

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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DATAPOINT CORP

CIK: **205239** | IRS No.: **741605174** | State of Incorporation: **DE** | Fiscal Year End: **0731**
Type: **10-Q** | Act: **34** | File No.: **001-07636** | Film No.: **95546807**
SIC: **7373** Computer integrated systems design

Mailing Address

*8400 DATAPOINT DRIVE
SAN ANTONIO TX 78229-8500*

Business Address

*8400 DATAPOINT DRIVE
SAN ANTONIO TX 78229-8500
5125937000*

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

(Mark One)

Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities
Exchange Act Of 1934 For the quarterly period ended April 29, 1995

OR

Transition Report Pursuant To Section 13 or 15(d) Of The Securities
Exchange Act Of 1934 For the transition period from _____ to _____

Commission file number 1-7636

DATAPOINT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

74-1605174
(I.R.S. Employer Identification No.)

5-7 rue Montalivet 75008, Paris, France
8400 Datapoint Drive
San Antonio, Texas 78229-8500
(Address of principal executive offices and zip code)

(33-1) 40 07 37 37
(210) 593-7000
(Registrant's telephone number, including area code)

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

As of June 2, 1995, 13,041,057 shares of Datapoint Corporation Common Stock were outstanding, exclusive of 7,950,160 shares held in Treasury.

DATAPOINT CORPORATION AND SUBSIDIARIES

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Part I. Financial Information
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
Datapoint Corporation and Subsidiaries

(Unaudited)

(In thousands, except share data)

	April 29, 1995	July 30, 1995	1994
ASSETS			
Current assets:			
Cash and cash equivalents	\$5,148	\$6,241	
Restricted cash and cash equivalents	2,420		4,312
Marketable securities, at market	147		334
Accounts receivable, net of allowance for doubtful account of \$737 and \$2,568, respectively	42,440	44,379	
Inventories	11,911		17,674

Prepaid expenses and other current assets	5,753	6,975
Total current assets	67,819	79,915
Fixed assets, net of accumulated depreciation of \$118,586 and \$106,023	19,153	29,088
Other assets, net	18,310	18,431
	\$105,282	\$127,434

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Payable to banks	\$12,889	\$17,963
Current maturities of long-term debt	3,609	2,370
Accounts payable	22,337	25,649
Accrued expenses	40,340	37,732
Deferred revenue	15,942	13,728
Income taxes payable	967	760
Total current liabilities	96,084	98,202
Long-term debt, exclusive of current maturities	69,290	70,561
Other liabilities	10,639	9,432
Commitments and contingencies		
Stockholders' equity:		
Preferred stock of \$1.00 par value. Shares authorized 10,000,000; shares issued and outstanding 1,784,456 (aggregate liquidation preference \$35,689).	1,784	1,784
Common stock of \$.25 par value. Shares authorized 40,000,000; shares issued of 20,991,217 in fiscal 1995 and 20,991,217 in fiscal 1994, including treasury shares of 7,952,017 and 6,546,825, respectively.	5,248	5,248
Other capital	212,599	212,599
Foreign currency translation adjustment	13,464	10,552
Retained deficit	(258,032)	(226,977)
Treasury stock, at cost	(45,794)	(53,967)
Total stockholders' deficit	(70,731)	(50,761)
	\$105,282	\$127,434

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS
Datapoint Corporation and Subsidiaries
(Unaudited)

	(In thousands, except share data)			
	Three Months Ended		Nine Months Ended	
	April 29, 1995	April 30, 1994	April 29, 1995	April 30, 1994
Revenue:				
Sales	\$24,429	\$21,070	\$57,120	\$63,705
Service and other	23,111	21,732	68,720	65,531
Total revenue	47,540	42,802	125,840	129,236
Operating costs and expenses:				
Cost of sales	17,583	13,508	45,411	35,417
Cost of service and other	14,387	14,676	40,172	42,858
Research and development	1,124	1,660	3,403	4,918
Selling, general and administrative	15,153	16,596	47,840	47,988
Restructuring costs	1,810	955	7,505	955
Total operating costs and expenses	50,057	47,395	144,331	132,136
Operating loss	(2,517)	(4,593)	(18,491)	(2,900)
Non-operating income (expense):				
Interest expense	(2,235)	(2,266)	(6,985)	(6,751)
Other, net	(746)	(982)	873	453
Loss before income taxes and extraordinary item	(5,498)	(7,841)	(24,603)	(9,198)
Income taxes (benefit)	3	120	83	557
Loss before effect of change in accounting principle	\$(5,501)	\$(7,961)	\$(24,686)	\$(9,755)
Effect of change in accounting principle	-	-	-	1,340
Net loss	\$(5,501)	\$(7,961)	\$(24,686)	\$(8,415)
Net loss less preferred stock dividend	\$(5,947)	\$(8,407)	\$(26,024)	\$(9,753)
Net income (loss) per common share:				
Before effect of change in accounting principle	\$(.27)	\$(.58)	\$(1.29)	\$(.77)
Effect of change in accounting principle	-	-	-	.09
Net loss	\$(.27)	\$(.58)	\$(1.29)	\$(.68)
Average common shares	12,942,448	14,447,811	13,245,119	14,421,060

