in thousands):

	1998	1997	1996
Current:			
Federal taxes	$ 128	$ 515	$ 396
State taxes	29	94	23
Deferred taxes	(3,299)	(904)	2,916
Reduction of tax liability	(8,000)		(5,564)
	$(11,142)	$(295)	$(2,229)

The credit for income taxes in 1998 and 1996 was increased by $8 million and $5.6 million, respectively, due to the reduction of income tax liabilities recorded in prior years, but estimated to be no longer required. In 1998, the reduction was due to a revised estimate based on a tentative settlement with the State of California (described below) and a current evaluation of other deferred tax liabilities. In 1996, the reduction was due primarily to the completion of Internal Revenue Service audits and an evaluation of the pending assessment from the State of California (described below).

Income taxes and related interest of $6.7 million, $.4 million, and $.4 million were paid in 1998, 1997, and 1996, respectively. In addition, refunds of prior years' income taxes of $1 million and $.1 million were received in 1997 and 1996, respectively.

A reconciliation between the amount computed by multiplying income (loss) from continuing operations before taxes by the statutory federal rate, and the amount of reported taxes is as follows:

	Percent of Pretax Income (Loss)		
	1998	1997	1996
Statutory federal rate	(35)%	(35)%	35%
Increase (reductions) in taxes resulting from:			
Reduction of tax liability	(100)		(70)
State taxes net of federal income tax benefit	(6)	1	6
Other	1		1
	(140)%	(34)%	(28)%

=======================
</TABLE>

Significant components of deferred tax liabilities and assets for federal and state income taxes as of December 31, 1998 and 1997 are as follows (in thousands):

	1998	1997
Deferred tax liabilities:		
Finance leases	$ 34,038	$ 42,540
Depreciation	15,062	21,203
Intangible drilling costs	1,011	1,154
Net effect of tax benefit transfer agreements	1,404	
Assessment by the State of California		3,718
Other	1,195	1,194
Total deferred tax liabilities	52,710	69,809
Deferred tax assets:		
Investment tax credit carryforward	(12,524)	(12,524)
Write-down of subsidiary	(9,943)	(9,943)
Impairment losses	(5,828)	(644)
Net operating loss carryforward	(6,040)	(9,945)
AMT credit carryforward	(4,525)	(4,007)
Accrued benefits	(2,455)	(2,486)
Environmental remediation reserve	(1,882)	(2,485)
Capital loss carryforward	(1,470)	(3,129)
Other	(1,439)	(1,931)
Total deferred tax assets	(46,106)	(47,094)
Valuation allowance	12,076	13,735
Net deferred tax assets	(34,030)	(33,359)
Net deferred tax liability	$ 18,680	$ 36,450

Certain reclassifications were made in the 1997 presentation of deferred tax assets to be consistent with the way the actual 1997 income tax returns were filed and to make them comparable to the 1998 presentation.

The valuation allowance against deferred tax assets relates principally to capital losses for which future realization is uncertain.

There was a federal tax net operating loss carryforward (NOL) of approximately $15.5 million at December 31, 1998, which expires beginning in 2005. A Separate Return Limitation Year net operating loss carryforward in the amount of $5.1 million (related to the discontinued metallic waste recycling segment) expires in 2005. A California net operating loss carryforward of approximately $10.4 million starts expiring in 1999. The unused investment tax credit (ITC) at December 31, 1998 was $12.5 million, which can be used to offset up to 75% of federal tax liability, expires from 2000 to 2002.

Because the Company has NOLs it is subject to certain tax regulations which could severely limit the usage and carryforward of NOLs and ITCs. Pursuant to Internal Revenue Code

Sections 382 and 383, if, within a three year period, ownership changes in certain defined ways by more than 50 percentage points of the Company's outstanding shares, the future annual use of the NOLs and tax credits may be significantly limited. Refer to Note 1 for a discussion of restrictions on the transfer of common stock of the Company which were imposed through the June 5, 1996 Reorganization and designed to decrease the risk of an ownership change for federal income tax purposes.

In February 1996, the State of California issued notices of net tax deficiencies to PSG for the years 1987 through 1990. The net deficiencies totaled $5.9 million plus estimated interest of $9.2 million through December 31, 1997. In

November 1998, PSG reached a tentative settlement of approximately $6 million with the State of California relating to the notices of net tax deficiencies and, in accordance with the tentative settlement terms, PSG paid the amount of the tentative settlement. The tentative settlement is subject to a final approval process by the State of California. The Company's current estimate of its net tax deficiencies to the State of California for the years 1987 to 1990 is based on this tentative settlement, the outcome of which is indeterminable.

