

# FRANKLIN ELECTRIC CO INC

## FORM 10-K (Annual Report)

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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 December 28, 1996

OR

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

For the transition period from to

*Commission file 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. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant at February 14, 1997 was \$247,108,457. The stock price used in the computation was the closing price on that date.

Number of shares of common stock outstanding at February 14, 1997:

5,890,929 shares

## **DOCUMENTS INCORPORATED BY REFERENCE**

A portion of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 11, 1997 (Part III).

The exhibits filed with this Form 10-K are listed in the exhibit index.

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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), conducts business in a single business segment: the design, manufacture and distribution of electric motors, electronic controls and related equipment.

#### **Products and Markets Served**

The Company manufactures and distributes electric motors, electronic controls and related equipment. These motors 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 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.

Goulds Pumps, Inc., a customer of the Company, accounted for 12.5 percent, 12.9 percent and 14.1 percent of the Company's consolidated sales in 1996, 1995 and 1994, 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.

The Company employed 2,601 persons at the end of 1996.

#### **Financial Information by Geographic Area**

Financial information by geographic area is included within this Form 10-K.

#### **Research and Development**

The Company spent approximately \$4.8 million in 1996, \$4.7 million in 1995 and \$4.2 million in 1994 on activities related to the development of new products, on improvements of existing products and manufacturing methods, and on other applied research and development.

In 1996, work continued on the development of submersible wet winding motors, a new line of "severe duty" motors, and a new line of surface mount motor protection systems. Research continued on new materials and processes which will result in more cost effective manufacture of high volume products.

The Company owns several patents. In the aggregate, these patents are of material importance to 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 1996 and 1995 was as follows:

	(In thousands)	
	Fiscal Year Ending	
	-----	-----
	1996	1995
	----	----
Backlog.....	\$21,324	\$22,331

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 1997.

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 lease.

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	40.0	321,350
Tulsa, Oklahoma	10.3	154,193
Jonesboro, Indiana (1)	-	34,570
Wittlich, Rhineland, Germany	6.8	76,365
Fourteen facilities with less than 30,000 square feet each (2)	5.3	162,338
	-----	-----
Total	130.8	1,394,876
	=====	=====

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, 1998.

(2) Twelve of the facilities are leased with approximately 119,000 square feet.

### **ITEM 3. LEGAL PROCEEDINGS**

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 \$1.6 million and \$1.4 million at December 28, 1996 and December 30, 1995, respectively, to provide for such actions.

Included in such matters are two pending governmental actions associated with hazardous waste sites falling under the Comprehensive Environmental Response Compensation and Liability Act in which the Company has been designated, in conjunction with other parties, as a "potentially responsible party" (PRP). The range of the Company's potential liability for the first site is unknown as the total cost for the site remediation and allocation among the PRPs has not been determined; however, the Company believes such matters are substantially covered by the Company's insurance. The current estimate for remediation at the second site is \$15.0 million, for which the Company has agreed under consent decree to pay 1.341 percent (approximately \$201,000) over the next five to fifteen years. The Company has paid approximately \$103,000 of this amount through December 28, 1996.

### **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	60	Chairman of the Board and Chief Executive Officer	1985
John B. Lindsay (1)	54	President	1995
Jess B. Ford (2)	45	Vice President and Chief Financial Officer	1995
William J. Foreman(3)	60	Vice President	1995
Kirk M. Nevins(4)	53	Vice President, Sales	1995
Donald R. Hobbs (5)	55	Vice President, Submersible Motor Marketing	1996

The term of office of each officer is one year and until his successor shall have been elected and qualified at the meeting of the Board of Directors following the Annual Meeting of Shareholders.

(1) In 1995, Mr. Lindsay was elected President of the Company. Mr. Lindsay served as Vice President from 1986 until 1993 and as Executive Vice President from 1993 until 1995.

(2) 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 and prior to 1992 as Vice President-Corporate Finance and Corporate Controller.

(3) For the five-year period preceding July 1995, Mr. Foreman was Plant Manager for certain divisions of the Company.

(4) For the five-year period preceding July 1995, Mr. Nevins was North American Sales Manager of the Company.

(5) For the five-year period preceding April 1996, Mr. Hobbs was Marketing Manager for the submersible motor division of the Company.

