

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

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

FOR THE PERIOD ENDED JUNE 30, 1996

OR

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

COMMISSION FILE NUMBER 1-5005

SELAS CORPORATION OF AMERICA  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

PENNSYLVANIA 23-1069060  
(STATE OR OTHER JURISDICTION OF (IRS EMPLOYER IDENTIFICATION NO.)  
INCORPORATION OR ORGANIZATION)

DRESHER, PENNSYLVANIA 19025  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(215) 646-6600  
(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.

(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.

CLASS	OUTSTANDING AT AUGUST 2, 1996
COMMON SHARES, \$1.00 PAR VALUE	3,702,426 (exclusive of 242,376 treasury shares)

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SELAS CORPORATION OF AMERICA

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SELAS CORPORATION OF AMERICA

Consolidated Balance Sheets  
Assets

	June 30, 1996 (Unaudited)	December 31, 1995 (Audited)
Current assets		
Cash, including cash equivalents of \$2,319,000 in 1996 and \$1,865,000 in 1995 . . . . .	\$ 9,506,305	\$ 3,912,364
Accounts receivable (including unbilled receivables of \$4,512,000 in 1996 and \$980,000 in 1995 less allowance for doubtful accounts of \$761,000 in 1996 and \$792,000 in 1995) . . . . .	24,131,093	20,227,323
Inventories . . . . .	8,608,801	7,792,134
Deferred income taxes . . . . .	1,491,061	1,323,932
Other current assets . . . . .	779,234	1,219,447
Total current assets . . . . .	44,516,494	34,475,200
Investment in unconsolidated affiliate . . . . .	609,894	673,954
Property, plant and equipment		
Land . . . . .	1,123,181	1,150,956
Buildings . . . . .	11,524,621	11,790,131
Machinery and equipment . . . . .	17,736,244	16,954,756
	30,384,046	29,895,843
Less: Accumulated depreciation . . . . .	14,340,004	13,231,646
Net property, plant and equipment . . . . .	16,044,042	16,664,197

Deferred pension cost . . . . .	286,117	313,675
Accounts and notes receivable . . . . .	2,806,474	2,828,185
Excess of cost over net assets of acquired subsidiary, less accumulated amortization of \$974,000 and \$808,000 . . . . .	12,292,537	12,458,364
Other assets including patents, less amortization . . . . .	603,829	545,945
	\$77,159,387	\$67,959,520
	=====	=====

(See accompanying notes to the consolidated financial statements)

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SELAS CORPORATION OF AMERICA

Consolidated Balance Sheets  
Liabilities and Shareholders' Equity

	June 30, 1996 (Unaudited)	December 31, 1995 (Audited)
Current liabilities		
Notes payable . . . . .	\$ 1,036,858	\$ 2,651,188
Current maturities of long-term debt . . . . .	1,993,081	2,258,894
Accounts payable . . . . .	11,208,473	5,490,967
Federal, state and foreign income taxes . . . . .	501,801	250,445
Customers' advance payments on contracts . . . . .	5,752,825	2,338,231
Guarantee obligations and estimated future costs of service . . . . .	1,219,572	844,787
Other accrued liabilities . . . . .	6,701,356	4,889,993
Total current liabilities . . . . .	28,413,966	18,724,505
Long-term debt . . . . .	8,086,440	9,100,401
Pension plan obligation . . . . .	292,626	320,184
Other postretirement benefit obligations . . . . .	4,033,808	4,089,234
Deferred income taxes . . . . .	997,465	1,069,022
Contingencies and commitments		
Shareholders' equity		
Common shares, \$1 par; 10,000,000 shares authorized; 3,702,426 shares issued . . . . .	3,702,426	3,702,426
Additional paid-in capital . . . . .	13,512,005	13,512,005
Retained earnings . . . . .	17,356,139	16,390,247
Foreign currency translation adjustment . . . . .	1,152,959	1,439,943
Minimum pension liability adjustment . . . . .	(6,510)	(6,510)
Less: 242,376 common shares held in treasury, at cost . . . . .	(381,937)	(381,937)
Total shareholders' equity . . . . .	35,335,082	34,656,174

\$77,159,387	\$67,959,520
=====	=====

(See accompanying notes to the consolidated financial statements)