7. DISCLOSURES ABOUT REPORTABLE SEGMENTS

The Company operates, through subsidiaries, three reportable segments: aircraft leasing, oil and gas production and development, and fuel storage and distribution. The Company's reportable segments are strategic business units that offer different products and services.

The aircraft leasing segment, operated by PSG, leases 15 jet aircraft to three commercial airlines under agreements accounted for as operating or financing leases. The oil and gas production and development (oil and gas) segment, operated by Statex, is an independent oil and gas producing company which focuses primarily on properties with secondary recovery and/or development potential. Most of Statex's oil and gas properties are located in North-Central and West Texas, and in Western Oklahoma. The fuel storage and distribution (fuel) segment, operated by PST, owns and operates limited fuel storage and distribution facilities with primary operations at the San Francisco International Airport and Los Angeles International Airport.

The revenues and segment profit shown as other in the following schedules relate principally to interest income earned on cash, cash equivalents, marketable securities, and intercompany advances. The segment assets are principally cash, cash equivalents, and marketable securities.

The accounting policies of the segments are the same as those described in Note 1. The Company evaluates performance of each segment based on profit or loss from operations of that segment before taxes. There are no intersegment sales.

==

==

DISCLOSURE OF REPORTED SEGMENT PRETAX PROFIT OR LOSS, AND SEGMENT ASSETS
(in thousands)

<TABLE>
<CAPTION>

	Aircraft Leasing	Oil and Gas	Fuel	Other	Total
<S>	<C>	<C>	<C>	<C>	<C>
1998					
Revenues	$ 23,855	$ 6,054	$ 790		$ 30,699
Interest revenue	97			2,651	2,748
Interest expense	6,147	867		1,139	8,153
Depreciation, depletion, and amortization	10,084	1,580	205	23	11,892
Segment profit (loss)	7,607	(14,391)	393	1,592	(4,799)
Significant non-cash item:					
Impairment loss		12,800			12,800
Segment assets	150,588	12,254	906	7,842	171,590
Expenditures for segment assets		1,897			1,897
1997					
Revenues	$ 31,119	$ 10,016	$ 655		$ 41,790
Interest revenue	104	4		2,871	2,979
Interest expense	10,707	747		920	12,374
Depreciation, depletion, and amortization	15,155	2,641	355	51	18,202
Segment profit (loss)	4,982	643	(5,920)	2,340	2,045
Significant non-cash items:					
Environmental remediation expense			5,533		5,533
Impairment loss		489			489
Segment assets	168,421	25,906	859	22,543	217,729
Expenditures for segment assets		5,294	97	18	5,409
1996					
Revenues	$ 35,919	$ 8,573	$ 776		$ 45,268

Interest revenue	182			3,504	3,686
Interest expense	13,416	404	306	597	14,723
Depreciation, depletion, and amortization	13,902	2,010	292	46	16,250
Segment profit (loss)	11,232	1,823	(1,138)	61	11,978
Significant non-cash item:					
Environmental remediation expense			1,238		1,238
Segment assets	211,382	24,386	1,081	26,200	263,049
Expenditures for segment assets		4,077		33	4,110

