

FRANKLIN ELECTRIC CO INC

FORM 10-K (Annual Report)

Filed 3/2/1999 For Period Ending 1/2/1999

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Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	01/03

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

FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED JANUARY 2, 1999

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-362

FRANKLIN ELECTRIC CO., INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

INDIANA
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

35-0827455
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

400 EAST SPRING STREET
BLUFFTON, INDIANA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

46714-3798
(ZIP CODE)

(219) 824-2900
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
NONE NONE
(TITLE OF EACH CLASS) (NAME OF EACH EXCHANGE ON WHICH REGISTERED)

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK, \$.10 PAR VALUE
(TITLE OF EACH CLASS)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

The aggregate market value of the voting stock held by non-affiliates of the registrant at February 26, 1999 was \$291,831,954. The stock price used in the computation was the closing price on that date.

Number of shares of common stock outstanding at February 26, 1999:

5,577,620 shares

DOCUMENTS INCORPORATED BY REFERENCE

A portion of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 16, 1999 (Part III).

The exhibits filed with this Form 10-K are listed in the exhibit index located on pages 37-38.

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PART I

ITEM 1. BUSINESS

Franklin Electric Co., Inc. is an Indiana corporation founded in 1944 and incorporated in 1946, and together with its subsidiaries (hereinafter referred to as the "Company" unless the context requires otherwise), engages in the design, manufacture and distribution of electric motors, electronic motor controls and related equipment.

Description of Business

The Company's products are sold principally by a single company sales force in the United States, Canada, Europe, Australia, South Africa, Mexico and other world markets.

The market for electric motors is highly competitive and includes both large and small suppliers. The Company's motor sales are primarily to original equipment manufacturers of pumps, petroleum pumping equipment, compressors, fans, heating and air conditioning equipment, swimming pool equipment, medical furniture and business machines. Motors are also sold in the replacement market through independent distributors and repair shops.

ITT Industries, Inc., a customer of the Company, accounted for 14.0 percent, 12.4 percent and 12.5 percent of the Company's consolidated sales in 1998, 1997, and 1996, respectively.

The Company offers normal and customary trade terms to its customers, no significant part of which is of an extended nature. Special inventory requirements are not necessary, and customer merchandise return rights do not extend beyond normal warranty provisions.

The principal raw materials used in the manufacture of the Company's products are steel in coils and bars, copper wire, and aluminum ingot. Major components are capacitors, motor protectors, forgings, gray iron castings and bearings. Most materials are available from many sources in the United States and in many world markets. In the opinion of management, no single source of supply is critical to the Company's business. Availability of fuel and energy is adequate to satisfy current and projected overall operations unless interrupted by government direction or allocation.

During 1998, the Company purchased certain operating and intangible assets from a motor manufacturer. The Company paid \$17.5 million in cash at the acquisition date, and may pay additional contingent consideration according to terms that expire on December 31, 2001. The amount, if any, of this contingent consideration is not currently determinable.

The Company employed 2,321 persons at the end of 1998.

Segment and Geographic Information

Segment and geographic information is included within this Form 10-K at page 29-30.

Research and Development

The Company spent approximately \$4.7 million in 1998, \$5.1 million in 1997 and \$4.8 million in 1996 on activities related to the development of new products, on improvements of existing products, manufacturing methods, and on other applied research and development. Included in 1997 and 1996 is \$0.6 million, each, related to research and development activities for Oil Dynamics, Inc., a previously wholly owned subsidiary which was sold in 1997.

In 1998, development continued on a line of submersible severe duty motors, on further expansion into the European motor market, and on applications for an integrated suction pump. Research continued on new materials and processes designed to achieve higher quality and more cost effective construction of the Company's high volume products.

The Company owns a number of patents. In aggregate, these patents are of material importance in the operation of the business; however, the Company believes that its operations are not dependent on any single patent or group of patents.

Backlog

The dollar amount of backlog at the end of 1998 and 1997 was as follows:

	(In thousands)	
	Fiscal Year Ending	

	1998	1997
	----	----
Backlog.....	\$12,097	\$17,477

The backlog is composed of written orders at prices adjustable on a price-at- the-time-of-shipment basis for products, some of which are specifically designed for the customer, but most of which are standard catalog items. Both add-ons and cancellations of catalog items are made without charge to the customer, but charges are generally made on any cancellation of a specifically designed product. All backlog orders are expected to be filled in fiscal 1999.

The Company's sales and earnings are not substantially seasonal in nature. There is no seasonal pattern to the backlog and the backlog has not proven to be a significant indicator of future sales.

Environmental Matters

Compliance with federal, state and local provisions regulating the discharge of material into the environment, or otherwise relating to the protection of the environment, is not expected to have any material adverse effect upon the financial position, capital expenditures, earnings or competitive position of the Company. Refer to Item 3 of this Form 10-K for additional information regarding legal proceedings related to environmental matters.

ITEM 2. PROPERTIES

The Company maintains its principal executive offices in Bluffton, Indiana; manufacturing plants are located in the United States and abroad. Location and approximate square footage for the Company's principal facilities are described below. All principal properties are owned or held under operating leases.

The Company's principal properties are as follows:

Location -----	Acres of Land -----	Approximate Square Feet -----
Bluffton, Indiana	35.8	405,660
Siloam Springs, Arkansas	32.6	240,400
Wilburton, Oklahoma	30.0	324,940
Jonesboro, Indiana (1)	-	34,720
Gas City, Indiana	9.5	24,000
Wittlich, Rhineland, Germany	6.9	76,516
Nine facilities with less than 30,000 square feet each (2)	1.7	119,005
	-----	-----
Total	116.5	1,225,241
	=====	=====

In the Company's opinion, its facilities are suitable for their intended use and are in good condition.

(1) Leased facility, which expires on April 30, 2001.

(2) Eight of the facilities are leased with approximately 95,000 square feet.

ITEM 3. LEGAL PROCEEDINGS

The Company is defending various claims and legal actions, including environmental matters, which have arisen in the ordinary course of business. The Company has attempted, where possible, to assess the likelihood of an unfavorable outcome to the Company as a result of these actions. Legal counsel has been retained to assist the Company in making these determinations, and costs are accrued when an unfavorable outcome is determined to be probable and a reasonable estimate can be made. As a result, the Company has an accrual balance of approximately \$1.3 million and \$1.4 million at January 2, 1999 and January 3, 1998, respectively, to provide for such actions.

Included in such matters, the Company has been designated, in conjunction with other parties, as a "potentially responsible party" (PRP) under the Comprehensive Environmental Response Compensation and Liability Act with respect to a reclamation and recycling site located in Columbia City, Indiana. Under consent decree, the Company has paid approximately \$153,000 through January 2, 1999 toward the cost of remediation. Future remediation costs are estimated at less than \$5.0 million over the next four to fourteen years, for which the Company's share is estimated to be less than \$35,000.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and all positions and offices held by the executive officers of the Company are:

Name ----	Age ---	Positions and Offices -----	In this office since -----
William H. Lawson	62	Chairman of the Board and Chief Executive Officer	1985
John B. Lindsay	56	President	1995
Jess B. Ford	47	Senior Vice President and Chief Financial Officer	1995
William J. Foreman	62	Vice President	1995
Kirk M. Nevins	55	Vice President, Sales	1995
Donald R. Hobbs	57	Vice President, Submersible Motor Marketing	1996
Thomas A. Miller	49	Vice President, Submersible Motor Engineering	1998

Each officer is elected for a term of one year or until his successor is elected and qualified at the meeting of the Board of Directors following the Annual Meeting of Shareholders.

With the exception of Mr. Ford, each executive officer was employed by the Company during the preceding five years as an officer or in a management position. Prior to joining the Company in October 1995, Mr. Ford was employed by Tokheim Corporation (a manufacturer of petroleum dispensing marketing systems) from 1992 until 1995 as Vice President-Finance, Secretary and Chief Financial Officer.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The number of shareowners of record as of February 26, 1999 was 1,195. The Company's stock is traded on NASDAQ National Market: Symbol FELE.

Dividends paid and the price range per common share as quoted in The Wall Street Journal for 1998 and 1997 were as follows:

	DIVIDENDS PER SHARE		PRICE PER SHARE			
	1998	1997	1998		1997	
	----	----	----		----	
			Low	High	Low	High
			---	---	---	---
1st Quarter...	\$.15	\$.12	\$57 3/4	\$72 1/2	\$42 3/4	\$49 1/2
2nd Quarter...	\$.17	\$.15	\$63	\$72 1/2	\$41 1/4	\$49 3/8
3rd Quarter...	\$.17	\$.15	\$60 3/4	\$67 3/4	\$47 1/2	\$61 1/2
4th Quarter...	\$.17	\$.15	\$40	\$68 1/4	\$55 9/16	\$64 1/4

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR FINANCIAL SUMMARY

FRANKLIN ELECTRIC CO., INC.