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SELAS CORPORATION OF AMERICA  
Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended	
	June 30, 1996	June 30, 1995
Sales, net	\$25,460,255	\$16,974,176
Operating costs and expenses		
Cost of sales	20,168,356	12,370,918
Selling, general and administrative expenses	3,756,646	3,867,743
Operating income	1,535,253	735,515
Interest (expense)	(245,772)	(340,053)
Interest income	69,929	77,284
Other income (expense), net	5,789	(201,080)
Income before income taxes	1,365,199	271,666
Income taxes	558,153	335,209
Net income (loss)	\$ 807,046	\$ (63,543)
	=====	=====
Earnings (loss) per common and common equivalent share	\$ 0.23	\$ (0.02)
	=====	=====
Weighted average common shares outstanding	3,460,000	3,460,000

(See accompanying notes to the consolidated financial statements)

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SELAS CORPORATION OF AMERICA  
Consolidated Statements of Operations  
(Unaudited)

Six Months Ended	
June 30, 1996	June 30, 1995

Sales, net	\$44,030,798	\$38,445,681
Operating costs and expenses		
Cost of sales	34,011,228	28,313,597
Selling, general and administrative expenses	7,427,212	7,595,662
Operating income	2,592,358	2,536,422
Interest (expense)	(494,237)	(621,373)
Interest income	136,641	153,168
Other income (expense), net	30,162	(61,620)
Income before income taxes	2,264,924	2,006,597
Income taxes	883,827	906,517
Net income	\$ 1,381,097	\$ 1,100,080
	=====	=====
Earnings per common and common equivalent share	\$ 0.40	\$ 0.32
	=====	=====
Weighted average common shares outstanding	3,460,000	3,459,000

(See accompanying notes to the consolidated financial statements)

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SELAS CORPORATION OF AMERICA  
Consolidated Statements of Cash Flows  
(Unaudited)

	Six Months Ended	
	June 30, 1996	June 30, 1995
Cash flows from operating activities:		
Net income . . . . .	\$ 1,381,097	\$ 1,100,080
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization . . . . .	1,424,068	1,369,151
Equity in (income) losses of unconsolidated affiliates . . . . .	47,319	(1,964)
(Gain) on sale of equity in unconsolidated affiliate . . . . .	--	147,878
(Gain) on sale of property and equipment . . . . .	(707)	(2,698)
Deferred taxes . . . . .	(243,141)	(218,307)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable . . . . .	(4,364,392)	(4,091,375)
(Increase) in inventories . . . . .	(817,880)	(610,691)
Decrease in other assets . . . . .	520,931	222,464
Increase (decrease) in accounts payable . . . . .	5,864,414	(396,275)
Increase in accrued expenses . . . . .	2,442,663	487,010
Increase in customer advances . . . . .	3,436,836	548,930
Increase in other liabilities . . . . .	74,026	22,898
Net cash provided (used) by operating activities . . . . .	9,765,234	(1,718,655)
Cash flows from investing activities:		

Purchases of property, plant and equipment. (1,031,196)	(921,316)	
Proceeds from sale of property and equipment	24,172	35,465
Proceeds from sale of equity in affiliate .	--	269,048
Receipt of dividend from unconsolidated affiliate	16,742	--
Net cash (used) by investing activities . . . . .	(880,402)	
(726,683)		
Cash flows from financing activities:		
Proceeds from short-term bank borrowings .	--	4,140,448
Repayments of short-term bank borrowings .	(1,550,343)	--
Repayments of long-term debt . . . . .	(1,156,406)	
(1,447,268)		
Proceeds from exercise of stock options . .	--	28,281
Payment of dividends . . . . .	(415,205)	
(380,605)		
Net cash provided (used) by financing financing activities . . . . .	(3,121,954)	2,340,856
Effect of exchange rate changes on cash . .	(168,937)	191,596
Net increase in cash and cash equivalents. .	5,593,941	87,114
Cash and cash equivalents beginning of period	3,912,364	5,812,508
Cash and cash equivalents end of period . .	\$ 9,506,305	\$ 5,899,622
	=====	=====

(See accompanying notes to the consolidated financial statements)

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SELAS CORPORATION OF AMERICA

Consolidated Statement of Shareholders' Equity  
Six Months Ended June 30, 1996  
(Unaudited)