See accompanying notes to consolidated financial statement

CONSOLIDATED STATEMENTS OF CASH FLOWS
Datapoint Corporation and Subsidiaries
(Unaudited)

Cash flow from operating activities:

(In Thousands)
Nine Months Ended
April 29, 1995 April 30, 1994

Net loss		\$ (24,686)	\$ (8,415)	
Adjustments to reconcile net income to net cash provided from operating activities:				
Losses incurred in lag month eliminated		-		(5,470)
Effect of change in accounting principle		-		(1,340)
Provision for unrealized losses on marketable securities	187	234		
Depreciation and amortization		6,885		8,008
Provision for fixed asset write-off		1,870		-
Realized gain on sale of property		(1,709)		-
Provision for losses on accounts receivable		103		32
Realized gain on fixed assets fire settlement		-		(840)
Change in assets and liabilities:				
(Increase) decrease in receivables		6,223		(77)
(Increase) decrease in inventory		6,625		(768)
Increase (decrease) in accounts payable		(4,468)		5,135
Increase (decrease) in accrued expenses		773		(595)
Increase in other liabilities and deferred credits		1,583		1,344
Other, net		1,533		(92)
Net cash (used in) and provided from operating activities	(5,081)	(2,844)		
Cash flow from investing activities:				
Payments for fixed assets	(3,131)	(8,368)		
Proceeds from disposition of fixed assets	7,910		2,319	
Investments in capitalized software and license fees	235	(188)		
Other, net	565		(583)	
Net cash used in investing activities		5,579		(6,820)
Cash flow from financing activities:				
Proceeds from borrowings	15,381		24,347	
Payments on borrowings	(21,439)		(24,585)	
Payments of dividends on preferred stock	-		(1,338)	
Proceeds from sale of common stock	1,804		-	
Decrease in restricted cash for letters of credit	1,892		954	
Other, net	-		189	
Net cash used in financing activities		(2,362)		(433)
Effect of foreign currency translation on cash	771		(78)	
Net decrease in cash and cash equivalents	(1,093)		(10,175)	
Cash and cash equivalents at beginning of year	6,241		22,452	
Cash and cash equivalents at end of period	\$5,148		\$12,277	
Cash payments for:				
Interest	\$4,769		\$5,404	
Income taxes, net	\$939		\$938	

See accompanying notes to consolidated financial statements.

DATAPOINT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

1. Preparation of Financial Statements

The consolidated financial statements included herein have been prepared by Datapoint Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with generally accepted accounting principles. In the opinion of management, the information furnished reflects all adjustments which are necessary for a fair statement of the results of the interim periods presented. All adjustments made in the interim statements are of a normal recurring nature.

It is recommended that these statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended July 30, 1994.

The results of operations for the three and nine months ended April 29, 1995 are not necessarily indicative of the results to be expected for the full year.

Prior to 1994, the Company's foreign subsidiaries reported their results to the parent on a one-month lag which allowed more time to compile results but produced comparability problems in management accounting. The one-month lag became unnecessary and therefore was eliminated subsequent to 1993 and prior to 1994. As a result, the July 1993 results of operations for the Company's foreign subsidiaries were recorded to the retained deficit. This action resulted in a charge of \$5,470 being recorded against the retained deficit. The loss incurred in July 1993 resulted primarily from a low revenue level, which is usual for the first month following the end of a fiscal year.

2. Change in Accounting Principle

Effective August 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes." SFAS 109 requires that liabilities and receivables for future taxes be calculated using a balance sheet approach rather than the income statement approach. As a result, the Company recorded additional deferred income tax assets of \$2,075, after a valuation allowance of \$66,720, and increased deferred income tax liabilities by \$735 which, in total, resulted in a \$1,340 credit (\$.09 per share) for the cumulative effect of the accounting change. Management believes that future taxable income of the Company will more likely than not result in utilization of the net deferred tax asset at August 1, 1993. Such future income levels are not assured due to the nature of the Company's business which is generally characterized by rapidly changing technology and intense competition.

