

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For Quarter Ended March 31, 1996 - Commission File No. 0-17196

MIDWEST GRAIN PRODUCTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

KANSAS

(State or Other Jurisdiction of
Incorporation or Organization)

48-0531200

IRS Employer
Identification No.

1300 Main Street, Atchison, Kansas 66002

(Address of Principal Executive Offices and Zip Code)

(913) 367-1480

(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 the filing requirements for at least the past 90 days.

X YES NO

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

Common stock, no par value
9,765,172 shares outstanding
as of May 1, 1996.

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{LOGO}

Independent Accountants' Review Report

Baird, Kurtz &
Dobson

Board of Directors and Stockholders
Midwest Grain Products, Inc.
Atchison, Kansas 66002

Certified
Public
Accountants

We have reviewed the condensed consolidated balance sheet of MIDWEST GRAIN PRODUCTS, INC. and subsidiaries as of March 31, 1996, and the related condensed consolidated statements of operations for the three month and nine month periods ended March 31, 1996 and 1995 and the related condensed

consolidated statements of cash flows for the nine month periods ended March 31, 1996 and 1995. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of June 30, 1995, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended (not presented herein); and, in our report dated August 14, 1995, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 1995, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

s/Baird, Kurtz & Dobson

BAIRD, KURTZ & DOBSON

Kansas City, Missouri
April 22, 1996

City Center Square, Suite 2700, 1100 Main,
Kansas City, Missouri 64105

816 221-6300
FAX 816 221-6380

With Offices in: Arkansas, Colorado, Kansas, Kentucky, Missouri, Nebraska,
Oklahoma
Member of Moores Rowland International

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MIDWEST GRAIN PRODUCTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

ASSETS

| | March 31, 1996 | June 30, 1995 |
|---------------------------------|-------------------|------------------|
| | (Unaudited) | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 832 | \$ 460 |
| Receivables | 23,979 | 21,550 |
| Notes receivable | 919 | |
| Inventories | 17,114 | 14,690 |
| Prepaid expenses | 812 | 560 |
| Deferred income taxes | 875 | 875 |
| Income taxes receivable | 1,781 | 2,338 |
| Total Current Assets | <u>45,393</u> | <u>41,392</u> |
| PROPERTY AND EQUIPMENT, At cost | | |
| Less accumulated depreciation | 209,714 | 206,336 |
| | <u>81,563</u> | <u>71,424</u> |
| | 128,151 | 134,912 |
| OTHER ASSETS | | |
| | <u>432</u> | <u>445</u> |
| | <u>\$173,976</u> | <u>\$176,749</u> |
| | ===== | ===== |

See Accompanying Note to Condensed Consolidated Financial
Statements and Independent Accountants' Review Report

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MIDWEST GRAIN PRODUCTS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
(In Thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | March 31, 1996 | June 30, 1995 |
|---|-------------------|------------------|
| | (Unaudited) | ----- |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 7,521 | \$ 7,807 |
| Accrued expenses | 4,358 | 6,630 |
| Total Current Liabilities | <u>11,879</u> | <u>14,437</u> |
| LONG-TERM DEBT | <u>40,933</u> | <u>38,908</u> |
| POST-RETIREMENT BENEFITS | <u>5,801</u> | <u>5,449</u> |
| DEFERRED INCOME TAXES | <u>5,327</u> | <u>5,327</u> |
| STOCKHOLDERS' EQUITY | | |
| Capital stock | | |
| Preferred, 5% noncumulative, \$10 par value; authorized 1,000 shares; issued and outstanding 437 shares | 4 | 4 |
| Common, no par; authorized 20,000,000 shares; issued 9,765,172 shares | 6,715 | 6,715 |
| Additional paid-in capital | 2,485 | 2,485 |
| Retained earnings | 100,832 | 103,424 |
| Total Stockholders' Equity | <u>110,036</u> | <u>112,628</u> |
| | <u>\$173,976</u> | <u>\$176,749</u> |
| | ===== | ===== |