</TABLE>

RECONCILIATION OF REPORTABLE SEGMENT REVENUES, PROFIT OR LOSS, AND ASSETS
(in thousands)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
REVENUES			
Total revenues for reportable segments	$ 30,699	$ 41,790	$ 45,268
Interest revenue	1,552	1,975	2,763
Consolidated total	$ 32,251	$ 43,765	$ 48,031
PROFIT OR LOSS			
Total profit or loss for reportable segments	$ (6,391)	$ (295)	$ 11,917
Other profit or loss	1,592	2,340	61
Unallocated corporate expenses	(3,182)	(2,902)	(3,931)
Consolidated total	$ (7,981)	$ (857)	$ 8,047
ASSETS			
Total assets for reportable segments	$163,748	$195,186	$236,849
Other assets	7,842	22,543	26,200
Discontinued operations	139	7,293	17,034
Consolidated total	$171,729	$225,022	$280,083
OTHER SIGNIFICANT ITEMS			
Interest revenue:			
Reportable segments	$ 97	$ 108	$ 182
Other	2,651	2,871	3,504
Adjustment for intercompany interest	(1,196)	(1,004)	(923)
Consolidated total	$ 1,552	$ 1,975	$ 2,763
Interest expense:			
Reportable segments	$ 7,014	$ 11,454	$ 14,126
Other	1,139	920	597
Adjustment for intercompany interest	(1,196)	(1,004)	(923)
Consolidated total	$ 6,957	$ 11,370	$ 13,800
Expenditures for assets:			
Reportable segments	$ 1,897	$ 5,391	$ 4,077
Other		18	33
Consolidated total	$ 1,897	$ 5,409	$ 4,110
Depreciation, depletion, and amortization:			
Reportable segments	$ 11,869	$ 18,151	$ 16,204
Other	23	51	46
Consolidated total	$ 11,892	$ 18,202	$ 16,250

</TABLE>

All revenues are derived from activities in the United States.

Revenues from two customers were each greater than 10% of consolidated revenues.
Revenues

from US Airways, which are included in the leasing segment, totaled $19.4 million, $24.8 million, and $26.7 million in the years 1998, 1997, and 1996, respectively. Revenues from Sunoco, Inc., which are included in the oil and gas production and development segment, totaled $3.6 million, $6.2 million, and $6.4 million in the years 1998, 1997, and 1996, respectively.

8. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized in the Consolidated Statement of Financial Position, when it is practicable to estimate such value. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flow. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the financial instrument. Statement 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The following methods and assumptions were used by the Company in estimating fair value disclosures for its financial instruments:

CASH AND CASH EQUIVALENTS - The carrying amounts approximate fair value because of the short maturity of these items.

U.S. GOVERNMENT SECURITIES - The fair value for U.S. Government securities is based on quoted market prices.

NOTES RECEIVABLE - The fair value for notes receivable is estimated using discounted cash flow analyses, using interest rates which might be offered if the notes were renegotiated.

CASH COLLATERAL ACCOUNT - The cash collateral account is invested in a fund which holds U.S. Government securities. The market value of the fund is equal to the cost.

DEBT INSTRUMENTS - The fair value of debt is estimated using discounted cash flow analyses, based on management's best estimate of current market rates for similar types of borrowing arrangements.

The estimated fair value of financial instruments at December 31, 1998 and 1997 is as follows
(in thousands):

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 3,747	$ 3,747	$10,921	$10,921
U.S. Government securities	1,231	1,231	7,015	7,015
Notes receivable	1,579	1,682	2,041	1,994
Cash collateral account	1,388	1,388	2,360	2,360
	$ 7,945	$ 8,048	$22,337	$22,290
Financial liabilities:				
Debt instruments	$56,311	$57,140	$73,722	$77,390

9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)
(In thousands except per share data)

1998 QUARTERS	First	Second	Third	Fourth

<S> <C> <C> <C> <C>

Continuing operations:				
Revenues	$ 8,508	$ 8,273	$ 8,180	$ 7,290
Gross profit (loss)	3,979	3,867	(6,602)	1,184
Net income (loss)	514	793	(5,376)	7,230
Basic and diluted earnings (loss) per share	.08	.13	(.89)	1.20

1997 QUARTERS	First	Second	Third	Fourth
Continuing operations:				
Revenues	$11,002	$10,575	$11,446	$10,742
Gross profit	6,019	111	2,529	4,983
Net income (loss) from continuing operations	$ 1,022	$(2,111)	$ (676)	$ 1,203
Net loss from discontinued operation	(14)	(1,658)	(329)	(47)
Net income (loss)	$ 1,008	$(3,769)	$(1,005)	$ 1,156
Basic and diluted earnings (loss) per share:				
Continuing operations	$ .17	$ (.35)	$ (.11)	$ .20
Discontinued operation		(.27)	(.06)	(.01)
Net income (loss)	$ .17	$ (.62)	$ (.17)	$ .19

</TABLE>

Gross profit (loss) is income (loss) from continuing operations before interest expense, general and administrative expenses, and taxes.

