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FORM 10-Q  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

(Mark One)

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

For the Quarterly Period Ended September 30, 1996

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 #0-8707

NATURE'S SUNSHINE PRODUCTS, INC.

-----  
(Exact Name of Registrant)

UTAH  
(State of Incorporation)

87-0327982  
(I.R.S. Employer Identification Number)

75 East 1700 South  
Provo, Utah 84606  
(Principal Executive Offices)

(801) 342-4300, Ext. 4407  
(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 such shorter period that the Registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No   
--- ---

The number of shares of common stock, without par value, outstanding as of October 31, 1996, was 18,977,889.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(Dollar Amounts In Thousands)

	(Unaudited)	
	September 30	December 31
	1996	1995
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$22,593	\$14,172
Accounts receivable, net	7,872	6,042
Inventories	24,837	23,127
Prepaid expenses and other	9,167	3,619
Notes receivable due from related parties	100	213
	-----	-----
Total Current Assets	64,569	47,173
PROPERTY, PLANT AND EQUIPMENT, net	19,355	13,088

LONG-TERM INVESTMENTS	2,090	2,381
OTHER ASSETS	2,335	2,605
	-----	-----
	\$88,349	\$65,247
	-----	-----
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The accompanying notes to the financial statements are an integral part of these consolidated condensed balance sheets.

2

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS (CONTINUED)  
(Dollar Amounts In Thousands)

	(Unaudited) September 30 1996	December 31 1995
	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term debt	\$ 2,573	\$ 2,042
Accounts payable	4,414	5,031
Accrued volume incentives	9,388	7,207
Accrued liabilities	10,340	6,577
Income taxes payable	2,367	1,883
	-----	-----
Total Current Liabilities	29,082	22,740
	-----	-----
DEFERRED INCOME TAXES	1,059	1,002
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock, no par value, 20,000,000 shares authorized; 19,445,734 shares issued	37,753	31,263
Retained earnings	29,498	19,214
Treasury stock, at cost, 484,145 and 1,011,607 shares at September 30, 1996 and December 31, 1995, respectively	(5,265)	(4,942)
Receivables due from related parties	(227)	(293)
Cumulative translation adjustments	(3,551)	(3,737)
	-----	-----
Total Shareholders' Equity	58,208	41,505
	-----	-----
	\$ 88,349	\$ 65,247
	-----	-----
	-----	-----

The accompanying notes to the financial statements are an integral part of these consolidated condensed balance sheets.

3

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
(Amounts In Thousands, Except Per-Share Information)

	Three Months Ended September 30	
	-----	
	(Unaudited)	
	1996	1995
	----	----
SALES REVENUE	\$63,031	\$53,164
	-----	-----

COSTS AND EXPENSES:		
Cost of goods sold	11,201	9,817
Volume incentives	28,976	24,222
Selling, general and administrative	16,009	13,860
	-----	-----
	56,186	47,899
	-----	-----
OPERATING INCOME	6,845	5,265
	-----	-----
OTHER INCOME (EXPENSE):		
Interest and other income	504	451
Interest expense	(14)	(49)
Foreign exchange loss, net	(42)	(263)
Minority interest	(129)	312
	-----	-----
	319	451
	-----	-----
INCOME BEFORE INCOME TAXES	7,164	5,716
PROVISION FOR INCOME TAXES	2,626	2,410
	-----	-----
NET INCOME	\$ 4,538	\$ 3,306
	-----	-----
NET INCOME PER COMMON SHARE	\$ 0.23	\$ 0.17
	-----	-----
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
	19,749	19,019
	-----	-----

The accompanying notes to the financial statements are an integral part of these consolidated condensed statements of income.