See Accompanying Note to Condensed Consolidated Financial
Statements and Independent Accountants' Review Report

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THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 1996 AND 1995

(Unaudited)

| | Three Months | | Nine Months | |
|---|--|----------------|-------------------|-----------------|
| | 1996 | 1995 | 1996 | 1995 |
| | (in thousands, except per share amounts) | | | |
| NET SALES | \$53,871 | \$42,005 | \$156,782 | \$132,477 |
| COST OF SALES | 52,567 | 39,032 | 152,796 | 115,120 |
| GROSS PROFIT | <u>1,304</u> | <u>2,973</u> | <u>3,986</u> | <u>17,357</u> |
| SELLING, GENERAL AND ADMINIS- TRATIVE EXPENSES | 2,012 | 2,298 | 6,852 | 8,624 |
| | <u>(708)</u> | <u>675</u> | <u>(2,866)</u> | <u>8,733</u> |
| OTHER OPERATING INCOME (LOSS) | 34 | (36) | 87 | (23) |
| INCOME (LOSS) FROM OPERATIONS | <u>(674)</u> | <u>639</u> | <u>(2,779)</u> | <u>8,710</u> |
| OTHER INCOME (LOSS) | | | | |
| Interest | (706) | (1,413) | (2,198) | (1,428) |
| Other | 701 | 1,275 | 692 | 1,610 |
| INCOME (LOSS) BEFORE INCOME TAXES | <u>(679)</u> | <u>501</u> | <u>(4,285)</u> | <u>8,892</u> |
| PROVISION (CREDIT) FOR INCOME TAXES | (269) | 203 | (1,693) | 3,601 |
| NET INCOME (LOSS) | \$ <u>(410)</u> | \$ <u>298</u> | \$ <u>(2,592)</u> | \$ <u>5,291</u> |
| | ===== | ===== | ===== | ===== |
| EARNINGS (LOSS) PER COMMON SHARE | \$ <u>. (04)</u> | \$ <u>0.03</u> | \$ <u>. (27)</u> | \$ <u>0.54</u> |
| | ===== | ===== | ===== | ===== |

See Accompanying Note to Condensed Consolidated Financial
Statements and Independent Accountants' Review Report

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MIDWEST GRAIN PRODUCTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED MARCH 31, 1996 AND 1995

(Unaudited)

| | 1996 | 1995 |
|---|----------------|--------------|
| | (in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | (2,592) | \$ 5,291 |
| Items not requiring (providing) cash: | | |
| Depreciation | 10,244 | 5,623 |
| Gain on sale of assets | (30) | (205) |
| Changes in: | | |
| Accounts receivable | (2,429) | 841 |
| Inventories | (2,424) | (2,622) |
| Other assets | (239) | (204) |
| Disbursements in excess of demand deposit cash | 387 | |
| Accounts payable | 891 | (2,159) |
| Accrued expenses | (699) | (1,707) |
| Income taxes payable | 557 | (2,068) |
| Net cash provided by operating activities | <u>3,279</u> | <u>3,177</u> |

| | | |
|--|---------|----------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property and equipment | (4,699) | (28,648) |
| Sale of short-term investments, net | 14,505 | |
| Proceeds from sale of equipment | 69 | 279 |
| Payment received on note for sale of plant | 919 | 518 |
| Net cash used in investing activities | (3,711) | (13,346) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of long-term debt | 6,000 | 10,000 |
| Principal payment on long-term debt | (3,975) | |
| Dividends paid | (1,221) | (3,663) |
| Net cash provided by financing activities | 804 | 6,337 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 372 | (3,832) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 460 | 3,832 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 832 | \$ 0 |
| | ===== | ===== |

See Accompanying Note to Condensed Consolidated Financial Statements and Independent Accountants' Review Report

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MIDWEST GRAIN PRODUCTS, INC.