(In thousands, except per share amounts)

	1998	1997 <F1>	1996	1995	1994 <F2>
Operations:					
Net sales.....	\$272,533	\$303,298	\$300,689	\$276,440	\$241,440
Gross profit.....	79,955	85,533	79,214	65,471	63,134
Gain on sale of subsidiary.....	-	3,500	-	-	-
Interest expense.....	1,364	1,435	1,308	2,128	2,172
Income taxes	15,237	15,004	11,827	8,777	11,504
Net income.....	24,784	25,505	21,510	15,502	18,709
Net income available to common shares.	24,784	25,505	21,510	15,502	18,556
Depreciation and amortization.....	7,532	7,628	8,389	8,890	6,961
Capital expenditures.....	24,601	8,598	6,235	6,111	7,612
Balance sheet:					
Working capital.....	61,878	87,973	89,471	69,267	51,005
Property, plant and equipment, net....	51,461	32,357	40,097	41,670	41,896
Total assets.....	167,590	163,110	172,959	153,357	151,581
Long-term debt.....	18,089	19,163	20,276	20,171	20,000
Shareowners' equity.....	\$ 91,597	\$ 92,841	\$ 99,823	\$ 80,557	\$ 64,865
Other data:					
% Net income to sales.....	9.1%	8.4%	7.2%	5.6%	7.8%
% Net income to total average assets..	15.0%	15.2%	13.2%	10.2%	13.6%
Current ratio.....	2.4	3.2	3.2	2.7	1.9
Per share:					
Market price range					
High.....	\$ 72.50	\$ 64.25	\$ 45.25	\$ 34.50	\$ 36.50
Low.....	40.00	41.25	30.75	28.25	24.50
Net income per weighted average					
common share.....	4.32	4.33	3.43	2.51	3.02
Net income per weighted average					
common share, assuming dilution.....	4.02	4.01	3.22	2.35	2.84
Book value.....	14.84	14.58	14.95	12.21	9.92
Cash dividends on common stock.....	\$ 0.66	\$ 0.57	\$ 0.46	\$ 0.38	\$ 0.29

<F1> Includes ten months of the results of operations of Oil Dynamics, Inc. until its sale on October 24, 1997.

<F2> Includes only one month of results of operations of Oil Dynamics, Inc., but total assets and liabilities of Oil Dynamics, Inc. at December 31, 1994. If the effect of including Oil Dynamics, Inc. on a fully consolidated basis beginning November 29, 1994 was excluded, net income as a percent of total average assets would have been 15.8 percent and the current ratio would have been 2.3. Previously, the Company maintained an investment in affiliate account approximately equal to 50 percent of the net assets of Oil Dynamics, Inc.

Certain prior year amounts have been reclassified to conform to the current year presentation.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Net sales for 1998 were \$272.5 million, a 10.2 percent decrease from 1997 net sales of \$303.3 million. Prior year net sales included the sales of Oil Dynamics, Inc. (ODI), a previously wholly-owned subsidiary that was sold in October 1997. Net sales in 1998 compared to 1997, excluding ODI, increased 1.4 percent. Net sales for the Company's ongoing operations increased due to higher volume in submersible water systems motors and changes in the mix of products sold, offset in part by the effects of the strengthening U.S. dollar relative to the German mark and South African rand. In 1996 net sales were \$300.7 million. The increase in 1997 net sales over 1996 was due to increased sales volume in the submersible water systems and the gasoline systems product lines. This increase was partially offset by the effect of having only ten months of ODI net sales in 1997. The strengthening of the U.S. dollar relative to the German mark and South African rand also resulted in lower translated dollar sales for 1997.

Net income for 1998 was \$24.8 million, or \$4.02 per diluted share, compared to 1997 net income of \$25.5 million, or \$4.01 per diluted share. Net income for 1997 includes the after-tax gain on the sale of ODI of \$2.3 million or \$.36 per diluted share. Net income in 1998 compared to 1997, excluding the gain on the sale of ODI, was up 6.9 percent. Excluding the gain on the sale of ODI, 1997 net income was \$23.2 million, up 8.0 percent over the prior year. Net income for 1996 was \$21.5 million, or \$3.22 per diluted share.

Cost of sales as a percent of net sales for 1998, 1997 and 1996 was 70.7 percent, 71.8 percent and 73.7 percent, respectively. Prior year cost of sales included ODI. The improvements in 1998 were primarily the result of selling ODI and productivity improvements. The improvement in 1997 was primarily due to lower manufacturing costs.

Selling and administrative expenses as a percent of net sales for 1998, 1997 and 1996 was 15.4 percent, 16.2 percent and 15.3 percent, respectively. The improvement in 1998 was primarily the result of selling ODI and lower medical costs. The increase in 1997 was primarily a result of higher employee medical costs and employee compensation.

The before tax gain on sale of subsidiary of \$3.5 million resulted from the sale of ODI on October 24, 1997. All shares of ODI's common stock were sold to an unrelated entity for \$34.4 million.

Included in other income, net for 1998, 1997 and 1996 was interest income of \$3.6 million, \$2.4 million, and \$2.1 million, respectively, primarily derived from the investment of cash balances in short-term U.S. treasury bills. Interest expense for 1998, 1997 and 1996 was \$1.4 million, \$1.4 million, and \$1.3 million, respectively. Foreign currency based transactions produced a \$0.1 million loss in 1998, a \$1.0 million loss in 1997, and a \$0.3 million loss in 1996. The foreign currency transaction loss in 1998 was primarily due to the movement of the U.S. dollar relative to the Mexican peso. The foreign currency transaction loss in 1997 was primarily due to the impact of the strengthening dollar on intercompany transactions denominated in German marks and South African rands. The foreign currency transaction loss in 1996 was

primarily due to the weakening in the South African rand and German mark relative to the U.S. dollar. This loss was partially offset by the strengthening of the Italian lira relative to the German mark.

The provision for income taxes in 1998, 1997 and 1996 was \$15.2 million, \$15.0 million, and \$11.8 million, respectively. The effective tax rate for each year differs from the United States statutory rate of 35 percent principally due to the effects of state and foreign income taxes, net of federal tax benefits.

Inflation has not had a significant effect on the Company's operations or financial condition.

CAPITAL RESOURCES AND LIQUIDITY

Cash flows from operations provide the principal source of current liquidity. Net cash flows provided by operating activities were \$31.0 million, \$22.0 million, and \$30.9 million in 1998, 1997 and 1996, respectively. The increase in 1998 was primarily related to increases in accounts payable and accrued employee benefit plan obligations. The decrease in 1997 was primarily related to increases in receivables and inventories at ODI from the beginning of the year to the date of the sale of ODI.

Net cash flows used in investing activities were \$11.4 million in 1998, versus net cash flows provided by investing activities of \$9.6 million in 1997. Net cash flows used in investing activities were \$38.0 million in 1996. The primary uses of cash in 1998 related to the purchase of certain operating and intangible assets from a motor manufacturer for \$17.5 million and additions to plant and equipment. The increase in 1997 over 1996 was primarily due to \$34.4 million of proceeds from the sale of ODI offset in part by an increase in purchases of marketable securities and an increase in additions to plant and equipment.

Net cash flows used in financing activities were \$26.1 million, \$31.8 million, and \$2.5 million in 1998, 1997 and 1996, respectively. During 1998, the Company repurchased 406,000 shares of its common stock for \$26.0 million. Also during 1998, the Company paid \$3.8 million in dividends on the Company's common stock. During 1997, the Company repurchased 615,000 shares of its common stock for \$30.6 million. Also during 1997, the Company paid \$3.4 million in dividends on the Company's common stock. The primary use of cash for financing activities in 1996 was for the payment of dividends on the Company's common stock.

Cash, cash equivalents and marketable securities at the end of 1998 were \$45.0 million compared to \$71.7 million at the end of 1997. Working capital decreased \$26.1 million in 1998 and the current ratio of the Company was 2.4 and 3.2 at the end of 1998 and 1997, respectively.

Principal payments on the Company's \$20.0 million of unsecured long-term debt began in 1998 and will continue until 2008 when a balloon payment of \$10.0 million will fully retire the debt. In January 1996, the Company entered into an unsecured, five-year \$40.0 million revolving credit agreement (the "Agreement"). The Agreement, which was amended and restated on December 30, 1997 and extended for one year to 2002, provides for various borrowing rate options and includes a facility fee on the committed amount. Both of the Company's loan agreements contain certain financial covenants with respect to borrowings, fixed charge coverage, working capital, loans or advances, and investments. The Company was in compliance with all debt covenants in 1998 and 1997.

At January 2, 1999, the Company had \$2.7 million of commitments for the purchase of machinery and equipment.

