

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 1995-06-13 | Period of Report: 1995-04-30
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FILER

GELMAN SCIENCES INC

CIK: 310252 | IRS No.: 381614806 | State of Incorporation: MI | Fiscal Year End: 0731
Type: 10-Q | Act: 34 | File No.: 001-07828 | Film No.: 95546784
SIC: 3821 Laboratory apparatus & furniture

Mailing Address
600 S WAGNER RD
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ANN ARBOR MI 48103-9019

Business Address
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ANN ARBOR MI 48103-9019
3136650651

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended April 30, 1995

OR

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

For the transition period from _____ to _____

Commission file number I7828

GELMAN SCIENCES INC.

(Exact name of registrant as specified in its charter)

MICHIGAN

38-1614806

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

600 South Wagner Road, Ann Arbor, Michigan 48103-9019

(Address of principal executive offices)
(Zip Code)

(313) 665-0651

(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 and 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. At June 1, 1995, 7,736,939 shares were outstanding of the Company's \$.10 par value common stock.

GELMAN SCIENCES INC.

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GELMAN SCIENCES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

<TABLE>

<CAPTION>

| | April 30, 1995 | July 31, 1994 |
|---|-------------------|------------------|
| | ----- | ----- |
| ASSETS | (Unaudited) | |
| <S> | <C> | <C> |
| Current Assets: | | |
| Cash | \$ 2,274 | \$ 1,525 |
| Accounts receivable, less allowances | 25,322 | 20,859 |
| Inventories: | | |
| Finished products | 6,536 | 5,790 |
| Work in process | 1,783 | 1,555 |
| Raw material and purchased parts | 7,280 | 6,645 |
| | ----- | ----- |
| | 15,599 | 13,990 |
| Other current assets | 4,885 | 3,849 |
| | ----- | ----- |
| Total Current Assets | 48,080 | 40,223 |
| Property, Plant and Equipment | 67,650 | 63,554 |
| Less Allowances for Depreciation | (36,117) | (34,392) |
| | ----- | ----- |
| | 31,533 | 29,162 |
| Intangibles and Other Assets | 2,337 | 2,302 |
| | ----- | ----- |
| Total Assets | \$ 81,950 | \$ 71,687 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Notes payable | \$ 1,788 | \$ 1,549 |
| Accounts payable | 5,764 | 5,611 |
| Accrued expenses | 8,748 | 7,784 |
| Current maturities of long-term debt | 553 | 1,829 |
| | ----- | ----- |
| Total Current Liabilities | 16,853 | 16,773 |
| Long-Term Debt, Exclusive of Current Maturities | 6,967 | 21,820 |
| Other Long-Term Liabilities | 2,336 | 2,659 |
| Stockholders' Equity: | | |
| Preferred stock, par value \$1.00 per share | | |
| Common stock, par value \$.10 per share | 772 | 613 |
| Additional capital | 34,414 | 14,055 |
| Retained earnings | 21,550 | 17,092 |
| Translation adjustments | (492) | (875) |
| Less loan to Employee Stock Ownership Plan | (450) | (450) |
| | ----- | ----- |
| Total Stockholders' Equity | 55,794 | 30,435 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$ 81,950 | \$ 71,687 |
| | ===== | ===== |

</TABLE>

See Notes To Unaudited Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In Thousands, Except Per Share Amounts)