NOTE TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED MARCH 31, 1996

(Unaudited)

NOTE: GENERAL

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the Company's condensed consolidated financial position as of March 31, 1996, and the condensed consolidated results of its operations and its cash flows for the periods ended March 31, 1996 and 1995, and are of a normal recurring nature.

See Independent Accountants' Review Report

MIDWEST GRAIN PRODUCTS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 1996

RESULTS OF OPERATIONS

General

The Company experienced a \$410,000 net loss in the third quarter of fiscal 1996 compared to net income of \$298,000 in the same quarter of fiscal 1995. The decline was due primarily to unusually high raw material costs for grain in the face of depressed selling prices for fuel alcohol and vital wheat gluten. Fuel alcohol prices remained flat due to increased capacities throughout the industry and lower gasoline prices. Wheat gluten prices failed to adjust to the rising grain costs, as is normally the case, while gluten imports from the European Union (E.U.) continued to flood the U.S. market. Profits from their highly subsidized and protected wheat starch business have allowed European producers to dump their surpluses of gluten, a co-product, in the United States at prices below U.S. production costs. Low U.S. tariff rates on wheat gluten provide little deterrence to this practice, while high tariffs in Europe effectively prohibit non-European Union member countries from competing in the wheat gluten and wheat starch markets there. A measure that should help rectify this problem has been included in a grains agreement being negotiated between the U.S. and E.U. It states that "If the market share of European Community origin wheat gluten exports into the United States increases in comparison to their average 1990-1992 market share, the European Commission and the United States government shall consult with a view to finding a mutually acceptable solution." While the agreement is still awaiting final ratification, officials with the U.S. Department of Agriculture were recently directed to begin preparations for the consultations. Until the intensity of competitive conditions subside, pursuant to the grains agreement negotiations or otherwise, and wheat costs substantially decrease, the Company does not anticipate utilizing a substantial portion of its gluten production capacity.

Unit sales of alcohol products in the third quarter rose significantly above the prior year's third quarter amount. The increase occurred in unit sales of food grade alcohol, which is sold for beverage and industrial applications. This more than offset a decline in unit sales of fuel grade alcohol, which is sold as an octane additive and oxygenate commonly known as ethanol. Although demand for food grade alcohol has declined since the third quarter, market conditions for this product generally remain healthy. Therefore, the Company plans to continue to focus production on this category, while minimizing its production of fuel alcohol until selling prices and raw material costs achieve greater balance.

The Company's unit sales of wheat starch in the third quarter increased substantially above the prior year's third quarter. The increase resulted from higher volumes of unmodified, modified and specialty wheat starches.

While the Company expects higher raw material costs for grain and intense foreign competition to have a negative impact on results during the remainder of fiscal 1996, it believes it is in an excellent position to realize significant growth with a return to more favorable market conditions and lower grain prices. This belief is based on the Company's recently expanded production capabilities, combined with its solid working capital and equity positions.

MIDWEST GRAIN PRODUCTS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)
THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 1996

Sales

Net sales for the third quarter of fiscal 1996 increased by approximately \$11.9 million above sales in the third quarter of fiscal 1995. The increase was principally due to increased sales of alcohol products and alcohol by-products, the latter consisting mainly of distiller feeds, and higher sales of premium wheat starch. A 46% increase in total alcohol sales resulted from strong demand for food grade beverage and industrial alcohol. Sales of distiller feeds climbed 74% compared to a year ago. The rise in wheat starch sales resulted from strengthened market demand. These increases were partially offset by a 19% decrease in sales of wheat gluten due to intense competitive pressures from European gluten producers. Net sales for the first nine months of fiscal 1996 increased by approximately \$24 million. The vast majority of this increase occurred in the second and third quarters for the reasons cited above.

Cost of Sales

The cost of sales in the third quarter of fiscal 1996 increased by approximately \$13.5 million above the cost of sales in the third quarter of fiscal 1995. The principal cause was a nearly \$13 million increase in raw material costs for grain. Other manufacturing cost increases principally included depreciation and higher operating costs associated with increased energy requirements resulting from the Company's expanded production facilities at its Pekin, Illinois plant. These increases were partially offset by lower maintenance and repair costs, which returned to more normal levels following the completion of the expansion project in this year's first quarter.