During 1999, the Company intends to continue to seek acquisition candidates that are both compatible with and can leverage growth off of existing businesses.

Management believes that internally generated funds and existing credit arrangements provide sufficient liquidity to meet current and future commitments.

OTHER

Year 2000 Readiness

Many computer systems in use today were designed and developed using two digits, rather than four, to specify the year. As a result, such systems may not correctly recognize the year 2000 which could cause computer applications to fail or to create erroneous results. The Company recognizes this as a potential risk and has implemented a plan to address the Year 2000 issue.

THE COMPANY'S STATE OF READINESS -- In 1995, the Company began a project of implementing a new, company-wide information system. This project was initiated to replace existing computer software and hardware and to improve strategic command and control to reduce the response time needed to meet changing market conditions. The conversion to this new information system was completed in 1998, which was on schedule with the original plan. The Company has obtained verification from the developer that the new information system is Year 2000 compliant.

The Company has instituted an internally managed Year 2000 Plan to identify, test and correct potential Year 2000 problems, including non-information technology systems and impacts from external parties including suppliers, customers, and service providers. The Company's efforts have included obtaining vendor certifications, direct inquiry with outside parties, and the performance of internal testing on software products and controls.

THE COSTS TO ADDRESS THE COMPANY'S YEAR 2000 ISSUES -- The costs incurred by the Company related to the Year 2000 issue were the time spent by employees to address this issue and the costs of replacing certain non-Year 2000 compliant equipment. The total Year 2000 costs have not been and are not expected to be material to the Company's financial position or results of operations.

THE RISKS OF THE COMPANY'S YEAR 2000 ISSUES -- The primary risk to the Company with respect to the Year 2000 issue is the inability of external parties to provide goods and services in a timely, accurate manner, resulting in production delays and added costs while pursuing alternative sources. While there can be no guarantee that the systems of other parties on which the Company's operations rely will be Year 2000 compliant, the Company believes that the performance of the Year 2000 plan and the development of contingency plans will ensure that this risk will not have a material adverse impact to the Company.

THE COMPANY'S CONTINGENCY PLANS -- The Company has completed contingency plans that address recovery of its critical information systems. Ongoing updates to these plans will continue throughout 1999, and will consider the Company's ability to perform certain processes manually, repair or obtain replacement

systems, change suppliers and/or service providers, and work around affected operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated with changes in foreign currency exchange rates and interest rates. Foreign currency exchange rate risk is mitigated through several means: maintenance of local production facilities in the markets served, invoicing of customers in the same currency as the source of the products, prompt settlement of intercompany balances utilizing a global netting system and limited use of foreign currency denominated debt. The Company does not use derivative contracts. Interest rate exposure is principally limited to the \$27.9 million of marketable U.S. treasury and agency securities owned by the Company at January 2, 1999 and is mitigated by the short-term, generally less than 6 months, nature of these investments.

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Any forward looking statements contained herein involve risks and uncertainties, including but not limited to, general economic and currency conditions, various conditions specific to the Company's business and industry, market demand, competitive factors, supply constraints, technology factors, government and regulatory actions, the Company's accounting policies, future trends, and other risks which are detailed in Exhibit 99 of this Form 10-K. These risks and uncertainties may cause actual results to differ materially from those indicated by the forward looking statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**CONSOLIDATED STATEMENTS OF INCOME****FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES**

	1998	1997	1996
(In thousands, except per share amounts)			
Net sales.....	\$272,533	\$303,298	\$300,689
Cost of sales (including research and development expenses of \$4,700, \$5,058 and \$4,846, respectively)....	192,578	217,765	221,475
Gross profit.....	79,955	85,533	79,214
Selling and administrative expenses...	42,027	49,194	45,915
Operating income.....	37,928	36,339	33,299
Interest expense.....	(1,364)	(1,435)	(1,308)
Gain on sale of subsidiary (Note 2)...	-	3,500	-
Other income, net.....	3,572	3,137	1,598
Foreign exchange loss.....	(115)	(1,032)	(252)
Income before income taxes.....	40,021	40,509	33,337
Income taxes (Note 5).....	15,237	15,004	11,827
Net income.....	\$ 24,784	\$ 25,505	\$ 21,510
	=====	=====	=====
Per share data (Note 8):			
Net income per common share.....	\$ 4.32	\$ 4.33	\$ 3.43
	=====	=====	=====
Net income per common share, assuming dilution.....	\$ 4.02	\$ 4.01	\$ 3.22
	=====	=====	=====
Dividends per common share.....	\$.66	\$.57	\$.46
	=====	=====	=====

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

ASSETS

(In thousands)	1998	1997
Current assets:		
Cash and equivalents.....	\$17,034	\$ 23,191
Marketable securities.....	27,921	48,497
Receivables (less allowances of \$1,107 and \$1,349, respectively).....	16,037	16,978
Inventories:		
Raw materials.....	12,080	11,119
Work-in-process.....	5,281	5,157
Finished goods.....	27,439	24,911
LIFO reserve.....	(9,470)	(9,928)
	-----	-----
	35,330	31,259
Other current assets (including deferred income taxes of \$8,774 and \$7,490, respectively, Note 5).....	9,961	8,575
	-----	-----
Total current assets.....	106,283	128,500
Property, plant and equipment, at cost:		
Land and buildings.....	21,889	20,329
Machinery and equipment.....	104,317	81,823
	-----	-----
	126,206	102,152
Less allowance for depreciation.....	74,745	69,795
	-----	-----
	51,461	32,357
Deferred and other assets (including deferred income taxes of \$1,362 and \$1,001, respectively, Note 5).....	9,846	2,253
	-----	-----
Total Assets.....	\$167,590	\$163,110
	=====	=====

See Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREOWNERS' EQUITY

(In thousands)	1998	1997
Current liabilities:		
Current maturities of long-term debt and short-term borrowings (Note 6).....	\$ 3,716	\$ 1,196
Accounts payable.....	13,556	10,472
Accrued expenses (Note 4).....	24,539	24,346
Income taxes (Note 5).....	2,594	4,513
Total current liabilities.....	44,405	40,527
Long-term debt (Note 6).....	18,089	19,163
Employee benefit plan obligations (Note 3)....	10,167	7,237
Other long-term liabilities.....	3,332	3,342
Shareowners' equity (Note 7):		
Common shares outstanding		
5,574 and 5,847, respectively.....	557	585
Additional capital.....	14,105	10,295
Retained earnings.....	81,872	87,508
Stock subscriptions.....	-	(625)
Loan to ESOP Trust (Note 3).....	(2,059)	(2,292)
Accumulated other comprehensive loss.....	(2,878)	(2,630)
Total shareowners' equity.....	91,597	92,841
Total Liabilities and Shareowners' Equity.....	\$167,590	\$163,110
	=====	=====

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

(In thousands)	1998	1997	1996
Cash flows from operating activities:			
Net income.....	\$24,784	\$25,505	\$21,510
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization.....	7,532	7,628	8,389
Gain on sale of subsidiary (Note 2).....	-	(3,500)	-
Deferred income taxes.....	(1,645)	(919)	(56)
(Gain)/Loss on disposals of plant and equipment.....	(41)	273	(20)
Changes in assets and liabilities:			
Receivables.....	753	(2,290)	(3,018)
Inventories.....	(4,142)	(3,069)	2,164
Other assets.....	(25)	(1,882)	(360)
Accounts payable and other accrued expenses.....	1,371	11	3,638
Employee benefit plan obligations.....	2,176	1,093	(567)
Other long-term liabilities.....	247	(846)	(807)
Net cash flows from operating activities.....	31,010	22,004	30,873
Cash flows from investing activities:			
Additions to plant and equipment.....	(24,601)	(8,598)	(6,235)
Proceeds from sale of plant and equipment..	61	1,163	257
Proceeds from sale of subsidiary (Note 2)..	-	34,402	-
Transferred cash of subsidiary.....	-	(535)	-
Additions to deferred assets.....	(7,395)	-	(445)
Purchases of marketable securities.....	(48,608)	(64,521)	(52,866)
Proceeds from maturities of marketable securities.....	69,184	47,648	21,242
Net cash flows from investing activities.....	(11,359)	9,559	(38,047)
Cash flows from financing activities:			
Borrowing on long-term debt.....	-	-	199
Repayment of long-term debt (Note 6).....	(1,079)	(79)	(97)
Borrowing on line of credit.....	2,678	186	-
Repayment of line of credit.....	(271)	-	(393)
Proceeds from issuance of common stock....	1,778	1,781	811
Purchases of common stock (Note 7).....	(25,995)	(30,649)	-
Proceeds from stock subscriptions.....	352	100	25
Loan to ESOP Trust.....	-	-	(324)
Reduction of loan to ESOP Trust.....	233	232	200
Dividends paid.....	(3,811)	(3,371)	(2,912)
Net cash flows from financing activities.....	(26,115)	(31,800)	(2,491)
Effect of exchange rate changes on cash.....	307	460	556
Net change in cash and equivalents.....	(6,157)	223	(9,109)
Cash and equivalents at beginning of year....	23,191	22,968	32,077
Cash and equivalents at end of year.....	\$17,034	\$23,191	\$22,968