4

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF INCOME  
(Amounts In Thousands, Except Per-Share Information)

	Nine Months Ended September 30	
	(Unaudited)	
	1996	1995
	-----	-----
SALES REVENUE	\$186,325	\$150,951
	-----	-----
COSTS AND EXPENSES:		
Cost of goods sold	33,150	28,570
Volume incentives	85,623	69,120
Selling, general and administrative	48,303	40,358
	-----	-----
	167,076	138,048
	-----	-----
OPERATING INCOME	19,249	12,903
	-----	-----
OTHER INCOME (EXPENSE):		
Interest and other income	1,561	1,349
Interest expense	(51)	(146)
Foreign exchange loss, net	(410)	(475)
Minority interest	(352)	558
	-----	-----
	748	1,286
	-----	-----
INCOME BEFORE INCOME TAXES	19,997	14,189
PROVISION FOR INCOME TAXES	7,841	5,897

NET INCOME	\$ 12,156	\$ 8,292
NET INCOME PER COMMON SHARE	\$ 0.62	\$ 0.44
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	19,681	18,778

The accompanying notes to the financial statements are an integral part of these consolidated condensed statements of income.

5

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(Dollar Amounts In Thousands)

	Nine Months Ended September 30	
	(Unaudited)	
	1996	1995
	----	----
Increase (Decrease) in Cash and Cash Equivalents		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from sales revenue	\$184,014	\$148,977
Cash paid as volume incentives	(83,442)	(66,906)
Cash paid to suppliers and employees	(83,067)	(70,453)
Income taxes paid	(7,299)	(4,344)
Interest received	1,632	1,278
Interest paid	(51)	(146)
Net Cash Provided by Operating Activities	11,787	8,406
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(8,607)	(2,272)
Purchase of other assets	(135)	(80)
Investment in subsidiaries	---	(559)
Payments received on long-term receivables	172	343
Short-term related party receivables, net	246	(114)
Proceeds from sale of assets	---	258
Sale/Purchase of long-term investments	291	355
Net Cash Used in Investing Activities	(8,033)	(2,069)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Tax benefit from exercise of stock options	4,606	635
Proceeds from exercise of stock options	3,215	771
Payment of cash dividends	(1,872)	(1,833)
Purchase of treasury stock	(1,689)	(1,298)
Proceeds from short-term debt, net	531	666
Issuance of treasury stock	35	---
Net Cash Provided by (Used in) Financing Activities	4,826	(1,059)
EFFECT OF EXCHANGE RATES ON CASH	(159)	(352)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,421	4,926
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,172	11,201
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 22,593	\$ 16,127

The accompanying notes to the financial statements are an integral part of these consolidated condensed statements of cash flows.

6

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (CONTINUED)  
Reconciliation of Net Income to Net Cash Provided by Operating Activities  
(Dollar Amounts In Thousands)

	Nine Months Ended September 30	
	(Unaudited)	
	1996	1995
	----	----
NET INCOME	\$12,156	\$8,292
Depreciation and amortization	2,512	2,075
Bad debt expense	78	220
Increase in accounts receivable, net	(1,908)	(1,588)
Increase in inventories	(1,710)	(2,746)
Increase in prepaid expenses and other	(5,553)	(905)
Increase in income taxes payable	485	489
Increase in accrued liabilities and volume incentives	5,943	3,959
Decrease in accounts payable	(617)	(243)
Increase (decrease) in deferred income taxes	57	(393)
Cumulative translation adjustments	344	(754)
	-----	-----
Total Adjustments	(369)	114
	-----	-----
Net Cash Provided by Operating Activities	\$11,787	\$8,406
	-----	-----

The accompanying notes to the financial statements are an integral part of these consolidated condensed statements of cash flows.

7

NATURE'S SUNSHINE PRODUCTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) INTERIM FINANCIAL STATEMENT POLICIES AND DISCLOSURES

The unaudited, consolidated, condensed financial statements of Nature's Sunshine Products, Inc. and subsidiaries included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally required in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These consolidated, condensed financial statements reflect all adjustments, which in the opinion of management, are necessary to a fair statement of financial position as of September 30, 1996, and the results of operations for the interim periods presented. All of the adjustments which have been made in these consolidated, condensed financial statements are of a normal recurring nature.

Weighted average number of common shares outstanding and all per share amounts included in the condensed financial statements have been adjusted to reflect the three-for-two stock split effected in March of 1996.

It is suggested that these consolidated, condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K.