	Common Stock Number of Shares	Amount	Additional Paid-In Capital
Balance, January 1, 1996	3,702,426	\$3,702,426	\$13,512,005
Net income			
Cash dividends paid (\$ .12 per share)			
Translation (loss)			
Balance, June 30, 1996	3,702,426	\$3,702,426	\$13,512,005
	=====	=====	=====
	Retained Earnings	Foreign Currency Translation Adjustment	Minimum Pension Liability Adjustment
Balance, January 1, 1996	\$16,390,247	\$ 1,439,943	\$ (6,510)
Net income	1,381,097		
Cash dividends paid (\$ .12 per share)	(415,205)		
Translation (loss)		(286,984)	
Balance, June 30, 1996	\$17,356,139	\$1,152,959	\$ (6,510)
	=====	=====	=====
	Total Treasury Stock	Shareholders' Equity	
Balance, January 1, 1996	\$ (381,937)	\$34,656,174	

Net income		1,381,097
Cash dividends paid		
(\$ .12 per share)	(415,205)	
Translation (loss)	(286,984)	
Balance, June 30, 1996	\$ (381,937)	\$35,335,082
	=====	=====

(See accompanying notes to the consolidated financial statements)

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SELAS CORPORATION OF AMERICA

PART I - FINANCIAL INFORMATION

ITEM 1. Notes to Consolidated Financial Statements (Unaudited)

- In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly Selas Corporation of America's consolidated financial position as of June 30, 1996 and December 31, 1995, and the consolidated results of its operations for the three and six months ended June 30, 1996 and 1995 and consolidated statements of shareholders' equity and cash flows for the six months then ended.
- The accounting policies followed by the Company are set forth in note 1 to the Company's financial statements in the 1995 Selas Corporation of America Annual Report.
- Inventories consist of the following:

	June 30, 1996	December 31, 1995
Raw material	\$2,768,709	\$2,403,147
Work-in-process	1,817,015	1,334,531
Finished products and components	4,023,077	4,054,456
Total	\$8,608,801	\$7,792,134
	=====	=====

4. Income Taxes

Consolidated income taxes for the six month period ended June 30, 1996 and 1995 are \$884,000 and \$907,000 which result in effective tax rates of 39.0% and 45.2%, respectively. The rate of tax in relation to pre-tax income in 1995 has been impacted by the settlement of a tax issue at one of the Company's European subsidiaries in the amount of approximately \$139,000.

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SELAS CORPORATION OF AMERICA

PART I - FINANCIAL INFORMATION

ITEM 1. Notes to Consolidated Financial Statements (Unaudited)-  
(Continued)

5. Legal Proceedings

The Company is a defendant along with a number of other parties in approximately 112 lawsuits as of December 31, 1995 (210 as of December 31, 1994) alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. Due to the noninformative nature of the

complaints, the Company does not know whether any of the complaints state valid claims against the Company. The Company is also one of approximately 500 defendants in a class action on behalf of approximately 2700 present or former employees of a Texas steel mill alleging that products supplied by the defendants created a poisoned atmosphere that caused unspecified physical harm. These cases are being defended by one or more of the Company's insurance carriers presently known to be "at risk". Through October 1993, the legal costs of defense of the asbestos and steel mill cases were shared among the insurance carriers (92%) and the Company (8%). The lead insurance carrier settled a number of the cases in 1993 and requested that the Company pay a portion of the settlement amount. The Company declined to do so because no such payment is required by the express terms of the policies. The lead carrier then purported in October 1993 to abrogate the arrangement under which the defense costs had been shared, and the Company responded by tendering all of the cases to the lead carrier and demanding that the lead carrier honor its obligations under its policies to pay 100% of the costs of defense and 100% of all settlements and judgments up to the policy limits. The lead carrier has settled approximately 98 and 450 claims in 1995 and 1994, respectively with no request for the Company to participate in any settlement. The lead carrier has informed the Company that the primary policy for the period July 1, 1972 - July 1, 1975 has been exhausted and that the lead carrier will no longer provide a defense under that policy. The Company has requested that the lead carrier substantiate this situation. The Company has contacted representatives of the Company's excess insurance carrier for some or all of this period. The Company does not believe that the asserted exhaustion of the primary insurance coverage for this period will have a material adverse effect on the Company.

In 1995, a dispute arose under a contract between a customer and a subsidiary of the Company that was submitted to arbitration. The customer alleged that the subsidiary had breached the contract and that the customer was entitled to rescission of the contract. The Company recorded revenue of

SELAS CORPORATION OF AMERICA

Part I - FINANCIAL INFORMATION

ITEM 1. Notes to Consolidated Financial Statements (Unaudited)-  
(Continued)

5. Legal Proceedings (Continued)

approximately \$1,400,000 under the contract in 1994 and had, as of December 1995 and June 30, 1996, a current billed receivable of \$140,000 for the balance of the aggregate amount due under the contract. The subsidiary of the Company has contested the customer's claims in the arbitration proceeding.