Cash paid during 1998, 1997, and 1996 for interest was \$1.4 million, \$1.4 million and \$1.3 million, respectively. Also, cash paid during 1998, 1997 and 1996 for income taxes was \$18.8 million, \$15.2 million and \$9.3 million, respectively.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

(In thousands, except share amounts)

	Common Shares Outstanding	Common Stock	Additional Capital	Retained Earnings	Stock Subscrip.	Loan to ESOP Trust	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
Balance year end 1995.....	6,254,002	\$626	\$ 5,683	\$77,363	\$(1,315)	\$(2,400)	\$ 600	
Net income.....				21,510				\$21,510
Currency translation adjustment...							(1,225)	(1,225)
Pension liability adjustment.....							(243)	(243)
Comprehensive income, net of tax.								\$20,042
Dividends on common stock.....				(2,912)				=====
Common stock issued.....	117,027	12	1,470					
Proceeds from stock subscriptions..					25			
Stock subscription amortization and adjustment.....			460		293			
Loan payment from ESOP.....						200		
Loan to ESOP Trust.....						(324)		
Balance year end 1996.....	6,371,029	\$638	\$ 7,613	\$95,961	\$(997)	\$(2,524)	\$ (868)	
Net income.....				25,505				\$25,505
Currency translation adjustment...							(1,769)	(1,769)
Pension liability adjustment.....							7	7
Comprehensive income, net of tax.								\$23,743
Dividends on common stock.....				(3,371)				=====
Common stock issued.....	91,404	9	1,772					
Common stock repurchased.....	(615,600)	(62)		(30,587)				
Proceeds from stock subscriptions..					100			
Stock subscription amortization and adjustment.....			910		272			
Loan payment from ESOP.....						232		
Balance year end 1997.....	5,846,833	\$585	\$10,295	\$87,508	\$(625)	\$(2,292)	\$(2,630)	
Net income.....				24,784				\$24,784
Currency translation adjustment...							180	180
Pension liability adjustment.....							(428)	(428)
Comprehensive income, net of tax.								\$24,536
Dividends on common stock.....				(3,811)				=====
Common stock issued.....	142,746	14	2,420					
Common stock repurchased.....	(415,859)	(42)		(26,609)				
Proceeds from stock subscriptions..					352			
Stock subscription amortization and adjustment.....			1,390		273			
Loan payment from ESOP.....						233		
Balance year end 1998.....	5,573,720	\$557	\$14,105	\$81,872	\$ -	\$(2,059)	\$(2,878)	
	=====	=====	=====	=====	=====	=====	=====	

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FISCAL YEAR--The Company's fiscal year ends on the Saturday nearest December

31. The financial statements and accompanying notes are as of and for the years ended January 2, 1999 (52 weeks), January 3, 1998 (53 weeks) and December 28, 1996 (52 weeks) and are referred to as 1998, 1997 and 1996, respectively.

PRINCIPLES OF CONSOLIDATION--The consolidated financial statements include the accounts of the Company and its subsidiaries.

REVENUE RECOGNITION--Sales are recognized when the Company's products are shipped.

CASH EQUIVALENTS--Cash equivalents consist of highly liquid investments which are readily convertible to cash, present insignificant risk of changes in value due to interest rate fluctuations and generally have original or purchased maturities of three months or less.

MARKETABLE SECURITIES--Marketable securities consist of short-term U.S. Treasury Bills with maturities of greater than 3 months at the date of purchase. All securities are categorized as held-to-maturity and are stated at amortized cost. Due to the nature of these securities, the difference between the amortized cost and fair value is immaterial.

FAIR VALUE OF FINANCIAL INSTRUMENTS--The carrying amounts for cash and equivalents, long-term debt and short-term debt approximate fair value. The fair value of long-term debt is estimated based on current borrowing rates for similar issues. The Company's off-balance sheet instruments are not significant.

INVENTORIES--Inventories are stated at the lower of cost or market. The majority of the cost of domestic inventories is determined using the last-in, first-out (LIFO) method; all remaining inventory costs are determined using the first-in, first-out (FIFO) method. Inventories stated on the LIFO method approximated 55 percent and 56 percent of total inventories in 1998 and 1997, respectively. In 1998, due to the liquidation of LIFO inventories, net income increased by \$0.3 million.

PROPERTY, PLANT AND EQUIPMENT--Property, plant and equipment are stated at cost. Depreciation of plant and equipment is provided principally on a straight line basis over the estimated useful lives of 5 to 50 years for land improvements and buildings, 2 to 10 years for machinery, equipment, furniture, and fixtures and 3 to 5 years for automobiles and trucks. Accelerated methods are used for income tax purposes. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

STOCK-BASED COMPENSATION--Management of the Company has elected to adopt the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". Employee stock-based compensation will continue to be accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

Accordingly, no compensation expense is recognized in the financial statements as the exercise price of the Company's stock options equals the market price of the underlying stock on the dates of the grants.

EARNINGS PER COMMON SHARE--Basic and diluted earnings per share are computed and disclosed under SFAS No. 128, "Earnings Per Share". Diluted earnings per share is computed based upon earnings applicable to common shares divided by the weighted-average number of common shares outstanding during the period adjusted for the effect of other dilutive securities.

COMPREHENSIVE INCOME--In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income". This statement establishes standards for reporting and display of comprehensive income and its components. The Company adopted SFAS No. 130 in the first quarter of 1998 and has elected to display comprehensive income and its components in its consolidated statements of shareholders' equity.

TRANSLATION OF FOREIGN CURRENCIES--All assets and liabilities of foreign subsidiaries whose functional currency is other than the U.S. dollar are translated at year-end exchange rates. All revenue and expense accounts are translated at average rates in effect during the period.

USE OF ESTIMATES--Management's best estimates of certain amounts are required in preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and actual results could differ from those estimates.

RECLASSIFICATIONS--Certain prior year amounts have been reclassified to conform to the current year presentation.

2. SALE OF SUBSIDIARY

On October 24, 1997, the Company sold Oil Dynamics, Inc. (ODI), previously a wholly-owned subsidiary, to Baker Hughes Incorporated (BHI), an unrelated entity. The operations of ODI represented substantially all of the Company's oil well pumping systems product line.

The Company received \$34.4 million in cash proceeds from BHI in exchange for the common stock of ODI. The net assets of ODI at October 24, 1997, were \$27.9 million and the Company incurred \$3.0 million in related expenses resulting in an after tax gain on the sale of \$2.3 million. The Company's 1997 results of operations include ODI's ten month net sales of \$34.4 million and net loss of \$1.0 million. The Company's 1996 results of operations include ODI's net sales of \$35.9 million and a net loss of \$3.2 million.

The following unaudited pro forma consolidated statements of income have been prepared to show the Company's results of operations after eliminating the gain on the sale of ODI and the historical results of ODI for each period presented. This unaudited pro forma information is not necessarily representative of the results which would have been obtained for the respective periods.

(In thousands, except per share amounts)

	1997	1996
	----	----
Net sales.....	\$268,912	\$264,838
Costs and expenses.....	230,430	225,610
	-----	-----
Income before income taxes.....	38,482	39,228
Income taxes.....	14,304	14,514
	-----	-----
Net income.....	\$ 24,178	\$ 24,714
	=====	=====
Per share data:		
Net income per common share.....	\$ 4.10	\$ 3.94
	=====	=====
Net income per common share, assuming dilution.....	\$ 3.80	\$ 3.70
	=====	=====

3. EMPLOYEE BENEFIT PLANS

Effective January 4, 1998, the Company adopted the provisions of SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits". This statement revises employers' disclosures about pension and other postretirement benefit plans.

DEFINED BENEFIT PLANS - As of January 2, 1999, the Company's domestic operations maintain three separate pension plans. The Company previously maintained a fourth pension plan covering substantially all employees of ODI prior to its sale on October 24, 1997.

The Company's other postretirement benefit plans provide health and life insurance benefits to domestic employees hired prior to 1992. The Company effectively capped its cost for those benefits through plan amendments made in 1992, freezing Company contributions for insurance benefits at 1991 levels for current and future beneficiaries with actuarially reduced benefits for employees who retire before age 65.