## PART II

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

#### MATTERS

The number of stockholders of record as of February 14, 1997 was 1,240. 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 1996 and 1995 were as follows:

	DIVIDENDS PER SHARE		PRICE PER SHARE			
	1996	1995	1996		1995	
	----	----	-----	-----	-----	-----
			Low	High	Low	High
			---	----	---	----
1st Quarter...	\$.10	\$.08	\$31 1/4	\$38 1/4	\$31	\$34 1/2
2nd Quarter...	\$.12	\$.10	\$35	\$37	\$30	\$34 1/2
3rd Quarter...	\$.12	\$.10	\$30 3/4	\$35 5/8	\$29 1/2	\$32 1/2
4th Quarter...	\$.12	\$.10	\$33 3/4	\$45 1/4	\$28 1/4	\$33 1/4



**ITEM 6. SELECTED FINANCIAL DATA****FIVE YEAR FINANCIAL SUMMARY****FRANKLIN ELECTRIC CO., INC.**

(In thousands, except per share amounts)

	1996	1995	1994	1993	1992
			(c)		
OPERATIONS:					
Net Sales.....	\$300,689	\$276,440	\$241,440	\$206,406	\$198,618
Gross Profit.....	79,053	65,371	63,134	53,131	50,260
Income before extraordinary credit and change in accounting principle.....	21,510	15,502	18,709	16,103	13,665
Interest Expense.....	1,308	2,128	2,172	2,949	2,595
Income Taxes (a).....	11,827	8,777	11,504	5,796	8,882
Net Income.....	21,510	15,502	18,709	17,096	13,811
Net Income Available to Common Shares.....	21,510	15,502	18,556	16,485	12,218
Depreciation and Amortization.....	8,389	8,890	6,961	6,185	4,525
Capital Expenditures.....	6,235	6,111	7,612	6,359	5,833
BALANCE SHEET:					
Working Capital.....	88,224	68,024	50,092	44,819	26,943
Property, Plant and Equipment, Net.....	40,097	41,670	41,896	25,591	24,003
Total Assets.....	173,459	153,357	151,581	122,703	99,868
Long-term Debt.....	20,276	20,171	20,000	30,016	22,819
Shareowners' Equity.....	\$ 99,823	\$ 80,557	\$ 64,865	\$ 50,127	\$ 39,667
OTHER DATA:					
% Net Income to Sales.....	7.2%	5.6%	7.8%	8.3%	7.0%
% Net Income to Total Average Assets.....	13.2%	10.2%	13.6%	15.4%	13.7%
Current Ratio.....	3.0	2.6	1.9	2.3	1.9
PER SHARE:					
Market Price Range					
High.....	\$ 45.25	\$ 34.50	\$ 36.50	\$ 37.25	\$ 25.00
Low.....	30.75	28.25	24.50	22.00	17.50
Income before extraordinary credit and change in accounting principle.....	3.22	2.35	2.84	2.37	1.85
Net Income per Weighted Average Common Share(b).	3.22	2.35	2.84	2.52	1.88
Book Value.....	14.95	12.21	9.92	7.65	5.20
Cash Dividends on Common Stock.....	\$ 0.46	\$ 0.38	\$ 0.29	\$ 0.15	\$ -

(a) Includes credit for cumulative effect of change in accounting principle- SFAS No. 109 "Accounting for Income Taxes" of \$993 in 1993; extraordinary credit for tax benefit of loss carryforward of \$156 in 1992.

(b) Fully diluted earnings per share for each year presented was as follows:

1996, \$3.18; 1995, \$2.34; 1994, \$2.83; 1993, \$2.50; 1992, \$1.88.

(c) 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.

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

### **RESULTS OF OPERATIONS**

Net sales for 1996 were \$300.7 million, a 9 percent increase over 1995 net sales of \$276.4 million. This increase is primarily due to higher unit volume at the Company's wholly owned subsidiaries, Oil Dynamics, Inc. (ODI) and FE Petro, Inc., and due to higher average selling prices throughout the Company. In 1994, net sales were \$241.4 million. The increase in 1995 net sales over 1994 was principally due to the inclusion of ODI on a fully consolidated basis for 1995 and, to a lesser degree, increases in selling prices and unit volume.

Net income for 1996 was \$21.5 million, or \$3.22 per share, compared to 1995 net income of \$15.5 million, or \$2.35 per share. This increase was primarily due to higher net sales and improvements in the operations of ODI and in the Company's European operations. Net income for 1994 was \$18.6 million, or \$2.84 per share. The decrease from 1994 to 1995 was principally due to an increase in cost of sales as a percent of net sales primarily attributable to ODI and the Company's German subsidiary, a decrease in North American residential submersible motor unit shipment volume, and foreign currency transaction losses.