As described in Note 6, in the fourth quarter of 1998 the provision for income taxes was reduced by $8 million due to the reduction of income tax liabilities recorded in prior years, but estimated by the Company to be no longer required. Also in the fourth quarter of 1998, Statex recorded $2.6 million of the impairment loss described in Note 1. As described in Note 5, US Airways exercised its termination rights on four BAe 146 aircraft in the fourth quarter of 1997. A pretax gain of $.5 million was recorded on one of the aircraft and no gain or loss was recorded on the other three.

10. OIL AND GAS OPERATIONS (UNAUDITED)

CHANGES IN ESTIMATED NET PROVED DEVELOPED AND UNDEVELOPED RESERVES BASED ON INTERNAL RESERVE REPORTS (in thousands):

<TABLE>
<CAPTION>

	Oil (Bbls)*	Gas (Mcf)*
<S>	<C>	<C>
December 31, 1995	4,886	2,960
Revisions of previous estimates	(555)	237
Extensions, discoveries, and other additions	371	
Purchases of reserves in place	688	83
Sales of reserves in place	(1)	
Production	(338)	(469)
December 31, 1996	5,051	2,811
Revisions of previous estimates	(102)	1,445
Extensions, discoveries, and other additions	335	427
Purchases of reserves in place	23	737
Production	(395)	(767)
December 31, 1997	4,912	4,653
Revisions of previous estimates	(805)	99
Extensions, discoveries, and other additions	45	
Purchases of reserves in place	319	69
Production	(365)	(566)
December 31, 1998	4,106	4,255

<CAPTION>

	Oil (Bbls)	Gas (Mcf)
<S>	<C>	<C>

Net proved developed reserves at December 31, 1996	3,407	2,811
Net proved developed reserves at December 31, 1997	3,408	4,313
Net proved developed reserves at December 31, 1998	3,407	4,255

</TABLE>

* Bbls = barrels; Mcf = one thousand cubic feet

CAPITALIZED COSTS AND COSTS INCURRED - The capitalized costs at December 31, 1998, 1997, and 1996 relating to oil and gas producing activities (all of which are in the continental United States) and costs incurred for the years ending December 31, 1998, 1997, and 1996 are presented below (in thousands):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Capitalized costs:			
Proved properties	$ 46,096	$ 44,325	$ 38,810
Unproved properties net of allowance for abandonments	39	39	15
Total	46,135	44,364	38,825
Accumulated depreciation, depletion, and amortization	(35,916)	(21,658)	(18,549)
Net capitalized costs	$ 10,219	$ 22,706	$ 20,276
Costs incurred:			
Property acquisition costs	$ 516	$ 2,062	$ 1,805
Exploration costs, including unsuccessful wells	20	6	6
Development costs	1,361	3,341	2,299
Total expenditures	$ 1,897	$ 5,409	$ 4,110

</TABLE>

RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES - The results of operations for oil and gas producing activities (excluding general and administrative expenses and interest costs) for the years ended December 31, 1998, 1997, and 1996 were as follows (in thousands):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Oil and gas revenues	$ 6,054	$10,016	$ 8,573
Production costs	(4,905)	(5,298)	(4,050)
Exploration costs	(20)	(6)	(6)
Impairment loss	(12,800)	(489)	
Depreciation, depletion, and amortization	(1,580)	(2,641)	(2,010)
Income before income tax expense	(13,251)	1,582	2,507
Income tax (expense) benefit	4,638	(554)	(877)
Income (loss) from operations for producing activities	$ (8,613)	$ 1,028	$ 1,630

</TABLE>

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS - Pursuant to Statement of Financial Accounting Standards No. 69, all publicly-traded enterprises having significant oil and gas producing activities are required to present a standardized measure of the discounted future net cash flows relating to proved oil and gas reserve quantities, as well as the changes in significant components of the standardized measure from prior periods. There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting the future rates of production and timing of development expenditures. The future cash inflows determined from such reserve data represent estimates only. Moreover, the present values should not be construed as the current market values of the Company's oil and gas reserves or

==

the costs that would be incurred to obtain equivalent reserves. A market value determination would include many additional factors including: (i) anticipated future increases or decreases in oil and gas prices and production and development costs; (ii) an allowance for return on investment; (iii) regulatory actions; (iv) the value of additional reserves, not considered proved at the present time, which may be recovered as a result of further exploration and development activities; and (v) other business risks. The future cash inflows are calculated using the market price of oil and gas at the end of the year presented. The following tables present the required information relating to proved oil and gas reserves as of December 31, 1998, 1997, and 1996 (in thousands):