The following table sets forth aggregated information related to the Company's domestic pension benefits and other postretirement benefits, including changes in the benefit obligations, changes in plan assets, funded status, amounts recognized in the Consolidated Balance Sheets, and actuarial assumptions:

(In thousands)

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
	----	----	----	----
Change in benefit obligation:				
Benefit obligation, b/o/y.....	\$81,068	\$76,147	\$12,181	\$12,049
Service cost.....	2,509	2,216	258	235
Interest cost.....	5,868	5,485	840	858
Plan amendments.....	601	2,353	-	-
Actuarial gain.....	6,734	2,398	551	249
Employee contributions.....	324	303	-	-
ODI plan obligations.....	-	(3,492)	-	-
Benefits paid.....	(4,806)	(4,342)	(1,190)	(1,210)
	-----	-----	-----	-----
Benefit obligation, e/o/y.....	\$92,298	\$81,068	\$12,640	\$12,181
	=====	=====	=====	=====
Change in plan assets:				
Fair value of assets, b/o/y....	\$100,827	\$ 86,030	\$ -	\$ -
Actual return on plan assets...	13,623	20,546	-	-
Company contributions.....	324	1,410	1,190	1,210
Employee contributions.....	250	287	-	-
ODI plan assets.....	-	(3,104)	-	-
Benefits paid.....	(4,806)	(4,342)	(1,190)	(1,210)
	-----	-----	-----	-----
Fair value of assets, e/o/y....	\$110,218	\$100,827	\$ -	\$ -
	=====	=====	=====	=====
Reconciliation of funded status:				
Funded status.....	\$17,920	\$19,759	\$(12,640)	\$(12,181)
Unrecognized net (gain)/loss...	(29,038)	(29,489)	3,070	2,674
Unrecognized transition obligation/(asset).....	(155)	(198)	6,845	7,334
Unrecognized prior service cost.....	6,172	6,339	-	-
	-----	-----	-----	-----
Net amount recognized.....	\$(5,101)	\$(3,589)	\$(2,725)	\$(2,173)
	=====	=====	=====	=====
Amounts recognized in the Consolidated Balance Sheets:				
Accrued benefit liability.....	\$(6,204)	\$(4,006)	\$(2,725)	\$(2,173)
Intangible asset.....	16	24	-	-
Deferred tax asset.....	423	157	-	-
Accumulated other comprehensive loss.....	664	236	-	-
	-----	-----	-----	-----
Net amount recognized.....	\$(5,101)	\$(3,589)	\$(2,725)	\$(2,173)
	=====	=====	=====	=====
Actuarial assumptions:				
Discount rate.....	6.75%	7.25%	7.25%	7.25%
Rate of increase in future compensation.....	0-5.00%	0-5.00%	5.00%	5.00%
Expected long-term rate of return on plan assets.....	9.25%	8.25%-9.00%	-	-

The following table sets forth aggregated net domestic periodic benefit cost for 1998, 1997, and 1996:

(In thousands)

	Pension Benefits			Other Benefits		
	1998	1997	1996	1998	1997	1996
Service cost....	\$2,509	\$2,506	\$2,295	\$ 258	\$ 235	\$ 244
Interest cost...	5,868	5,716	5,291	840	858	803
Expected return on assets.....	(7,224)	(6,658)	(5,958)	-	-	-
Amortization of unrecognized: Obligation/ (asset).....	(43)	(43)	(61)	489	489	489
Prior service cost.....	769	719	528	-	-	-
Loss/(gain)...	(118)	(60)	53	162	136	59
Net periodic benefit cost...	\$1,761	\$2,180	\$2,148	\$1,749	\$1,718	\$1,595

The plan assets of the pension plans consist primarily of common stocks and bonds, including \$25,212 and \$32,030 of the Company's common stock in 1998 and 1997, respectively. In August 1998, the Company purchased 125,000 shares of its common stock from the pension plans for \$8.2 million.

One of the Company's three pension plans covers certain management employees. The Company does not fund this plan, and its assets were zero in 1998 and 1997. The plan's projected benefit obligation and accumulated benefit obligation were \$2,491 and \$2,159, respectively at January 2, 1999, and \$1,490 and \$1,285, respectively at January 3, 1998.

The Company's German subsidiary, which does not report pension information under the Employee Retirement Income Security Act of 1974, calculates the pension liability based on local requirements. The long-term pension liability for the German subsidiary was \$1,238 at January 2, 1999 and \$1,058 at January 3, 1998. The difference between calculating the pension liability under local requirements versus SFAS No. 87 requirements is immaterial. Pension liabilities for other foreign subsidiaries are not significant.

DEFINED CONTRIBUTION PLANS - The Company maintains an integrated 401(k) and Employee Stock Ownership Plan (ESOP).

In June 1996 and in July 1992, the ESOP Trustee acquired additional shares of Company common stock on the open market using the proceeds of a ten-year, \$0.3 million loan and a fifteen-year, \$3.0 million loan, respectively, from the Company. Under the terms of the variable rate loan (6.31 percent at January 2, 1999), principal plus interest is payable in equal annual installments. The shares of stock purchased with the loan proceeds are collateral for the loan and are considered outstanding for purposes of calculating earnings per share.

The Company contributes a portion of its 401(k) matching contribution as well as an additional annual contribution, both subject to the Company's annual financial results, to the ESOP Trust. The ESOP Trustee uses a portion of the

Company's contributions to make principal and interest payments on the loan. As loan payments are made, shares of common stock are released as collateral and are allocated to participants' accounts. The balance of the Company's contributions in cash or common stock is made to the 401(k) and ESOP Trusts, and allocated to participants' accounts to satisfy the balance of the Company's 401(k) matching contribution.

At January 2, 1999, 103,142 shares were allocated to the accounts of participants, 10,363 shares were committed to be released and allocated to the accounts of participants for service rendered during 1998, and 66,404 shares were held by the ESOP Trust in suspense.

The following table sets forth the interest expense and Company contributions to the integrated ESOP and 401(k) Plan.

(In thousands)

	1998	1997	1996
	----	----	----
Interest expense incurred by the plan			
on ESOP debt.....	\$ 133	\$ 148	\$ 153
Company contributions to integrated plan...	1,010	1,244	1,310

4. ACCRUED EXPENSES

Accrued expenses consisted of:

(In thousands)

	1998	1997
	----	----
Salaries, wages and commissions.....	\$ 7,518	\$ 7,345
Product warranty costs.....	4,382	4,282
Insurance.....	5,426	5,198
Employee benefits.....	1,890	1,763
Other.....	5,323	5,758
	-----	-----
	\$24,539	\$24,346
	=====	=====

5. INCOME TAXES

Income before income taxes consisted of:

(In thousands)

	1998	1997	1996
	----	----	----
Domestic.....	\$33,900	\$34,269	\$27,664
Foreign.....	6,121	6,240	5,673
	-----	-----	-----
	\$40,021	\$40,509	\$33,337
	=====	=====	=====

The income tax provision consisted of:

(In thousands)

	1998	1997	1996
	----	----	----
Currently payable:			
Federal.....	\$12,095	\$10,606	\$ 8,110
Foreign.....	2,432	2,397	1,611
State.....	2,355	2,920	2,162
Deferred:			
Federal.....	(1,512)	(757)	(44)
Foreign.....	72	58	50
State.....	(205)	(220)	(62)
	-----	-----	-----
	\$15,237	\$15,004	\$11,827
	=====	=====	=====

Significant components of the Company's deferred tax assets and liabilities were as follows:

(In thousands)

	1998	1997
	----	----
Deferred tax assets:		
Accrued expenses and reserves.....	\$ 6,945	\$ 6,125
Compensation and employee benefits.....	6,491	4,868
Other items.....	364	564
	-----	-----
Total deferred tax assets.....	13,800	11,557
	-----	-----
Deferred tax liabilities:		
Accelerated depreciation on fixed assets...	3,437	2,908
Other items.....	227	158
	-----	-----
Total deferred tax liabilities.....	3,664	3,066
	-----	-----
Net deferred tax assets.....	\$10,136	\$ 8,491
	=====	=====

The portions of current and non-current deferred tax assets and liabilities were as follows:

(In thousands)

	1998		1997	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	-----	-----	-----	-----
Current.....	\$ 8,774	\$ -	\$ 7,490	\$ -
Non-current....	5,026	3,664	4,067	3,066
	-----	-----	-----	-----
	\$13,800	\$3,664	\$11,557	\$3,066
	=====	=====	=====	=====

There was no valuation allowance for deferred tax assets required in 1998 or 1997.

The differences between the statutory and effective tax rates were as follows:

	1998	1997	1996
	----	----	----
U.S. Federal statutory rate.....	35.0%	35.0%	35.0%
State income taxes, net of federal benefit.....	3.8	4.3	4.1
Effect of higher (lower) foreign tax rates.....	0.5	0.6	(0.5)
Earnings of foreign sales corporation	(1.4)	(1.4)	(3.1)
Utilization of foreign tax credits.....	-	(1.5)	-
Other items.....	0.2	-	-
	-----	-----	-----
	38.1%	37.0%	35.5%
	=====	=====	=====

Accumulated undistributed earnings of foreign subsidiaries expected to be permanently invested approximated \$4.0 million at January 2, 1999. The Company does not anticipate incurring any tax should these earnings be repatriated in the future.