Cost of sales as a percent of net sales for 1996, 1995 and 1994 was 73.7 percent, 76.4 percent and 73.9 percent, respectively. The decrease in 1996 was primarily due to increased sales and decreases in both fixed and variable manufacturing costs at ODI and the Company's European operations. The 1995 increase was due to increases in fixed manufacturing expenses as a percent of net sales resulting from the full year inclusion of ODI on a consolidated basis which was impacted by a decline in unit volume contributing to lower overhead absorption, as well as increases in expenses supporting the Company's international operations.

Selling and administration expenses as a percent of net sales for 1996, 1995 and 1994 was 15.3 percent, 14.7 percent and 13.8 percent, respectively. The increase in 1996 was primarily due to sales commissions on ODI's sales to Russian oil companies, performance incentives and expenses associated with employee stock awards and stock appreciation rights granted prior to 1996. The 1995 increase was due to the full year inclusion of ODI on a consolidated basis and due to investments in systems and personnel in support of the Company's international operations.

Included in other income, net for 1996, 1995 and 1994 was interest income of \$2.1 million, \$1.9 million and \$1.7 million, respectively, primarily derived from the investment of cash balances in short-term U.S. treasury bills. Interest expense for 1996, 1995 and 1994 was \$1.3 million, \$2.1 million and \$2.2 million, respectively.

Foreign currency based transactions produced a \$0.3 million loss in 1996, a \$0.7 million loss in 1995, and a \$0.4 million gain in 1994. The foreign currency transaction loss in 1996 was primarily due to unfavorable movements in the South African rand and German mark relative to the U.S. dollar. This loss was partially offset by the movement of the Italian lira relative to the German mark. The foreign currency transaction loss in 1995 was primarily due to the movement of the Italian lira relative to the German mark and the movement of the U.S. dollar relative to the Australian dollar and Mexican peso. The currency transaction gain in 1994 was primarily due to the movement of the U.S. dollar relative to the German mark and the Australian dollar.

The provision for income taxes in 1996, 1995 and 1994 was \$11.8 million, \$8.8 million and \$11.5 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.

Equity in the earnings of affiliate was \$0.2 million in 1994. Previously a 50 percent owned joint venture, ODI became a 97 percent owned, fully consolidated subsidiary effective November 29, 1994, with the payment by ODI of a cash dividend to the Company's investment partner and a stock dividend to the Company. ODI changed its year-end in 1994 to conform to the Company's year-end. The change did not materially affect the Company's results of operations. In April 1996, the Company purchased the remaining 3 percent of ODI.

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 \$30.9 million, \$15.5 million and \$28.3 million in 1996, 1995 and 1994, respectively. The 1996 increase was due primarily to the increase in net income and decrease in inventories. The decrease in cash flows provided by operating activities in 1995 was due primarily to the decrease in net income, the increase in inventories and the decrease in accrued expenses relative to 1994.

Net cash flows used in investing activities of \$38.1 million during 1996 primarily consisted of purchases of short-term marketable securities which were partially offset by proceeds from the maturity of these securities. During 1996, the Company changed its excess cash investment practice to take advantage of higher yields on treasury bills with maturities extending beyond three months. Cash flows used in investing activities in 1996 also included \$6.2 million of additions to plant and equipment. Net cash flows used in investing activities of \$6.6 million and \$6.3 million in 1995 and 1994, respectively, primarily consisted of additions to plant and equipment.

Net cash flows used in financing activities were \$2.5 million, \$15.5 million and \$21.3 million in 1996, 1995 and 1994, respectively. The primary use of cash for financing activities in 1996 was for the payment of dividends on the Company's common stock. In 1995, the Company borrowed \$3.5 million on a short-term basis to finance current working capital requirements, of which \$3.1 million was repaid by year-end. The Company also repaid \$15.2 million of short-term borrowings originating in 1994. During 1994, the Company paid off a \$10.0 million note

to the estate of Edward J. Schaefer, redeemed all outstanding shares of Class C preferred stock for \$5.8 million and purchased 109,979 shares of common stock for \$3.8 million. Of the 109,979 shares repurchased, 17,310 shares were issued to Company-sponsored benefit plans to satisfy the Company's obligation to these plans and the remaining shares were retired.