6. Statements of Cash Flows

Supplemental disclosures of cash flow information:

	Six Months Ended	
	June 30, 1996	June 30, 1995
Interest received . . . . .	\$ 165,042	\$ 131,342
Interest paid . . . . .	\$ 452,139	\$ 514,091
Income taxes paid . . . . .	\$ 864,387	\$1,086,801

7. Accounts Receivable

At June 30, 1996, the Company had \$1,473,257 of trade accounts receivable due from the major U.S. automotive manufacturers and \$2,979,070 of trade accounts receivable due from hearing aid



manufacturers. The Company also had \$8,608,185 in receivables from long-term contracts for customers in the steel industry in North America, Europe and Asia.

8. Earnings Per Common and Common Equivalent Share

Earnings per common and common equivalent share are computed based on the weighted average number of shares outstanding each quarter, giving effect to the exercise of outstanding stock options, where dilutive.

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SELAS CORPORATION OF AMERICA

PART I - FINANCIAL INFORMATION

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

Consolidated net sales increased to \$25.5 million and \$44 million for the three and six months ended June 30, 1996 compared to \$17 million and \$38.4 million for the same periods in 1995. Net sales for the heat processing segment increased to \$15.3 million and \$23.7 million for the three and six month periods ended June 30, 1996 compared to \$7.2 million and \$18.2 million for the same periods in 1995. The higher level of sales for this business segment is due to an increase in orders for large engineered systems contracts. Sales and earnings of large engineered systems contracts are recognized on a percentage-of-completion method. Such contracts generally require more than twelve months to complete. The sales backlog for the heat processing segment at June 30, 1996 is \$49.5 million compared to \$26 million at June 30, 1995. Net sales for the precision electromechanical and plastic components segment increased to \$6.9 million and \$13.5 million for the three and six months ended June 30, 1996 compared to \$6.3 million and \$12.2 million for the same periods in 1995. Higher sales to the hearing aid industry is the primary reason for the improved sales in this business segment. Net sales for the tire holders, lifts and related products segment decreased to \$3.3 million and \$6.8 million for the three and six months ended June 30, 1996 compared to \$3.5 million and \$8 million for the same periods in 1995. Lower sales for this business segment are due to the expiration of the contract to provide tire lifts for the Chrysler mini-van line in April 1995.

The Company's consolidated gross profit margins decreased to 20.8% and 22.8% for the three and six month periods ended June 30, 1996 compared to 27.1% and 26.4% for the same periods in 1995. The gross profit margins for the Company's heat processing segment decreased to 13.6% and 16% for the three and six month periods ended June 30, 1996 compared to 24.3% and 23.9% for the same periods in 1995. The lower gross profit margins for the three and six month periods in 1996 are partially due to one contract which is expected to result in a slight loss and this loss has been recorded in the current year. The decrease in heat processing gross profit margins also results from the fact that heat processing gross profit margins vary markedly from contract to contract depending on customer specifications and other conditions related to the contract. Gross profit margins for the precision electromechanical and plastics segment increased to 39.5% and 40% for the three and six month periods ended June 30, 1996 compared to 37.4% and 35.4% for the same periods in 1995. The improved gross profit margins are due to lower production costs due to productivity improvements and higher production levels. The gross profit margins for the Company's tire holders, lifts and related products segment for the three and six month periods ended June 30, 1996 were 15.9% and 12.6% compared to 14.4% and 18.1% for the same periods in 1995. The lower gross profit margins for the current six month period compared to the same period in 1995

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SELAS CORPORATION OF AMERICA

PART I - FINANCIAL INFORMATION

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

are due to the loss of the Chrysler mini-van contract and higher production costs which were not passed on to the automotive customers through selling price increases. The improvement in the current three month period compared to the same period last year is due to productivity improvements.

Selling, general and administrative expenses decreased slightly to \$3.8 million and \$7.4 million for the three and six month periods ended June 30, 1996 compared to \$3.9 million and \$7.6 million for the same periods in 1995.