2) INVENTORIES

	(Dollars in Thousands)	
	(Unaudited)	
	September 30	December 31
	1996	1995
	----	----
Raw materials	\$ 8,832	\$ 7,772
Work in process	1,190	1,123
Finished goods	14,815	14,232

-----	-----
\$24,837	\$23,127
-----	-----
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8

(3) EARNINGS PER SHARE

Outstanding stock options are considered common stock equivalents and are included in the computation of primary earnings per share.

As of September 30, 1996, the Company had a total of 2,855,729 options outstanding. The options were all granted at market prices, which vary from \$1.79 to \$22.25 per share.

(4) QUARTERLY CASH DIVIDENDS

The Company has declared 33 consecutive quarterly cash dividends. The most recent quarterly cash dividend of 3 1/3 cents per common share was declared on November 1, 1996, to shareholders of record on November 15, payable November 29, 1996.

(5) TRANSLATION OF FOREIGN CURRENCY

The financial statements of the international subsidiaries have been translated to U.S. dollars in accordance with the provisions of SFAS No. 52.

As a result of its international operations, the Company is subject to foreign currency fluctuations which may impact current earnings.

9

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SUMMARY

The following table identifies (i) the relationship that net income items disclosed in the consolidated condensed financial statements have to total sales, and (ii) amount and percent of change of such items compared to the corresponding prior period.

(Dollar Amounts In Thousands)  
(Unaudited)

<TABLE>

(i) Income and Expense Items as a Percent of Sales		(ii) Three Months Ended September 30		
-----		-----		
Three Months Ended September 30		1996 to 1995	1995 to 1994	
-----		-----	-----	
1996	1995	Amount of Increase/ (Decrease)	Percent of Change	Percent of Change
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
100.00%	100.00%	\$9,867	18.56%	29.66%
-----	-----	-----	-----	-----
17.77	18.47	1,384	14.10	24.00
45.97	45.56	4,754	19.63	29.60
25.40	26.07	2,149	15.51	26.80
-----	-----	-----	-----	-----
89.14	90.10	8,287	17.30	27.61
-----	-----	-----	-----	-----
10.86	9.90	1,580	30.01	51.88
-----	-----	-----	-----	-----
0.80	0.85	53	11.72	5,443.75
(0.02)	(0.09)	35	70.47	(54.53)
(0.07)	(0.50)	221	84.02	(2,704.98)
(0.20)	0.59	(441)	(141.33)	52.01
-----	-----	-----	-----	-----
0.51	0.85	(132)	(29.49)	135.45
-----	-----	-----	-----	-----
11.37	10.75	1,448	25.31	56.26
-----	-----	-----	-----	-----

4.17	4.53	Provision for income taxes	216	8.99	67.76
-----	-----		-----	-----	-----
7.20%	6.22%	Net income	\$1,232	37.29%	48.82%
-----	-----		-----	-----	-----

10

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

SUMMARY

The following table identifies (i) the relationship that net income items disclosed in the consolidated condensed financial statements have to total sales, and (ii) amount and percent of change of such items compared to the corresponding prior period.

(Dollar Amounts In Thousands)  
(Unaudited)

(i) Income and Expense Items as a Percent of Sales		(ii) Nine Months Ended September 30			
Nine Months Ended September 30		1996 to 1995		1995 to 1994	
1996	1995	Income and Expense Items	Amount of Increase/ (Decrease)	Percent of Change	Percent of Change
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
100.00%	100.00%	Sales revenue	\$35,374	23.43%	29.40%
-----	-----	-----	-----	-----	-----
17.79	18.93	Cost of sales	4,580	16.03	27.12
45.96	45.78	Volume incentives	16,503	23.88	27.42
25.92	26.74	SG&A expenses	7,945	19.69	35.46
-----	-----	-----	-----	-----	-----
89.67	91.45		29,028	21.03	29.61
-----	-----	-----	-----	-----	-----
10.33	8.55	Operating income	6,346	49.18	14.48
-----	-----	-----	-----	-----	-----
0.84	0.89	Interest and other income	212	15.72	165.14
(0.03)	(0.10)	Interest expense	95	65.07	(361.07)
(0.22)	(0.31)	Foreign exchange loss	65	13.68	(85.28)
(0.19)	0.37	Minority interest	(910)	(163.08)	75.52
-----	-----	-----	-----	-----	-----
0.40	0.85		(538)	(41.84)	138.71
-----	-----	-----	-----	-----	-----
10.73	9.40	Income before income taxes	5,808	40.93	32.89
-----	-----	-----	-----	-----	-----
4.21	3.91	Provision for income taxes	1,944	32.97	30.52
-----	-----	-----	-----	-----	-----
6.52%	5.49%	Net income	\$ 3,864	46.60%	34.62%
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11