3. Inventories

Inventories consist of:

	April 29,	July 30,
	1995	1994
Raw materials	\$1,830	\$5,657
Work in process	2,164	1,601

4. Commitments and Contingencies

The Company is a defendant in various lawsuits generally incidental to its business. The amounts sought by the plaintiffs in such cases are substantial and, if all such cases were decided adversely to the Company, the Company's aggregate liability might be material. However, the Company does not expect such an aggregate result based upon the limited number of such actions and an assessment that most such actions will be successfully defended. No provision has been made in the accompanying financial statements for any possible liability with respect to such lawsuits.

5. Common Stock

In August 1994, the Company sold 700,000 shares of its common stock held in treasury for \$1,750 in a transaction outside the United States pursuant to regulation S of the Securities and Exchange Commission. The Company utilized the proceeds for working capital needs. In addition, in September 1994, the Company reached an agreement with Intelogic Trace, Inc. ("Intelogic"), in conjunction with Intelogic's court approved reorganization, to cancel its option to repurchase at \$.75 per share, its common stock held by Intelogic in exchange for all of the Company's holding of Intelogic Preferred Stock, which had no carrying value. As a result of the exchange, the Company received from Intelogic 2,400,000 shares of Datapoint common stock.

6. Income Taxes

Income taxes for the first nine months of 1995 were \$83 on a pre-tax loss of \$24,603. The income taxes were the result of profitable operations at certain of European subsidiaries which could not be offset against the overall consolidated loss.

7. Subsequent Event

On May 8, 1995, the New Castle County Delaware Chancery Court determined that the settlement of two stockholder derivative suits (Heineman vs. Datapoint Corporation, et al., Case No. 7956 and Heineman vs. Datapoint Corporation, et al., Case No. 8873) were fair, reasonable and in the best interests of the stockholders of the Company.

The two settlements provide monetary proceeds to the Company. Additionally there are certain by-laws which will be amended to govern the employment contracts of employee-directors and transactions between the Company and its shareholder directors who hold 5% or more of its common stock.

The Company expects to receive proceeds of approximately \$4,000 after attorneys fees, costs and expenses from the settlements. These proceeds are derived from two trusts previously funded by the Company and an insurance settlement. On May 30, 1995, the Company announced that provision had been made for the payment of interest due as of June 1, 1995 to its bondholders of record as of May 15, 1995 on the outstanding 8 7/8% convertible subordinated debentures due 2006 by irrevocably assigning to the indenture trustee of the debentures a portion (\$2,860) of the settlement funds pending the effective date of the settlements (June 12, 1995).

The Company anticipates that barring any appeal of the orders and final judgment approving the settlements, the proceeds will be received by the Company on June 13, 1995.

8. Reorganization/Restructuring Costs

	Three Months Ended		Nine Months Ended			
	April 29,	April 30	April 29,	April 30,	1994	1995
			1995	1994	1995	1994
(\$ in thousands)						
Employee termination payments	\$1,400		\$955	\$4,413	\$955	
Terminated employee benefit costs	-		-		334	-
Provision for employees not terminated	-		-		453	-
Lease termination payments	230		-		230	-
Other asset write-downs	180		-		2,075	-
TOTAL	\$1,810		\$955	\$7,505	\$955	

The Company's restructuring charges primarily have been driven by management's internal efforts to implement cost cutting measures in light of its overall plan to return to profitability. In addition, competitive pressures in the Company's industry and a slowdown of customer orders have externally influenced the level of restructuring charges.

Restructuring charges are not recorded until specific employees are determined (and notified of termination) by management in accordance with its overall restructuring plan. As such, employee termination payments are generally paid out over a period of time rather than as one lump sum. Management anticipates further employee terminations in the fourth quarter of fiscal year 1995; however, such employees have not been specifically identified. Although a reasonable estimate of the amount of future termination costs cannot be made at this time, management does expect to incur additional charges for terminations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Years Referred to are Fiscal Years)

Overview

During the first nine months of 1995, the Company continued to experience operating losses due to a decline in sales revenue and sales gross profit margins. The Company continued its review of worldwide operations and recorded \$1.8 million in restructuring costs during the third quarter of 1995 due to cost cutting actions taken mostly within Europe. The decline in sales revenue, sales gross profit margins and the restructuring resulted in an operating loss of \$2.5 million in the third quarter and \$18.5 million for the first nine months of 1995 and negative cash flows from operations of \$5.1 million for the first nine months of 1995.