Interest income for the three and six month periods ended June 30, 1996 declined to \$70,000 and \$137,000 compared to \$77,000 and \$153,000 for the same periods in 1995. The lower income is due to fewer funds available for short-term investment. Interest expense decreased to \$246,000 and \$494,000 for the three and six month periods ended June 30, 1996 compared to \$340,000 and \$621,000 for the same periods in 1995. The reduced interest expense is due to lower borrowings in 1996.

Other income (expense) includes gains on foreign exchange of \$18,000 and \$29,000 for the three and six month periods ended June 30, 1996 compared to losses of \$154,000 and \$139,000 for the same periods in 1995. Consolidated income taxes for the six month period ended June 30, 1996 and 1995 are \$884,000 and \$907,000 which result in effective tax rates of 39.0% and 45.2%, respectively. The rate of tax in relation to pre-tax income in 1995 has been impacted by the settlement of a tax issue at one of the Company's European subsidiaries in the amount of approximately \$139,000.

Consolidated net income for the three and six month periods ended June 30, 1996 is \$807,000 and \$1,381,000 compared to a loss of \$64,000 and net income of \$1,100,000 for the same periods in 1995. The second quarter of 1995 was unfavorably impacted by a restructuring charge of \$365,000 (\$285,000 net of tax), and an unfavorable tax settlement in Germany of \$139,000.

Liquidity and Capital Resources

Consolidated net working capital increased to \$16.1 million at June 30, 1996 from \$15.8 million at December 31, 1995. The \$.3 million improvement is due primarily to the earnings for the six months, depreciation and amortization expense higher than capital expenditures, partially offset by payment of dividends and long-term debts. The largest changes in the components of working capital are current liabilities up \$9.7 million, cash up \$5.6 million, receivables up \$3.9 million and inventories up \$.8 million.

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SELAS CORPORATION OF AMERICA

PART I - FINANCIAL INFORMATION

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The Company believes that its present working capital position, combined with funds expected to be generated from operations and the available borrowing capacity through its revolving credit loan facilities, will be sufficient to meet its anticipated cash requirements for operating needs and capital expenditures for 1996.

SELAS CORPORATION OF AMERICA

PART II - OTHER INFORMATION

ITEM 4. Submission of Matters to a Vote of Security Holders

The 1996 Annual Meeting of Shareholders of the Company was held on April 16, 1996.

At the 1996 Annual Meeting:

(i) Messrs. John H. Austin, Jr. and Ralph R. Whitney, Jr. were re-elected to the Board of Directors of the Company for terms expiring at the 1999 Annual Meeting. In such election, 2,717,614 votes were cast for Mr. Austin and 2,718,314 votes were cast for Mr. Whitney. Under Pennsylvania law, votes cannot be cast against a candidate. Proxies filed at the 1996 Annual Meeting by the holders of 10,280 shares withheld authority to vote for Mr. Austin and those filed by the holders of 9,580 shares withheld authority to vote for Mr. Whitney. No "broker nonvotes" were received at the 1996 Annual Meeting with respect to the election of directors;

(ii) 2,718,228 shares were voted in favor of ratifying the appointment of KPMG Peat Marwick LLP as the Company's auditors for 1996 and 5,200 shares were voted against such proposal. Proxies filed at the 1996 Annual Meeting by the holders of 4,466 shares instructed the proxy holders to abstain from voting on such proposal. No "broker nonvotes" were received at the 1996 Annual Meeting with respect to this proposal.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K - There were no reports on Form 8-K filed for the six months ended June 30, 1996.

SELAS CORPORATION OF AMERICA

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.

SELAS CORPORATION OF AMERICA  
(Registrant)

Date: August 9, 1996

Robert W. Ross  
Vice President and  
Chief Financial Officer

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Net sales of tangible products	38,445,681
Total revenues	38,445,681
Cost of tangible goods sold	28,313,597
Total costs and expenses applicable to sales and revenues	28,313,597
Other costs and expenses	--
Provision for doubtful accounts and notes	6,000
Interest and amortization of debt discount	621,373
Income before taxes and other items	2,006,597
Income tax expense	906,517
Income (loss) continuing operations	1,100,080
Discontinued operations	--
Extraordinary items	--
Cumulative effect - changes in accounting principles	--
Net income or (loss)	1,100,080
Earnings per share - primary	.32
Earnings per share - fully diluted	--

<ARTICLE> 5

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This schedule contains summary financial information extracted from the financial statements of Selas Corporation of America for the six months ended june 30, 1996 and is qualified in its entirety by reference to such financial statements.

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