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

RESULTS OF OPERATIONS

SALES REVENUE:

Consolidated sales revenue for the three and nine months ended September 30, 1996, was \$63 million and \$186 million compared to \$53 million and \$151 million, an increase of 19 percent and 23 percent compared to corresponding periods of 1995, respectively.

Management believes the increase in sales for the three- and nine-month

periods is attributable to the growth of the Company's independent sales force, increased consumer awareness and interest in natural health and nutritional products and incentives the Company offers its independent sales force. Domestic sales revenue was \$120 million for the nine months ended September 30, 1996, an increase of 20 percent compared to the same period in 1995. The domestic sales increase for the three months ended September 30, 1996, was not as robust as in previous quarters. This was due to slower sales in July and August. The Company's sales revenue growth has been enhanced through international expansion. The Company's international operations reported sales revenue of \$66 million for the nine months ended September 30, 1996, an increase of 30 percent compared to the same period in 1995.

The Company's independent sales force consists of Managers and Distributors. A Distributor interested in earning additional income by committing more time and effort to selling the Company's products may attain the rank of "Manager." Appointment as a Manager is dependent upon attaining certain purchase volume levels and demonstrating leadership abilities. The number of Managers increased to 15,772 at September 30, 1996, from 11,517 at September 30, 1995. The number of Distributors at September 30, 1996, was 528,882 compared to 325,711 at September 30, 1995.

12

VOLUME INCENTIVES:

The dollar increase in volume incentives, for the three and nine months ended September 30, 1996, is directly related to the increase in sales revenue. Volume incentives are an integral part of the Company's direct sales marketing program and are payments to independent sales force members for reaching certain levels of sales performance and organizational development. Volume incentives vary slightly, on a percentage basis, by product due to the Company's pricing policies.

Management expects volume incentives to remain relatively constant, as a percent of sales, during the rest of 1996.

COST OF GOODS SOLD:

The Company has experienced a decrease in cost of goods sold of .70 percent and 1.14 percent, as a percentage of sales, for the three and nine months ended September 30, 1996, respectively, compared to the same period last year. The decrease in cost of goods sold, as a percentage of sales, was primarily related to increased efficiencies in the Company's manufacturing operations. Management expects cost of goods sold to decrease slightly as a percent of sales during the rest of 1996.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

The Company experienced a decrease in selling, general and administrative expenses (SG&A) of .67 percent and .82 percent, as a percent of sales, during the three and nine months ended September 30, 1996, respectively, compared to the corresponding periods of 1995.

The decrease in SG&A expenses, as a percentage of sales, resulted from the increase in sales revenue and improved budgetary controls and efforts to reduce dollar increases in SG&A. Management expects SG&A to decrease slightly, as a percentage of sales, during the rest of 1996.

13

SUBSIDIARY OPERATIONS:

Segment information for the nine months ended September 30, 1996, compared to the previous year are as follows:

SALES REVENUE	(Dollars in Thousands)	
	(Unaudited)	
	1996	1995
	----	----
DOMESTIC SALES REVENUE	\$120,368	\$100,172
	-----	-----
INTERNATIONAL SALES REVENUE:		
Americas	52,230	38,837
Asia Pacific	10,173	8,320
Other	3,554	3,622
	-----	-----
TOTAL INTERNATIONAL	65,957	50,779
	-----	-----
TOTAL SALES REVENUE	\$186,325	\$150,951
	-----	-----