	1998	1997	1996
Future cash inflows	$ 51,798	$ 92,560	$139,650
Future production costs	(36,490)	(51,685)	(59,125)
Future development and abandonment costs	(1,360)	(6,582)	(7,667)
Future net cash inflows before income taxes /(a)/	13,948	34,293	72,858
Future income tax expenses	-	(5,936)	(18,146)
Future net cash inflows	13,948	28,357	54,712
Discount factor at 10%	(7,171)	(13,621)	(24,139)
Standardized measure of discounted future net cash inflows	$ 6,777	$ 14,736	$ 30,573

(a) The present value of future net cash inflows before income taxes discounted at 10% was $6,777, $17,006, and $38,276 as of December 31, 1998, 1997, and 1996, respectively.

	1998	1997	1996
Year-end market price used for future cash inflows:			
Crude oil - per barrel	$9.50	$15.50	$24.25
Natural gas - per thousand cubic feet	1.86	2.23	3.27

The following are the principal sources of change in the standardized measure of discounted future net cash inflows for the years ended December 31, 1998, 1997, and 1996 (in thousands):

	1998	1997	1996
Standardized measure at beginning of the year	$ 14,736	$ 30,573	$17,849
Revenues less production costs for the year	(1,084)	(4,627)	(4,404)
Net change in sales prices net of production costs	(11,395)	(21,573)	11,819
Extensions and discoveries	101	1,367	2,147
Changes in estimated future development costs	3,369	45	(304)
Costs incurred that reduced future development costs	247	1,760	1,976
Revisions of previous quantity estimates	(1,263)	511	(3,572)
Accretion of discount	1,701	3,828	2,134
Net change in income tax expense		4,184	(4,210)
Purchase of reserves in place	340	1,583	5,115
Sale of reserves in place			(3)
Changes in production rates (timing) and other	25	(2,915)	2,026
Standardized measure at end of year	$ 6,777	$ 14,736	$30,573

==

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

==

The Board of Directors and Stockholders
PS Group Holdings, Inc.

We have audited the accompanying consolidated statements of financial position of PS Group Holdings, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. 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 audits 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 PS Group Holdings, Inc. at December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

San Diego, California
February 5, 1999

==

PS GROUP HOLDINGS, INC.
DIRECTORS AND OFFICERS

==

<TABLE>
<CAPTION>

DIRECTORS PS GROUP HOLDINGS, INC.	OFFICERS PS GROUP HOLDINGS, INC. AND PS GROUP, INC.	OFFICERS STATEX PETROLEUM, INC.
<S>	<C>	<C>
Charles E. Rickershauser, Jr. Chairman of the Board & Chief Executive Officer	Charles E. Rickershauser, Jr. Chairman of the Board & Chief Executive Officer	B. Andrew Wilkinson President & Chief Operating Officer
J.P. Guerin/(a)/ Vice Chairman of the Board, Private Investor	Lawrence A. Guske Vice President - Finance & Chief Financial Officer	Dhar Carman Executive Vice President & Chief Financial Officer
William H. Borthwick Attorney-at-Law	Johanna Unger Vice President, Controller & Secretary	Stephanie Bronson Controller
Steven D. Broidy Private Investor		
Robert M. Fomon President, Robert M. Fomon and Company (a private investment company)		
Donald W. Killian, Jr. /(a)/ Retired Attorney-at-Law		
Gordon C. Luce /(a)/ Independent Financial Advisor		
Christopher H.B. Mills Chief Executive Officer North Atlantic Smaller Companies Investment Trust (a United Kingdom publicly-traded investment company)		
Joseph S. Pirinea		

Certified Public Accountant
</TABLE>

(a) Member of the Audit Committee

==

42.

PS GROUP HOLDINGS, INC.
INVESTOR INFORMATION
==

COMMON STOCK TRANSFER AND DIVIDEND DISBURSING AGENT AND REGISTRAR

Questions regarding stockholder's accounts should be directed to:
ChaseMellon Shareholder Services, L.L.C.
P.O. Box 3315
South Hackensack, New Jersey 07606
800-356-2017
www.chasemellon.com

The Common Stock is listed on the New York Stock Exchange and the Pacific Exchange under the symbol: PSG. As of March 1, 1999, there were 1,339 holders of record of the Company's Common Stock.