<TABLE>

<CAPTION>

| | Three Months Ended April 30, | | Nine Months Ended April 30, | |
|---|---------------------------------|-----------|--------------------------------|-----------|
| | 1995 | 1994 | 1995 | 1994 |
| <S> | <C> | <C> | <C> | <C> |
| Net Sales | \$ 26,893 | \$ 24,377 | \$ 75,078 | \$ 69,953 |
| Cost and Expenses: | | | | |
| Cost of products sold | 12,825 | 12,335 | 36,408 | 35,366 |
| Selling and administrative | 9,528 | 8,222 | 26,848 | 24,521 |
| Research and development | 1,366 | 1,188 | 3,990 | 3,514 |
| Other income - net | (241) | (68) | (363) | (146) |
| Operating Earnings | 3,415 | 2,700 | 8,195 | 6,698 |
| Interest Expense | 311 | 434 | 1,193 | 1,311 |
| Earnings Before Income Taxes and Extraordinary Item | 3,104 | 2,266 | 7,002 | 5,387 |
| Provision For Income Taxes | 1,133 | 784 | 2,544 | 1,913 |
| Earnings Before Extraordinary Item | 1,971 | 1,482 | 4,458 | 3,474 |
| Extraordinary Item - Early Extinguishment of Debt | - | 183 | - | 183 |
| Net Earnings | \$ 1,971 | \$ 1,299 | \$ 4,458 | \$ 3,291 |
| Primary Earnings Per Share Before Extraordinary Item | \$ 0.26 | \$ 0.23 | \$ 0.64 | \$ 0.56 |
| Primary Earnings Per Share | \$ 0.26 | \$ 0.20 | \$ 0.64 | \$ 0.53 |
| Weighted Average Common and Common Equivalent Shares Outstanding | 7,587 | 6,353 | 6,927 | 6,240 |

</TABLE>

See Notes To Unaudited Consolidated Financial Statements.

GELMAN SCIENCES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in Thousands)

<TABLE>

<CAPTION>

Nine Months Ended
April 30

| | 1995 | 1994 |
|--|----------|----------|
| <S> | <C> | <C> |
| Operating Activities | | |
| Net earnings | \$ 4,458 | \$ 3,291 |
| Loss (gain) on disposal of assets | 54 | (211) |
| Extraordinary item | - | 295 |
| Depreciation and amortization | 3,288 | 3,188 |
| Increase in inventories | (1,228) | (1,404) |
| Increase in accounts receivable | (3,867) | (3,872) |
| Increase in other current assets | (948) | (153) |
| Increase (decrease) in current liabilities | 927 | (479) |
| Decrease in liabilities for environmental activities | (515) | (960) |
| Tax benefit from exercised stock options | 394 | 482 |
| Other | 92 | 48 |
| | ----- | ----- |
| Net Cash Provided by Operating Activities | 2,655 | 225 |
| Financing Activities | | |
| Net proceeds from issuance of common stock | 19,424 | - |
| Long-term debt borrowings | 22,353 | 26,591 |
| Principal payments on long-term debt | (38,480) | (23,061) |
| Proceeds from exercised stock options | 682 | 782 |
| | ----- | ----- |
| Net Cash Provided by Financing Activities | 3,979 | 4,312 |
| Investment Activities | | |
| Capital expenditures | (5,536) | (5,050) |
| Proceeds from sale of assets | 25 | 470 |
| Increase in intangibles and other assets | (143) | (368) |
| Payment of note receivable - common stock | - | 895 |
| | ----- | ----- |
| Net Cash Used in Investment Activities | (5,654) | (4,053) |
| Effects of Exchange Rate Changes on Cash | (231) | 75 |
| | ----- | ----- |
| Net change in cash during the period | 749 | 559 |
| Cash at beginning of period | 1,525 | 1,142 |
| | ----- | ----- |
| Cash at end of period | \$ 2,274 | \$ 1,701 |
| | ===== | ===== |

</TABLE>

See Notes To Unaudited Consolidated Financial Statements.

General

In the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (which are of a normal recurring nature) necessary to present fairly the financial position of Gelman Sciences Inc. and subsidiaries as of April 30, 1995, and the results of their operations and cash flows for the three months and nine months ended April 30, 1995 and 1994. These financial statements should be read in conjunction with the financial statements and notes set forth in the Company's Annual Report and Form 10-K for the year ended July 31, 1994. The results of operations for the three months and nine months ended April 30, 1995 and 1994 are not necessarily indicative of the results of the full year.

Public Offering

During the quarter, the Company issued 1,437,500 shares of common stock at a price of \$14.625 per share in a public common stock offering. The net proceeds of \$19.4 million were used to repay a term note payable to NBD Bank N.A. and to reduce outstanding indebtedness under the Company's Credit Agreement.

Pollution Related Matters

The Company has settled several law suits related to groundwater contamination and has begun remediation activities. The remediation plan requires the Company to treat the groundwater to the extent necessary to reduce contaminants to a defined level. Management estimates that remediation will take eight years. Total costs to the Company of pollution related activities will be dependent upon the efficacy and duration of the remediation plan and obtaining a cost free repository for treated groundwater. The ultimate costs to be incurred could exceed the amount provided of \$840,000 at April 30, 1995. However, it is the opinion of management that these additional costs, if any, will not have a material adverse effect on the Company's operations because the cash outflows would be spread over many future years.