6. DEBT

Short-term borrowings consisted of:

(In thousands)

	1998	1997
	----	----
Bank.....	\$2,697	\$177
	=====	=====

Long-term debt consisted of:

(In thousands)

	1998	1997
	----	----
Insurance Company--6.31%, principal payments of \$1.0 million due in annual installments, with a balloon payment of \$10,000 in 2008.....	\$19,000	\$20,000
Bank.....	108	182
	-----	-----
	19,108	20,182
Less current maturities.....	(1,019)	(1,019)
	-----	-----
	\$18,089	\$19,163
	=====	=====

Both the Company's short-term borrowings and long-term debt are unsecured. The Company's long-term debt agreement provides for certain financial covenants relative to working capital, additional borrowings, loans or advances and investments. The Company was in compliance with all debt covenants in 1998 and 1997.

On January 5, 1996, the Company entered into an unsecured, five-year \$40.0 million revolving credit agreement (the "Agreement"). The Agreement, which includes a facility fee of one-tenth of one percent on the committed amount, was amended and restated (the "Amended Agreement") on December 30, 1997.

The Amended Agreement provides for various borrowing rate options including interest rates based on the London Interbank Offered Rates (LIBOR) plus interest spreads keyed to the Company's ratio of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA). The Amended Agreement contains certain financial covenants with respect to borrowings, fixed charge coverage, working capital, loans or advances, and investments.

7. SHAREOWNERS' EQUITY

The Company had 5,574,000 shares of common stock (25,000,000 shares authorized, \$.10 par value) outstanding at the end of 1998.

During 1998 and 1997, pursuant to stock repurchase programs authorized by the Company's Board of Directors, the Company repurchased a total of 406,000 shares for \$26.0 million and 615,000 shares for \$30.6 million, respectively. Of these shares, 175,000 were repurchased from a director of the Company in 1997. All repurchased shares were retired.

During 1998, under terms of a Company stock option plan, a participant remitted 9,851 shares of Company common stock as consideration for stock issued upon the exercise of stock options. The total exercise price of the respective stock options was \$0.6 million, and the shares remitted to the Company were subsequently retired.

Stock subscriptions are principally deferred costs recognized in connection with the issuance of common stock under the 1988 Stock Incentive Award Plan (1988 Award Plan) and loans to officers under the 1988 Executive Stock Purchase Plan (1988 Purchase Plan). Under the 1988 Purchase Plan, executives of the Company are awarded the right to purchase shares of its common stock through a Company loan at the closing price on the day prior to the date of purchase. In 1998 the Company extended the 1988 Purchase Plan ten additional years, and at January 2, 1999, 512,800 shares are available for future awards. The 1988 Award Plan expired in 1998. No shares were awarded under either plan in 1998 or 1997.

8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

(In thousands, except per share amounts)

	1998	1997	1996
	----	----	----
Numerator:			
Net Income.....	\$24,784	\$25,505	\$21,510
	=====	=====	=====
Denominator:			
Basic			

Weighted average common shares.....	5,733	5,895	6,279
Diluted			

Effect of dilutive securities:			
Employee and director incentive			
stock options and awards.....	437	471	397
	-----	-----	-----
Adjusted weighted average common			
shares.....	6,170	6,366	6,676
	=====	=====	=====
Basic earnings per share.....	\$ 4.32	\$ 4.33	\$ 3.43
	=====	=====	=====
Diluted earnings per share.....	\$ 4.02	\$ 4.01	\$ 3.22
	=====	=====	=====

9. STOCK-BASED COMPENSATION

The Company has authorized the grant of options to purchase common stock of the Company to employees and non-employee directors of the Company and its subsidiaries under five fixed stock option plans. The plans and the original number of authorized shares available for grants are as follows:

	Shares
1981 Incentive Stock Option Plan (1981 Plan)	555,000
1986 Non-Qualified Stock Option Plan (1986 Plan)	555,000
1996 Employee Stock Option Plan (1996 Plan)	600,000
1990 Non-Employee Director Stock Option Plan (1990 Director Plan)	60,000
1996 Non-Employee Director Stock Option Plan (1996 Director Plan)	90,000

Under each of the above plans, the exercise price of each option equals the market price of the Company's common stock on the date of grant and the options expire ten years after the date of the grant. Generally, options granted under the 1981 Plan, the 1986 Plan, and the 1996 Plan vest 20 percent a year and become fully vested and exercisable after five years. Options granted under the 1990 and 1996 Director Plans vest 33 percent a year and become fully vested and exercisable after three years.

A summary of the Company's fixed stock option plans activity and related information for 1998, 1997 and 1996 follows:

Fixed Options	1998		1997		1996	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	762,296	\$25.73	850,125	\$23.51	861,092	\$18.69
Granted	43,500	66.27	18,000	46.47	116,500	41.74
Exercised	(142,746)	16.50	(104,829)	7.96	(121,467)	6.90
Forfeited	(20,433)	39.55	(1,000)	26.50	(6,000)	22.13
Outstanding at end of year	642,617	\$30.09	762,296	\$25.73	850,125	\$23.51

The following summarizes information about fixed stock options outstanding at January 2, 1999:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 1/02/99	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 1/02/99	Weighted-Average Exercise Price
\$ 8.38 to 30.99	318,380	3.76 years	\$19.90	318,380	\$19.90
31.00 to 59.24	280,737	7.08	36.04	202,177	33.94
59.25 to 70.50	43,500	9.31	66.27	2,000	59.25
\$ 8.38 to 70.50	642,617	5.59	\$30.09	522,557	\$25.48

For pro forma information regarding net income and earnings per share, the fair value for the options awarded in 1998, 1997 and 1996 for all fixed stock option plans was estimated as of the date of the grant using a Black-Scholes option valuation model. The following table sets forth the weighted average assumptions for 1998, 1997 and 1996, respectively.

	1998	1997	1996
	----	----	----
Risk-free interest rate.....	5.49%	6.51%	6.18%
Dividend yield.....	1.20%	1.20%	1.40%
Volatility factor.....	.230	.236	.257
Weighted average expected life.....	6 years	6 years	6 years

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period. Therefore, in the year of adoption and subsequently affected years, the effects of applying SFAS No. 123 for providing pro forma net income and earnings per share are not likely to be representative of the effects on reported income in future years. The Company's pro forma information follows:

(In thousands, except per share amounts)

	1998	1997	1996
	----	----	----
Reported net income.....	\$24,784	\$25,505	\$21,510
Pro forma net income.....	\$24,312	\$25,037	\$21,245
Reported net income available per common share.....	\$4.32	\$4.33	\$3.43
Pro forma net income available per common share.....	\$4.22	\$4.25	\$3.38
Reported net income available per common share, assuming dilution...	\$4.02	\$4.01	\$3.22
Pro forma net income available per common share, assuming dilution...	\$3.94	\$3.93	\$3.18

The Black-Scholes option valuation model used by the Company was developed for use in estimating the fair value of fully tradable options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. It is management's opinion that the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

10. SEGMENT AND GEOGRAPHIC INFORMATION

Effective January 4, 1998, the Company adopted the provisions of SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information". Based on the management approach established by SFAS No. 131, the Company's business consists of two operating segments that offer different products; the motor segment, and the electronic controls segment.

The motor segment designs, manufactures and sells motors and related parts and equipment for use in water systems, gasoline and diesel fuel pumping systems, wastewater handling systems and in a wide variety of industrial products. The electronic controls segment designs and manufactures electronic controls for the principal purpose of being a supplier to the motor segment.

Under SFAS No. 131's quantitative threshold and aggregation criteria, the Company's two operating segments have been combined into a single reportable segment. As a result, there are no significant differences between reportable segment financial information and the Company's consolidated results.

The Company's products are primarily sold to original equipment manufacturers in the United States, Canada, Europe, Australia, South Africa, Mexico and other world markets. Net sales attributed to customers located in the United States were \$192.8 million, \$191.2 million, and \$187.3 million in 1998, 1997 and 1996, respectively. Net sales attributed to foreign customers were \$79.7 million, \$77.7 million, and \$77.7 million in 1998, 1997 and 1996, respectively, of which no single country was significant. Long-lived assets located in the United States totaled \$43.4 million, \$26.9 million, and \$23.8 million in 1998, 1997 and 1996, respectively. Long-lived assets in foreign countries totaled \$8.1 million, \$5.5 million, and \$5.2 million in 1998, 1997 and 1996, respectively, of which no single country was significant. ODI's net sales and long-lived assets are excluded from enterprise-wide geographic information.