The restructure actions taken during the third quarter of 1995 were again part of management's overall plan to preserve and improve the Company's cash liquidity position and allow the Company to meet its operating cash flow requirements for fiscal 1995 and beyond. The Company has the following three main objectives during fiscal 1995:

1. product marketing to maintain stabilized revenue levels
2. continued review and reduction of operating costs; and
3. one time cash infusions to meet operating requirements.

The Company's revenue level improved during the third quarter of 1995 when compared with the second quarter of 1995, but revenue for the first nine months of 1995 declined from the first nine months of 1994. The Company expects to see gradually improved revenues as the markets emerge for the new MINX line of video communications technology, sales increases from telephony solutions internationally, and international sales increases from the Company's new automotive dealer software package.

The Company continued its review of worldwide operations and recorded \$1.8 million of charges during the third quarter as a result of a reorganization plan primarily affecting personnel reductions in two European subsidiaries in addition to its U.S. Headquarters. These reductions will reduce the operating cash flow requirements while not significantly affecting the revenue generating activities of the business. The Company will continue to review all operations during the remainder of the year and based upon the performance of each operation, additional restructuring accruals may be necessary.

During the first nine months of 1995, the Company had one-time cash infusions from the sale of vacant land in San Antonio, Texas (\$7.2 million), the sale of 700,000 shares of common stock (\$1.8 million), settlement proceeds received from a defendant in patent infringement litigation (\$1.0 million), and the final insurance payment related to the fire in the Belgian subsidiary (\$1.5 million included in accounts receivable collection).

In addition to these one-time cash infusions, subsequent to the third quarter, the Company was the beneficiary of the proposed settlement of two stockholder derivative suits. Barring any appeal of the orders and final judgment approving the settlement, the Company expects to receive proceeds of approximately \$4.0 million after attorney fees and plans to utilize such cash infusion for the operating and financing requirements of the Company. The Company will continue to pursue additional one-time cash infusions as a means of augmenting cash during the remainder of 1995. Although there are a number of these available, no assurances can be given that the efforts to pursue such cash infusions will be successful.

Results of Operations

The Company had an operating loss of \$2.5 million and net loss of \$5.5 million for the third quarter of 1995 and an operating loss of \$18.5 million and net loss of \$24.7 million for the first nine months of 1995. This compares with an operating loss of \$4.6 million and net loss of \$8.0 million for the third quarter of 1994 and an operating loss of \$2.9 million and a net loss of \$8.4 million for the first nine months of 1994. The following is a summary of the Company's sources of revenue:

(In thousands)	Three Months Ended		Nine Months Ended		04/30/94
	04/29/95	04/30/94	04/29/95	04/29/94	
Sales:					
U.S.	\$1,434	\$1,072	\$4,475	\$4,883	
Foreign	22,995	19,998	52,645	58,822	
		24,429	21,070	57,120	63,705
Service and other:					
U.S.	310	286	1,020	882	
Foreign	22,801	21,446	67,700	64,649	
	23,111	21,732	68,720	65,531	
Total revenue	\$47,540	\$42,802	\$125,840	\$129,236	

Revenue during the third quarter of 1995 increased \$4.7 million, compared with the same period of the prior year. Foreign sales revenues, and service and other revenue, for both the third quarter and the first nine months of 1995 essentially remained flat as compared with the same periods a year ago. However, foreign sale revenue was favorably impacted by the weakening U.S. dollar by \$1.9 million and \$4.3 million for the third quarter of fiscal 1995 and first nine months of 1995, respectively. Similarly, service and other revenue was also favorably impacted by \$2.6 million and \$6.1 million for the same periods.

The gross profit margin for the third quarter and first nine months of 1995 was 32.8% and 32.0%, respectively, compared with 34.2% and 39.4% for the same periods of the prior year. The decline was due to the inventory write-downs recorded in the second quarter of 1995 and to a lesser extent to a change in product mix and vendors. Operating expenses (research and development plus selling, general & administrative) during the third quarter of 1995 declined \$3.1 million and \$4.5 million the first nine months of 1995 as compared to the same period of the prior years. These savings were partially offset by the weakened U.S. dollar which resulted in an increase in operating costs and expenses of \$1.1 million and \$2.8 million, respectively, for the third quarter and first nine months of 1995.