CORPORATE OFFICES

4370 La Jolla Village Drive, Suite 1050
San Diego, California 92122
619-642-2999
619-642-1955 (facsimile)

AUDITORS

Ernst & Young LLP
501 West Broadway, Suite 1100
San Diego, California 92101

ANNUAL MEETING

May 27, 1999
9:00 a.m.
Los Angeles Marriott - Downtown
333 South Figueroa Street
Los Angeles, California 90071

____

The Company will supply to stockholders, upon written request to the Corporate Secretary at the corporate offices in San Diego, California, without charge, a copy of the 1998 Annual Report on Form 10-K (without exhibits).

MARKET PRICES OF COMMON STOCK

<TABLE>
<CAPTION>

	High	Low	High	Low
	1998		1997	
<S>	<C>	<C>	<C>	<C>
First quarter	13 3/4	11 11/16	14 1/2	12 1/2
Second quarter	13 1/4	12	13 7/8	12 1/8
Third quarter	12 1/4	11 1/16	14 15/16	12 3/8
Fourth quarter	12 3/4	9 3/4 *	16 3/8	11 1/8

</TABLE>

* Net of $3 due bill (for settlement on January 4, 1999) attached to stock trades beginning December 14, 1998.

DIVIDENDS AND CASH DISTRIBUTIONS ON COMMON STOCK

Special cash distributions were declared and paid in 1998, 1997, 1996, and 1995. However, they are not precedents for future distributions. Following is a summary of these special cash distributions:

<TABLE>
<CAPTION>

Distribution	Year distributed	Year	Tax status	Form 1099 mailing date

per share	by Company	received	(a)	(e)
December 1995-$1.50	1995	1996	Return of capital (b)	Jan. '97
December 1996-$1.50	1996	1997	Return of capital (b)	Jan. '98
August 1997-$1.50	1997	1997	Taxable dividend	Jan. '98
December 1997-$2.50	1997	1998	(c)	Jan. '99
December 1998-$3.00	1998	1999	(d)	Jan. '00

(a) Tax status is subject to review by the IRS. Stockholders are advised to consult their tax advisors.
(b) Subject to disclosures in note (a), constitutes a return of capital and is not taxable as a dividend.
(c) Subject to disclosures in note (a), $.85 is return of capital and $1.65 is a taxable dividend.
(d) Tax status to be determined.
(e) Form 1099 is mailed in January of the year following the calendar year in which the distribution is received.

==

EXHIBIT (21)

SUBSIDIARIES OF THE REGISTRANT

AS OF MARCH 1, 1999

Name of Corporation	Jurisdiction of Incorporation
PS Group, Inc.	Delaware
PS Trading, Inc.	California
PSG Services, Inc.	Delaware
PSG Systems, Inc.	Delaware
Statex Petroleum, Inc.	California

<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1,000

<S> <C>
<PERIOD-TYPE> 12-MOS
<FISCAL-YEAR-END> DEC-31-1998
<PERIOD-START> JAN-01-1998
<PERIOD-END> DEC-31-1998
<CASH> 3,747
<SECURITIES> 636
<RECEIVABLES> 13,260
<ALLOWANCES> 0
<INVENTORY> 0
<CURRENT-ASSETS> 19,053
<PP&E> 223,400
<DEPRECIATION> 150,061
<TOTAL-ASSETS> 171,729
<CURRENT-LIABILITIES> 23,702
<BONDS> 0
<PREFERRED-MANDATORY> 0
<PREFERRED> 0
<COMMON> 6,068
<OTHER-SE> 75,596
<TOTAL-LIABILITY-AND-EQUITY> 171,729
<SALES> 6,054
<TOTAL-REVENUES> 32,251
<CGS> 5,131
<TOTAL-COSTS> 5,131
<OTHER-EXPENSES> 15,344
<LOSS-PROVISION> 12,800
<INTEREST-EXPENSE> 6,957
<INCOME-PRETAX> (7,981)
<INCOME-TAX> (11,142)
<INCOME-CONTINUING> 3,161
<DISCONTINUED> 0
<EXTRAORDINARY> 0
<CHANGES> 0
<NET-INCOME> 3,161
<EPS-PRIMARY> .52
<EPS-DILUTED> .52

</TABLE>