One customer accounted for 14.0 percent, 12.4 percent, and 12.5 percent of the Company's consolidated sales in 1998, 1997 and 1996, respectively.

11. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited quarterly financial information for 1998 and 1997 is as follows:

(In thousands, except per share amounts)

	Net Sales	Gross Profit	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share
-----	-----	-----	-----	-----	-----
1998					

1st Quarter.....	\$ 56,014	\$15,180	\$ 3,660	\$.63	\$.58
2nd Quarter.....	67,907	20,423	5,995	1.02	.95
3rd Quarter.....	75,230	21,603	7,007	1.22	1.14
4th Quarter.....	73,382	22,749	8,122	1.47	1.37
	-----	-----	-----		
	\$272,533	\$79,955	\$24,784	\$4.32	\$4.02
	=====	=====	=====		
1997					

1st Quarter.....	\$ 64,200	\$16,491	\$ 3,195	\$.53	\$.49
2nd Quarter.....	75,935	19,701	5,269	.90	.84
3rd Quarter.....	85,610	23,589	6,123	1.04	.96
4th Quarter.....	77,553	25,752	10,918	1.86	1.72
	-----	-----	-----		
	\$303,298	\$85,533	\$25,505	\$4.33	\$4.01
	=====	=====	=====		

12. CONTINGENCIES AND COMMITMENTS

The Company is defending various claims and legal actions which have arisen in the ordinary course of business. The Company has attempted, where possible, to assess the likelihood of an unfavorable outcome as a result of these actions. Legal counsel has been retained to assist the Company in making these determinations, and costs are accrued when an unfavorable outcome is determined to be probable and a reasonable estimate can be made. As a result, the Company has an accrual balance of approximately \$1.3 million and \$1.4 million at January 2, 1999 and January 3, 1998, respectively, to provide for such actions.

Included in such matters, the Company has been designated, in conjunction with other parties, as a "potentially responsible party" (PRP) under the Comprehensive Environmental Response Compensation and Liability Act with respect to a reclamation and recycling site located in Columbia City, Indiana. Under consent decree, the Company has paid approximately \$153,000 through January 2, 1999 toward the cost of remediation. Future remediation costs are estimated at less than \$5.0 million over the next four to fourteen years, for which the Company's share is estimated to be less than \$35,000.

Total rent expense charged to operations for operating leases including contingent rentals was \$1.9 million, \$2.3 million, and \$2.4 million for 1998, 1997 and 1996, respectively. The future minimum rental payments for noncancellable operating leases as of January 2, 1999, are as follows: 1999, \$0.6 million; 2000, \$0.5 million and 2001, \$0.2 million. Rental commitments subsequent to 2001 are not material.

During 1998, the Company purchased certain operating and intangible assets from a motor manufacturer. The Company paid \$17.5 million in cash at the acquisition date, and may pay additional contingent consideration according to terms that expire on December 31, 2001. The amount, if any, of this contingent consideration is not currently determinable.

INDEPENDENT AUDITORS' REPORT

To the Shareowners and Directors, Franklin Electric Co., Inc.:

We have audited the accompanying consolidated balance sheets of Franklin Electric Co., Inc. and consolidated subsidiaries as of January 2, 1999 and January 3, 1998 and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended January 2, 1999. Our audits also included the financial statement schedule listed in the index at Item 14. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Franklin Electric Co., Inc. and consolidated subsidiaries as of January 2, 1999 and January 3, 1998, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 1999, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

*Deloitte & Touche LLP
Chicago, Illinois
January 28, 1999*

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning directors required by this Item 10 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on April 16, 1999, under the headings of "ELECTION OF DIRECTORS" and "INFORMATION CONCERNING NOMINEES AND DIRECTORS," and is incorporated herein by reference.

The information concerning executive officers required by this Item 10 is contained in Part I of this Form 10-K under the heading of "EXECUTIVE OFFICERS OF THE REGISTRANT."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on April 16, 1999, under the headings of "INFORMATION ABOUT THE BOARD AND ITS COMMITTEES," "COMPENSATION COMMITTEE REPORT," "SUMMARY COMPENSATION TABLE," "OPTION GRANTS IN 1998 FISCAL YEAR," "1998 FISCAL YEAR-END OPTION VALUES," "COMPENSATION PURSUANT TO PLANS" and "AGREEMENTS," and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on April 16, 1999, under the heading of "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT," and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on April 16, 1999, under the headings of "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" and "AGREEMENTS," and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

Form 10-K Annual Report

(page)

(a) 1. Financial Statements - Franklin Electric

Independent Auditors' Report.....	32
Consolidated Statements of Income for the three years ended January 2, 1999.....	13
Consolidated Balance Sheets, as of January 2, 1999 and January 3, 1998.....	14-15
Consolidated Statements of Cash Flows for the three years ended January 2, 1999.....	16-17
Consolidated Statements of Shareowners' Equity for the three years ended January 2, 1999.....	18
Notes to Consolidated Financial Statements (including quarterly financial data).....	19-31
2. Financial Statement Schedules - Franklin Electric -----	
II Valuation and Qualifying Accounts.....	35

Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is disclosed elsewhere in the financial statements and related notes.

3. Exhibits See the Exhibit Index located on pages 37-38. Management Contract or Compensatory Plan or Arrangement is denoted by an asterisk (*).

(b) Reports on Form 8-K filed during the fourth quarter ended January 2, 1999:

During the fourth quarter ended January 2, 1999, a Form 8-K was filed by the Company dated October 9, 1998, to report certain "Forward Looking Statements" for the purpose of establishing a readily available document which may be referred to in the future in accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

(c) See the Exhibit Index located on pages 37-38.

(d) Individual financial statements and all other schedules of the Registrant are omitted as they are not required.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the years 1998, 1997 and 1996

(In thousands)

Description -----	Balance at beginning of period -----	Additions charged to costs and expenses -----	Deductions -----	Balance at end of period -----
Allowance for doubtful accounts:				
1998	\$1,349 =====	\$271 =====	\$513 (B) =====	\$1,107 =====
1997	\$1,435 =====	\$248 =====	\$334 (A) =====	\$1,349 =====
1996	\$1,351 =====	\$227 =====	\$143 (B) =====	\$1,435 =====

NOTES:

(A) Uncollectible accounts written off, net of recoveries, and the elimination of Oil Dynamics Inc.

(B) Uncollectible accounts written off, net of recoveries.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Franklin Electric Co., Inc.

	<i>/s/ WILLIAM H. LAWSON</i> ----- William H. Lawson Chairman of the Board and Chief Executive Officer
<i>(Date) February 12, 1999</i>	

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<i>/s/ WILLIAM H. LAWSON</i> ----- William H. Lawson	<i>February 12, 1999</i>	<i>Chairman of the Board and Chief Executive Officer (Principal Executive Officer)</i>
<i>/s/ JOHN B. LINDSAY</i> ----- John B. Lindsay	<i>February 12, 1999</i>	<i>President and Director</i>
<i>/s/ JESS B. FORD</i> ----- Jess B. Ford	<i>February 12, 1999</i>	<i>Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)</i>
<i>/s/ JEROME D. BRADY</i> ----- Jerome D. Brady	<i>February 12, 1999</i>	<i>Director</i>
<i>/s/ ROBERT H. LITTLE</i> ----- Robert H. Little	<i>February 12, 1999</i>	<i>Director</i>
<i>/s/ PATRICIA SCHAEFER</i> ----- Patricia Schaefer	<i>February 12, 1999</i>	<i>Director</i>
<i>/s/ DONALD J. SCHNEIDER</i> ----- Donald J. Schneider	<i>February 12, 1999</i>	<i>Director</i>
<i>/s/ R. SCOTT TRUMBULL</i> ----- R. Scott Trumbull	<i>February 12, 1999</i>	<i>Director</i>
<i>/s/ JURIS VIKMANIS</i> ----- Juris Vikmanis	<i>February 12, 1999</i>	<i>Director</i>
<i>/s/ HOWARD B. WITT</i> ----- Howard B. Witt	<i>February 12, 1999</i>	<i>Director</i>

FRANKLIN ELECTRIC CO., INC.