The cost of sales for the nine months of fiscal 1996 increased by approximately \$38 million over cost of sales for the first nine months of fiscal 1995. This was due largely to an increase of approximately \$34 million in raw material costs. Other factors included increases in the same costs referred to in the preceding paragraph, which were partially offset by lower maintenance and repair costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses in the third quarter of fiscal 1996 were down approximately \$286,000 compared to the same period the prior year. This principally was due to a decrease of almost \$249,000 resulting from reductions in compensation, and accruals for the Company's management and employee incentive programs. These and other reductions helped to more than offset increases which were incurred in a minor segment of the expense categories. Selling, general and administrative expenses for the first nine months of fiscal 1996 decreased by approximately \$1.8 million, largely as the result of compensation and benefit reductions.

The consolidated effective income tax rate is consistent for all periods.

The general effects of inflation were minimal.

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MIDWEST GRAIN PRODUCTS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued) THREE MONTHS AND NINE MONTHS ENDED MARCH 31, 1996

Net Income

As the result of the foregoing factors, the Company experienced a net loss of \$410,000 in the third quarter of fiscal 1996 compared to net income of \$298,000 in the third quarter of fiscal 1995. Combined with a first quarter net loss of \$2,377,000, this more than offset the Company's second quarter net income of \$195,000, resulting in a net loss of \$2,592,000 for the first nine months of fiscal 1996. For the first nine months of fiscal 1995, the Company had net income of \$5,291,000.

LIQUIDITY AND CAPITAL RESOURCES

The following table is presented as a measure of the Company's liquidity and financial condition:

| | March 31, 1996 | June 30, 1995 |
|---|-------------------|------------------|
| | (in thousands) | |
| Cash and cash equivalents | \$ 832 | \$ 460 |
| Working capital | 33,514 | 26,955 |
| Amounts available under lines of credit | 18,600 | 12,000 |
| Note payable and long-term debt | 40,933 | 38,908 |
| Stockholders' equity | 110,036 | 112,628 |

Although the Company's income statement reflects losses due to factors previously mentioned, a number of actions have enabled the Company to continue to generate positive cash flows, maintain a strong working capital position and a relatively low debt-to-equity ratio during this period of adversity. These include stringent cost reduction measures, reductions in capital expenditures due to the completion of the Pekin Plant expansion program, the suspension of quarterly cash dividends to stockholders and changes in production, purchasing and marketing strategies.

Due to the recent completion of major capital improvement projects at both plants, there will not be significant capital improvement requirements in the near future. At March 31, 1996, the Company has \$800,000 committed to improvements and replacements of existing equipment.

The continued high cost of grain and low selling prices are expected to continue to negatively impact the Company's liquidity in the near term. However, management believes that the strategies which continue to be implemented, together with the Company's strong working capital and available lines of credit, should enable the Company to weather current adversities and remain well positioned for a return to more normal conditions.

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PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- (15) Letter from independent public accountants pursuant to paragraph (d) of Rule 10-01 of Regulation S-X (incorporated by reference to Independent Accountants' Review Report at page 2 hereof)
- (20) Report to stockholders for the nine months ended March 31, 1996
- (27) Financial data schedule.

(b) Reports on Form 8-K

The Company has filed no reports on Form 8-K during the quarter ended March 31, 1996.

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.