Extraordinary item

The extraordinary item in fiscal 1994 resulted from the redemption of 7.98% Industrial Development Revenue Bonds issued in 1989. The redemption was funded by the issuance of 1994 Industrial Development Revenue Bonds in the amount equal to the principal balance of the 1989 Bonds of \$5.1 million. The Company recorded a charge of \$295,000 net of \$112,000 tax benefit or \$.03 per share to write-off deferred finance charges and record a redemption premium and fees related to the 1989 Bonds.

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

Results of Operations

Comparison of Nine months ended April 30, 1995 and 1994

Net Sales for the nine months ended April 30, 1995 increased by \$5.1 million or 7.3% to \$75.1 million as compared to net sales of \$70.0 million for the nine months ended April 30, 1994. Net sales for the nine months ended April 30, 1994 included non-recurring sales of \$3.7 million related to the Company's Australian non-core product lines that have been divested. Net sales for the nine months ended April 30, 1995 were favorably affected by the weakened U.S. dollar, which increased reported sales by \$1.5 million. The Company's sales growth, adjusted for these items, was 11.1%.

Sales to customers in North, Central and South America increased 9.8% over the same period of the prior fiscal year primarily due to a 28.8% increase in sales of medical devices. Sales to customers in Europe increased 12.7%, mainly due to increases in sales of process filtration products in Italy and France. Sales to customers in the Asia/Pacific region declined 11.6% as a result of the divestiture of the Australian non-core product lines. Without the effect of these sales, Asia/Pacific sales would have increased 39.4%, primarily attributable to increases in sales of process filtration products in Japan and Korea. Worldwide sales of laboratory products, process filtration products and medical devices increased 9.5%, 21.7% and 24.0%, respectively. Worldwide sales of microporous membranes decreased 4.0% as a result of a special shipment to a single customer in the first half of fiscal 1994. Without the effect of this shipment, sales of microporous membrane would have increased 9.9%.

Gross profit increased \$4.1 million or 11.8% to \$38.7 million in the nine months ended April 30, 1995, as compared to \$34.6 million in the nine months ended April 30, 1994. As a percentage of net sales, gross profit increased to 51.5% from 49.4%. The improvement in gross margin is primarily attributable to the divestiture of the lower margin non-core product lines and improved operating efficiencies, which was partially offset by a less favorable product mix due to lower membrane sales as a percentage of total sales.

Selling and administrative expense increased by \$2.3 million or 9.5% to \$26.8 million in the nine months ended April 30, 1995, compared to \$24.5 million in the nine months ended April 30, 1994. The increase in selling and administrative expense was primarily due to efforts in selling and promotional activity in accordance with the Company's growth strategy.

Research and development expense increased by \$476,000 or 13.5% to \$4.0 million in the nine months ended April 30, 1995, compared to \$3.5 million in the nine months ended April 30, 1994. As a percentage of net sales, these expenses were 5.3% and 5.0%, respectively. The higher research and development spending is a result of an increased effort to develop and modify products to meet customer requirements.

The effective tax rate for each of the nine months ended April 30, 1995 and 1994 was 36.3% and 35.5%, respectively. The higher tax rate

reflects a greater percentage of income from subsidiaries with higher corporate tax rates in fiscal 1995.

Net earnings increased \$1,167,000 or 35.5% to \$4.5 million or \$.64 per share for the nine months ended April 30, 1995, compared to \$3.3 million or \$.53 per share for the nine months ended April 30, 1994. Earnings for fiscal 1994 included the extraordinary item plus the gain on sale of Australian assets. Excluding the effect of these two non-recurring items, net earnings would have increased 32.4%.

Comparison of Three Months ended April 30, 1995 and 1994

Net sales for the third quarter ended April 30, 1995 increased by 10.3% to \$26.9 million as compared to \$24.4 million for the third quarter of fiscal 1994. The third quarter sales for fiscal 1994 were affected by the non-recurring sales discussed under the nine month sales comparison in the amount of \$700,000. The third quarter fiscal 1995 sales were favorably affected by the weakened U.S. dollar, which increased reported sales by \$658,000. The Company's sales growth for the third quarter of fiscal 1995 versus the same period last fiscal year, adjusted for the non-recurring sales and the fluctuation in foreign currency, was 10.8%.