Non-operating income and expenses for the three months ended April 29, 1995, includes a charge of \$1.2 million as a result of the weakening dollar against foreign currencies. Included in the nine months ending April 29, 1995 is a gain of \$1.7 million on the sale of vacant land in San Antonio, Texas whereas, non-operating results for the nine months of 1994 include fire settlement gains on fixed assets of \$0.8 million.

In the first quarter of 1994, the Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes." SFAS 109 requires that liabilities and receivables for future taxes be calculated using a balance sheet approach rather than the income statement approach. As a result, the Company recorded additional deferred income tax assets of \$2.1 million, after a valuation allowance of \$66.7 million, and increased deferred income tax liabilities by \$.7 million which, in total,

resulted in a \$1.3 million credit (\$.09 per share) for the cumulative effect of the accounting change. The valuation allowance reflects the Company's assessment regarding the realizability of certain U.S. and non-U.S. deferred income tax assets. Management believes that future taxable income of the Company will more likely than not result in utilization of the net deferred tax asset at August 1, 1993. Such future income levels are not assured due to the nature of the Company's business which is generally characterized by rapidly changing technology and intense competition. The Company evaluates realizability of the deferred income tax assets on a quarterly basis.

Prior to 1994, the Company's foreign subsidiaries reported their results to the parent on a one-month lag which allowed more time to compile results but produced comparability problems in management accounting. The one-month lag became unnecessary and therefore was eliminated subsequent to 1993 and prior to 1994. As a result, the July 1993 results of operations for the Company's foreign subsidiaries were recorded to the retained deficit. This action resulted in a charge of \$5.5 million being recorded against the retained deficit. The loss incurred in July 1993 resulted primarily from a low revenue level, which is usual for the first month of the fiscal year 1994.

Financial Condition

During the first nine months of 1995, the Company's cash and cash equivalents declined \$1.1 million. During this period, substantial one-time cash infusions from the sale of land, sale of common stock, insurance proceeds, and legal settlement proceeds coupled with operating activities which emphasized inventory reductions and receivables collections were essentially offset by the operating loss, payments on borrowings and reductions of accounts payable.

As of April 29, 1995, the Company had restricted cash and cash equivalents of \$2.4 million which was restricted primarily to cover various lines of credits.

As an additional means of preserving cash flow for operations, the Company's Board of Directors elected to defer the October 15, 1994, January 15, 1995, and April 15, 1995 preferred dividend payment to shareholders. If dividends are six quarters in arrears, the preferred stock shareholders have the right to vote as a separate class and elect two board members at the next annual meeting of shareholders and each preferred share is exchangeable into two shares of common stock at the option of the holder.

Reorganization/Restructuring Costs

A rollforward of the restructuring accrual from July 31, 1993 through to April 29, 1995 is as follows:

	TOTAL
Restructuring accrual as of July 31, 1993	\$2,565
Fiscal 1994 additions	14,853
Fiscal 1994 payments	(3,430)
Restructuring accrual as of July 30, 1994	13,988
First Quarter 1995 additions	-
First quarter 1995 payments	(2,234)
Restructuring accrual as of October 29, 1994	11,754
Second quarter 1995 additions	5,695
Asset write-offs	(1,895)
Second quarter 1995 payments	(5,516)
Restructuring accrual as of January 29, 1995	10,038
Third quarter 1995 additions	1,810
Third Quarter 1995 payments	(4,585)
Restructuring accrual as of April 29, 1995	\$7,263

The projected payout of the restructuring accrual balance as of April 29, 1995, which relates almost entirely to unpaid employee termination costs, is as follows:

Fourth quarter 1995	\$5,959
First quarter 1996	502
Second quarter 1996	465
Third quarter 1996	73
Beyond	264
Restructuring accrual as of April 29, 1995	\$7,263

Included in the second and the third quarter 1995 payments is a total of \$3,882 which was paid by a foreign government and is repayable by the Company over a number of years, which has yet to be determined. The liability has been reclassified as a payable to the foreign government during the second and third quarter of 1995. Due to legal stipulations in foreign countries, the Company additionally incurs indemnification costs in certain countries associated with employee terminations.

PART II. OTHER INFORMATION

All information required by items in Part II is omitted because the items are inapplicable, the answer is negative or substantially the same information has been previously reported by the registrant.

SIGNATURE

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

DATAPOINT CORPORATION
(Registrant)

Date: June 13, 1995

/s/ Phillip P. Krumb
Chief Financial Officer
(Chief Accounting Officer)

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