MIDWEST GRAIN PRODUCTS, INC.

s/Ladd M. Seaberg
By
Ladd M. Seaberg, President
and Chief Executive Officer

5/14/96

Date

s/Robert G. Booe
By
Robert G. Booe, Vice President
and Chief Financial Officer

5/14/96

Date

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EXHIBIT INDEX

| Exhibit Number | Description |
|----------------|---|
| (15) | Letter from independent public accountants pursuant to paragraph (d) of Rule 10.01 of Regulation S-X (incorporated by reference to Independent Accountants' Review Report at page 2 hereof) |
| (20) | Report to stockholders for the nine months ended March 31, |

1996

(27) Financial data schedule

Exhibit (20)

LETTER TO STOCKHOLDERS
THIRD QUARTER
PERIOD ENDED MARCH 31, 1996

May 9, 1996

Dear Stockholder:

While our earnings in the third quarter of fiscal 1996 were negatively affected by a combination of greatly increased raw material costs for grain, extreme competitive pressures in the vital wheat gluten market and softness in the fuel alcohol market, our operational cash flow remained positive. Our solid financial footing has allowed us to withstand the intense impact these factors have had during what is proving to be one of the most challenging times in Midwest Grain's 55-year history. With a return to more normal conditions, we will be prepared to show significantly improved results.

During the third quarter, we incurred a net loss of \$410,000, or \$0.04 per share on sales of \$53,871,000. During the same period the prior year, we had net income of \$298,000, or \$0.03 per share on sales of \$42,005,000.

For the first nine months of fiscal 1996, we experienced a net loss of \$2,592,000, or \$0.27 per share on sales of \$156,782,000. This compares to net income of \$5,291,000, or \$0.54 per share on sales of \$132,477,000 for the first nine months of fiscal 1995.

For the past several months, we have been confronted with unusually high grain prices. In the third quarter, our average per bushel cost for corn and milo rose approximately 54% above the average we paid during the same period the year before. Our wheat costs averaged 34% more per bushel compared to a year ago. Grain prices have continued to climb during the current quarter, driven by a worldwide shortage of grain supplies and concerns about planting and growing conditions for this year's crops. In response, we have strengthened our risk management program to adjust grain procurement strategies daily if necessary. As has been the case for practically all of fiscal 1996, the higher wheat costs compound the severe negative effects caused by European Union (E.U.) wheat gluten producers, who continue to dump their excess gluten in the United States. Final ratification of a grains agreement between our government and the E.U., which includes a measure to curb excess shipments of gluten to the U.S., did not occur in the third quarter as expected. Nevertheless, Dan Glickman, Secretary of the U.S. Department of Agriculture, has directed his staff to begin preparations for consultations on this issue with E.U. officials. The start of consultations is uncertain at this time, but, according to the grains agreement, they are to focus on "finding a mutually acceptable solution" to the problem. Prices for fuel grade alcohol thus far have not reflected increased production

costs resulting from the substantially higher corn prices. Neither have they kept pace with recent hikes in gasoline prices. As a result, our production of fuel alcohol is being minimized until selling prices and raw material costs achieve greater balance. While demand for our food grade alcohol for beverage and industrial applications has declined since the third quarter, conditions in those markets generally remain healthy.

Demand continues to be strong for our premium wheat starch, as well as for our distillers feeds, a by-product of our alcohol production process.

During this exceptionally challenging time, we are continuing to position ourselves to be highly flexible in determining our production and product sales mix to optimize operational efficiency and cash flow.

Sincerely,

Ladd M. Seaberg
President and CEO

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

(EXHIBIT 27)

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MIDWEST GRAIN PRODUCTS, INC. CONDENSED CONSOLIDATED STATEMENTS OF INCOME FOR THE NINE MONTHS ENDED MARCH 31, 1996, AND CONDENSED CONSOLIDATED BALANCE SHEET AS AT MARCH 31, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<CIK> 0000835011

<NAME> MIDWEST GRAIN PRODUCTS, INC.

<MULTIPLIER> 1,000

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<PERIOD-END> MAR-31-1996

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<NET-INCOME> (2,592)

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<FN>

<F1>After deduction of allowances and addition of Notes Receivable.

<F2>See Note F1.

<F3>Reflects Retained Earnings and Additional Paid In Capital.

<F4>Reflects net sales plus Other Operating Income.

<F5>Consists of Selling, General and Administrative Expenses.

</FN>

</TABLE>