Worldwide sales of laboratory products, process filtration products and medical devices increased 6.6%, 25.5% and 24.9%, respectively, as compared to the third quarter of fiscal 1994. The growth in laboratory and process filtration products has been mainly in the international markets. Medical devices increased mainly in the American market in the intravenous therapy applications. Membrane sales increased 3.2%.

Gross profit increased \$2.0 million or 16.8% to \$14.1 million in the three months ended April 30, 1995, as compared to \$12.1 million in the three months ended April 30, 1994. As a percentage of net sales, gross profit increased to 52.3% from 49.4%. The improvement in gross margin is primarily attributable to capacity utilization and manufacturing efficiency improvements, partially offset by a less favorable product mix due to lower membrane sales as a percentage of sales.

Other income - net, increased to \$241,000 for the three months ended April 30, 1995 mainly due to exchange gains on foreign currency transactions recorded net of hedging contracts. Other income - net, for the three months ended April 30, 1994 included \$108,000 gain on the sale of Australian assets relating to the divested product lines.

Net earnings increased \$672,000 or 51.7% to \$2.0 million or \$.26 per share for the three months ended April 30, 1995, compared to \$1.3 million or \$.20 per share for the three months ended April 30, 1994. Earnings for the third quarter fiscal 1994 included the two non-recurring items mentioned in the nine month discussion. Excluding the effect of these two non-recurring items, net earnings would have increased 43.4%. Fiscal 1995 earnings per share includes the effect of the recently completed secondary public offering of 1,437,500 shares of common stock. The weighted average shares for the third quarter of fiscal 1995 and 1994 were 7.6 million and 6.4 million, respectively.

Liquidity and Capital Resources

For the nine months ended April 30, 1995, the Company generated cash from operations in the amount of \$2.7 million. Finance activities include the issuance, during the third quarter, of 1,437,500 shares of common stock at a price of \$14.625 per share in a public common stock offering. The net proceeds of \$19.4 million were used to repay a \$4 million term note payable to NBD Bank N.A. and to reduce outstanding indebtedness under the Company's Credit Agreement in the amount of \$12.1 million. The remainder of the net proceeds plus the cash provided from operations were used to fund capital expenditures of \$5.7 million. Working capital at April 30, 1995 and July 31, 1994 was \$31.2 million and \$23.4 million, respectively. The increase in working capital is attributed mainly to higher levels of trade receivables. The higher level of sales in the last two months of the third quarter compared to the fourth quarter of fiscal 1994 plus the increased volume of international sales which have longer collection periods have affected trade receivables. Also increasing working capital is the reduction in current maturities of long term debt of \$1.3 million due to the repayment of the term note mentioned above. At April 30, 1995, the Company's unused portion of its Credit Agreement was \$21.2 million.

During the quarter, the Company settled its interest rate swap agreement on \$5 million notional amount at a gain of \$48,000. The gain has been deferred and will be reflected as adjustments to interest expense over the appropriate periods relevant to the agreement.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in various legal actions in the normal course of business. In addition, the Company is currently a party to various legal actions arising under statutes regulating the discharge of materials into or otherwise protecting the environment. These have been described in the Company's 1994 Annual Report and Item 1. "Environmental Regulations" and Item 3. "Legal Proceedings" of the Company's Form 10-K for the year ended July 31, 1994, and Item 1. "Legal Proceedings of Part II of the Company's Forms 10-Q for the quarters ended October 31, 1994, and January 31, 1995. The following sets forth these environmental matters to the extent any material developments have occurred since the filing of the Company's Form 10-Q for the quarter ended January 31, 1995.

"Thermo Chem" Superfund Site, Muskegon, Michigan. By correspondence dated January 2, 1992, the United States Environmental Protection Agency ("USEPA") identified the Company as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") for past and future response costs in connection with the Thermo Chem Superfund site, a waste chemical reclamation and disposal site. The USEPA issued an Administrative Order

mandating remediation of the site to a number of generator PRPs. On July 22, 1994, the Company and the USEPA entered into a settlement agreement under which the Company agreed to pay \$124,100. A consent order based on that agreement became effective February 8, 1995. Payment was made on March 10, 1995.