OPERATING INCOME (Dollars in Thousands)  
(Unaudited)



	1996	1995
DOMESTIC OPERATING INCOME	\$12,669	\$ 8,836
INTERNATIONAL OPERATING INCOME:		
Americas	6,521	4,669
Asia Pacific	(13)	(1,101)
Other	72	499
TOTAL INTERNATIONAL	6,580	4,067
TOTAL OPERATING INCOME	\$19,249	\$12,903

14

(Dollars in Thousands)

ASSETS	(Unaudited)	
	September 30	December 31
	1996	1995
DOMESTIC ASSETS	\$55,017	\$40,996
INTERNATIONAL ASSETS:		
Americas	27,919	18,941
Asia Pacific	4,445	4,239
Other	968	1,071
TOTAL INTERNATIONAL	33,332	24,251
TOTAL ASSETS	\$88,349	\$65,247

#### BALANCE SHEET

##### ACCOUNTS RECEIVABLE

Accounts receivable increased approximately \$1.8 million during the nine months ended September 30, 1996. The increase in receivables is related to the Company's growing international operations.

##### INVENTORIES

Inventories increased \$1.7 million during the nine months ended September 30, 1996. The increase is the result of an effort to increase inventory levels for certain of the Company's subsidiaries, which are experiencing substantial sales revenue growth.

##### PREPAID EXPENSES AND OTHER

Prepaid expenses and other increased approximately \$5.5 million during the nine months ended September 30, 1996. The increase is the result of deposits made for the Company's travel incentive programs as well as required tax deposits.

15

##### ACCRUED VOLUME INCENTIVES

Accrued volume incentives increased approximately \$2.2 million during the first nine months of the year as a direct result of increased sales revenue.

##### ACCRUED LIABILITIES

The balance of accrued liabilities increased approximately \$3.8 million during the nine months ended September 30, 1996. The increase in accrued liabilities reflects the increased level of sales revenue and related accruals for incentives such as conventions and other travel awards.

##### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased approximately \$8.4 million for the nine months ended September 30, 1996. The increase in cash and cash equivalents is primarily the net result of operations, proceeds and tax benefits from the exercise of stock options and an increase in current liabilities.

The Company acquired approximately \$8.6 million in machinery, equipment and building improvements during the first nine months of 1996 to improve its manufacturing and administrative capabilities. Approximately \$1.9 million was used for the payment of dividends during the first nine months.

The previously announced 660,000 share stock buyback program was

completed in October 1996. The Company recently announced a new stock buyback program, which authorizes the purchase of additional 500,000 shares. Management believes the Company's stock is an attractive investment and, from time to time, may utilize a portion of its available cash to purchase Company stock in the open market should market conditions warrant.

16

The Company is in the process of establishing a new international subsidiary in Argentina of which approximately \$.9 million has been invested as of September 30, 1996.

The Company is evaluating the need to expand its domestic manufacturing, inventory and other facilities. While the Company is in the process of refining its requirements, management expects the cost of this capital project to be approximately \$10.0 million. Management believes that this project will provide the Company capacity for approximately five years and that increased manufacturing and inventory efficiencies are realizable. Also, the Company is close to completing the warehouse facility currently being remodeled in Mexico. The Company may consider long-term financing for these projects if required, otherwise these facilities will be funded through working capital.

Management believes that future working capital requirements can be internally funded. Management expects cash and investments to increase during the remainder of 1996, primarily resulting from operations. However, cash and investments may be reduced during 1997 as the Company proceeds with the capital projects mentioned above.

17

## PART II OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a) No exhibits are required to be filed by Item 601 of Regulation S-K.
- b) No reports were filed on Form 8-K during the quarter for which this report is filed.

### OTHER ITEMS

There were no other items to be reported under Part II of this report.

### 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.

NATURE'S SUNSHINE PRODUCTS, INC.

November 8, 1996      /s/ Kristine Hughes  
-----  
Kristine Hughes, President and Chief Executive Officer

November 8, 1996      /s/ Douglas Faggioli  
-----  
Douglas Faggioli, Chief Financial Officer

18

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