**EXHIBIT INDEX TO THE ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED JANUARY 2, 1999**

Exhibit Number -----	Description -----
3.1	Amended and Restated Articles of Incorporation of Franklin Electric Co., Inc. (incorporated herein by reference to the Company's Form 10-Q for the quarter ended July 4, 1998)
3.2	By-Laws of Franklin Electric Co., Inc. as amended to date, (incorporated herein by reference to the Company's Form 10-Q for the quarter ended July 4, 1998)
4	Rights Agreement dated as of February 11, 1991 between Franklin Electric Co., Inc. and Lincoln National Bank & Trust Co. of Fort Wayne (incorporated herein by reference to the Company's registration statement on Form 8-A dated February 26, 1991)
10.1	1988 Executive Stock Purchase Plan (incorporated herein by reference to the Company's 1988 Proxy Statement for the Annual Meeting held on April 15, 1988, and included as Exhibit E to the Proxy Statement)*
10.2	1988 Stock Incentive Award Plan (incorporated herein by reference to the Company's 1988 Proxy Statement for the Annual Meeting held on April 15, 1988, and included as Exhibit D to the Proxy Statement)*
10.3	Amended 1981 Incentive Stock Option Plan (incorporated herein by reference to the Company's 1988 Proxy Statement for the Annual Meeting held on April 15, 1988, and included as Exhibit B to the Proxy Statement)*
10.4	Amended 1986 Stock Option Plan (incorporated herein by reference to the Company's 1988 Proxy Statement for the Annual Meeting held on April 15, 1988, and included as Exhibit C to the Proxy Statement)*
10.5	Franklin Electric Non-Employee Director Stock Option Plan (incorporated herein by reference to the Company's 1991 Proxy Statement for the Annual Meeting on April 19, 1991)*

10.6 1996 Franklin Electric Co., Inc., Employee Stock Option Plan (incorporated herein by reference to the Company's 1996 Proxy Statement for the Annual Meeting held on April 12, 1996, and included as Exhibit A to the Proxy Statement)*

10.7 1996 Franklin Electric Co., Inc., Non-Employee Director Stock Option Plan (incorporated herein by reference to the Company's 1996 Proxy Statement for the Annual Meeting held on April 12, 1996, and included as Exhibit B to the Proxy Statement)*

10.8 Employment Agreement dated December 5, 1986 between the Company and William H. Lawson (incorporated herein by reference to Exhibit 10.7 of the Company's Form 10-K for the fiscal year ended December 28, 1991)*

10.9 Employment Agreement dated October 23, 1995 between the Company and Jess B. Ford (incorporated herein by reference to Exhibit 10.7 of the Company's Form 10-K for the fiscal year ended December 30, 1995)*

10.10 Amended and Restated Credit Agreement dated as of December 30, 1997 between the Company and various commercial banks (incorporated herein by reference to Exhibit 10.8 of the Company's Form 10-K for the fiscal

	year ended January 3, 1998)	
21	Subsidiaries of the Registrant.....	39
23	Independent Auditors' Consent.....	40
27	Financial Data Schedule.....	41
99	Additional Exhibits.....	42-43

* Management contract or compensatory plan or arrangement

EXHIBIT 21
FRANKLIN ELECTRIC CO., INC.

SUBSIDIARIES OF THE REGISTRANT

	State or country of incorporation -----	Percent of voting stock owned -----
Subsidiaries consolidated:		
FE Petro, Inc.	Indiana	100
Franklin Electric Subsidiaries, Inc. [inactive]	Indiana	100
Franklin Electric International, Inc.	Delaware	100
Franklin Electric B.V.	Netherlands	100
Franklin Electric Europa, GmbH	Germany	100
Franklin Electric spol s.r.o.	Czech Republic	100
Franklin Electric S.r.l.	Italy	100
Franklin Electric (Australia) Pty. Ltd.	Australia	100
Franklin Electric (South Africa) Pty. Limited	South Africa	100

Franklin Electric Foreign Sales
Corporation U.S. Virgin Islands 100

Motores Franklin S.A. de C.V. Mexico 100

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements of Franklin Electric Co., Inc. on Form S-8 (file numbers 33-35958, 33-35960, 33- 35962, 33-38200, 333-01957 and 333-01959) of our report dated January 28, 1999 appearing in the Annual Report on Form 10-K of Franklin Electric Co., Inc. for the year ended January 2, 1999.

/s/ DELOITTE & TOUCHE LLP

*Deloitte & Touche LLP
Chicago, Illinois
March 1, 1999*

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FORM 10-K FOR THE PERIOD ENDED JANUARY 2, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

PERIOD TYPE	12 MOS	12 MOS	12 MOS
FISCAL YEAR END	JAN 02 1999	JAN 03 1998	DEC 28 1996
PERIOD END	JAN 02 1999	JAN 03 1998	DEC 28 1996
CASH	17,034	23,191	22,968
SECURITIES	27,921	48,497	31,624
RECEIVABLES	17,144	18,327	26,069
ALLOWANCES	1,107	1,349	1,435
INVENTORY	35,330	31,259	42,305
CURRENT ASSETS	106,283	128,500	131,016
PP&E	126,206	102,152	123,792
DEPRECIATION	74,745	69,795	83,695
TOTAL ASSETS	167,590	163,110	172,959
CURRENT LIABILITIES	44,405	40,527	41,545
BONDS	0	0	0
PREFERRED MANDATORY	0	0	0
PREFERRED	0	0	0
COMMON	557	585	638
OTHER SE	91,040	92,256	99,185
TOTAL LIABILITY AND EQUITY	167,590	163,110	172,929
SALES	272,533	303,298	300,689
TOTAL REVENUES	276,105	309,935	302,287
CGS	192,578	217,765	221,475
TOTAL COSTS	236,084	269,426	268,950
OTHER EXPENSES	0	0	0
LOSS PROVISION	0	0	0
INTEREST EXPENSE	1,364	1,435	1,308
INCOME PRETAX	40,021	40,509	33,337
INCOME TAX	15,237	15,004	11,827
INCOME CONTINUING	24,784	25,505	21,510
DISCONTINUED	0	0	0
EXTRAORDINARY	0	0	0
CHANGES	0	0	0
NET INCOME	24,784	25,505	21,510
EPS PRIMARY	4.32	4.33	3.43
EPS DILUTED	4.02	4.01	3.22

ADDITIONAL EXHIBITS

Forward Looking Statements

Written and oral statements provided by the Company from time to time may contain certain forward looking information, as that term is defined by the Private Securities Litigation Reform Act of 1995 (the "Act") and in releases made by the Securities and Exchange Commission ("SEC"). The cautionary statements which follow are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the "safe harbor" provisions of the Act. While the Company believes that the assumptions underlying such forward looking information are reasonable based on present conditions, forward looking statements made by the Company involve risks and uncertainties and are not guarantees of future performance. Actual results may differ materially from those in the Company's written or oral forward looking statements as a result of various factors, including but not limited to, the following:

A significant decline in sales with the Company's largest customer, who represents over 10% of consolidated sales, or other significant customers.

Continued or increased competitive pressure to reduce selling prices of products or increase financial incentives to customers.

A prolonged disruption of scheduled deliveries from suppliers when alternative sources of supply are not available to satisfy the Company's requirements for raw material and components.

Delays in the Company's ability to pass along significant increases in the cost of raw material, components, other materials and/or services.

The amount of and rate of growth in selling, general and administrative expenses, and occurrences which could affect the Company's ability to reduce or limit the increase in such expenses.

The costs and other effects of legal and administrative cases and proceedings (whether civil or criminal), settlements and investigations, claims, developments or assertions by or against the Company relating to intellectual property rights and licenses, and adoption of new or changes in accounting policies and practices.

Difficulties or delays in the development, production, testing and marketing of products, including, but not limited to, a failure to ship new products when anticipated, failure of customers to accept these products when planned, any defects in products or a failure of manufacturing economies to develop when planned.

Circumstances impacting the Company's ability to fund and accomplish technological innovation, improve processes, and attract and retain capable staff in order to deal with increasing volume and complexity in its products.

Occurrences affecting the slope or speed of decline of the life cycle of the Company's products, or affecting the Company's ability to reduce product and other costs, and to increase productivity.

The impact of unusual items resulting from the Company's ongoing evaluation of its business strategies, acquisitions or divestitures, asset valuations and organizational structures.

The effects of and changes in, trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies and similar organizations, including but not limited to trade restrictions or prohibitions, inflation, monetary fluctuations, import and other charges or taxes, foreign exchange rates, nationalizations and unstable governments.

The future health of the U.S. and international economies and other economic factors that directly or indirectly affect the demand for the Company's products.

Labor strikes or work stoppages by employees of the Company, its customers, suppliers, or freight contractors or other providers.

Environmental factors such as fires, floods, or other natural disasters and weather conditions which could impact the company's ability to produce products or the demand for its products.

The inability of parties external to the Company to provide goods and services in a timely, accurate manner as a result of Year 2000 processing problems.

Increased competition due to industry consolidation or new entrants into the Company's existing markets.

The introduction of alternative products or governmental and regulatory activities that favor alternative methods of serving the same function as the Company's products.

All forward-looking statements included herein are based upon information presently available, and the Company assumes no obligation to update any

forward-looking statements.

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