Item 5. OTHER INFORMATION.

On March 18, 1995, Kim A. Davis, President and Chief Operating Officer of the Company, was elected a Director of the Company by the Board of Directors.

Effective June 16, 1995, James J. Fahrner has resigned as Chief Financial Officer and Vice President, Finance, of the Company to take a position with an acquisition-oriented company.

On June 5, 1995, Karen A. Radtke was appointed Treasurer of the Company.

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Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

(4) Instruments Defining the Rights of Security Holders

(1) Pursuant to 17 CFR 229.601(b)(4)(iii), instruments with respect to long-term debt issues have been omitted where the amount of securities authorized under each instrument does not exceed 10% of the total consolidated assets of the Company. The Company hereby agrees to furnish a copy of each such instrument to the Commission upon its request.

(11) Statement re computation of per share earnings for the three and nine months ended April 30, 1995 and 1994.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fiscal quarter ended April 30, 1995.

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SIGNATURES

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

(Registrant)

Date: June 12, 1995 /s/ Charles Gelman

Charles Gelman, Chairman of the Board
and Chief Executive Officer

Date: June 12, 1995 /s/ James J. Fahrner

James J. Fahrner, Vice President, Finance
and Chief Financial Officer

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Exhibit Index

<TABLE>
<CAPTION>

| Exhibit | Description | Page Number |
|---------|---|----------------|
| ----- | ----- | ----- |
| <S> | <C> | <C> |
| | (4) Instruments Defining the Rights of Security Holders | |
| | (1) Pursuant to 17 CFR 229.601(b)(4)(iii), instruments with respect to long-term debt issues have been omitted where the amount of securities authorized under each instrument does not exceed 10% of the total consolidated assets of the Company. The Company hereby agrees to furnish a copy of each such instrument to the Commission upon its request. | |
| | (11) Statement re computation of per share earnings for the three and nine months ended April 30, 1995 and 1994. | |
| | (27) Financial Data Schedule | |

</TABLE>

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Exhibit 11

Computation of Earnings Per Common Share
 Primary and Fully Diluted
 <TABLE>
 <CAPTION>

| | Three Months Ended April 30 | | Nine Months Ended April 30 | |
|---|--------------------------------|--------------------|-------------------------------|--------------------|
| | 1995 | 1994 | 1995 | 1994 |
| <S> Net income for computing primary and fully diluted earnings per common share | <C> \$1,971,000 | <C> \$1,299,000 | <C> \$4,458,000 | <C> \$3,291,000 |
| Primary shares | | | | |
| Weighted average number of common shares outstanding | 7,211,448 | 5,736,974 | 6,519,800 | 5,682,149 |
| Additions from assumed exercise of stock options and warrants | 375,919 | 615,930 | 407,171 | 557,387 |
| Weighted average of common and common equivalent shares | 7,587,367 | 6,352,904 | 6,926,971 | 6,239,535 |
| Fully diluted shares | | | | |
| Weighted average number of common shares outstanding | 7,211,448 | 5,736,974 | 6,519,800 | 5,682,149 |
| Additions from assumed exercise of stock options and warrants | 418,442 | 615,930 | 421,345 | 615,930 |
| Weighted average of common and common equivalent shares | 7,629,890 | 6,352,904 | 6,941,145 | 6,298,079 |
| Net income per common share | | | | |
| Primary | \$0.26 | \$0.20 | \$0.64 | \$0.53 |
| Fully diluted | \$0.26 | \$0.20 | \$0.64 | \$0.53 |

</TABLE>

Primary additions from assumed exercise of stock options and warrants is net of assumed purchase of common shares at the average market price during the period. Fully diluted earnings per share was determined in the same manner except that the greater of period end or period average stock price was used.

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from (a) Gelman Sciences Inc. Statement of Operations and Consolidated Statement of Cash Flow for the nine months ended April 30, 1995 and the Consolidated Balance Sheet as of April 30, 1995 and is qualified in its entirety by reference to such (b) Form 10-Q for the third quarter ended April 30, 1995.

</LEGEND>

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