Cash and cash equivalents at the end of 1996 were \$23.0 million compared to \$32.1 million at the end of 1995. The decrease was due to the investment of excess cash in short-term marketable securities. Working capital increased \$20.2 million in 1996 and the current ratio of the Company was 3.0 and 2.6 at the end of 1996 and 1995, respectively.

As further described in Note 12 to the Company's Financial Statements, in January 1997, the Company completed the repurchase of 500,000 shares of its common stock at an aggregate purchase price of \$24.0 million. The shares were subsequently retired.

Principal payments on the Company's \$20 million of unsecured long-term debt begin in 1998 and 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 million revolving credit agreement (the "Agreement"). The Agreement 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 1996 and 1995.

At December 28, 1996, the Company had \$3.7 million of commitments for the purchase of machinery and equipment. During 1997, 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.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## CONSOLIDATED STATEMENTS OF INCOME

## FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

	1996	1995	1994
(In thousands, except per share amounts)			
Net sales.....	\$300,689	\$276,440	\$241,440
Cost of sales (including research and development expenses of \$4,846, \$4,742 and \$4,244, respectively).....	221,636	211,069	178,306
Gross profit.....	79,053	65,371	63,134
Selling and administrative expenses...	45,854	40,688	33,313
Operating income.....	33,199	24,683	29,821
Interest expense.....	(1,308)	(2,128)	(2,172)
Other income, net.....	1,698	2,441	1,955
Foreign exchange gain (loss).....	(252)	(717)	392
Equity in earnings of affiliate.....	-	-	217
Income before income taxes.....	33,337	24,279	30,213
Income taxes (Note 5).....	11,827	8,777	11,504
Net income.....	21,510	15,502	18,709
Dividends on preferred stock.....	-	-	153
Net income available to common shares.	\$ 21,510	\$ 15,502	\$ 18,556
	=====	=====	=====
Per share data:			
Weighted average common shares.....	6,676	6,598	6,537
	=====	=====	=====
Net income available per common share.	\$ 3.22	\$ 2.35	\$ 2.84
	=====	=====	=====
Dividends per common share.....	\$ .46	\$ .38	\$ .29
Dividends per preferred share			
Class C.....	\$ -	\$ -	\$ 2.63

See Notes to Consolidated Financial Statements.

## CONSOLIDATED BALANCE SHEETS

### FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

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#### ASSETS

	1996	1995
(In thousands)		
-----		
Current assets:		
Cash and equivalents.....	\$ 22,968	\$ 32,077
Marketable securities.....	31,624	-
Receivables (less allowances of \$1,435 and \$1,351, respectively).....	25,134	22,526
Inventories:		
Raw materials.....	15,958	17,080
Work-in-process.....	4,942	5,899
Finished goods.....	32,528	34,614
LIFO reserve.....	(11,123)	(11,754)
	-----	-----
	42,305	45,839
Other current assets (including deferred income taxes of \$7,755 and \$7,823, respectively).....	9,485	8,879
	-----	-----
Total current assets.....	131,516	109,321
Property, plant and equipment, at cost:		
Land and buildings.....	28,335	29,173
Machinery and equipment.....	95,457	92,523
	-----	-----
	123,792	121,696
Less allowance for depreciation.....	83,695	80,026
	-----	-----
	40,097	41,670
Deferred and other assets.....	1,846	2,366
	-----	-----
Total Assets	\$173,459	\$153,357
	=====	=====

See Notes to Consolidated Financial Statements.

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# LIABILITIES AND SHAREOWNERS' EQUITY

	1996	1995
(In thousands)		
-----		
Current liabilities:		
Short-term borrowings (Note 6).....	\$ 21	\$ 461
Accounts payable.....	14,049	15,882
Accrued expenses (Note 4).....	24,883	23,228
Income taxes (Note 5).....	4,339	1,726
	-----	-----
Total current liabilities.....	43,292	41,297
Long-term debt (Note 6).....	20,276	20,171
Employee benefit plan obligations (Note 3)....	5,741	6,069
Other long-term liabilities.....	4,144	4,956
Deferred income taxes (Note 5).....	183	307
Shareowners' equity (Note 7):		
Common shares outstanding		
6,371 and 6,254, respectively.....	638	626
Additional capital.....	7,613	5,683
Retained earnings.....	95,961	77,363
Stock subscriptions.....	(997)	(1,315)
Cumulative translation adjustment.....	(625)	600
Loan to ESOP Trust (Note 3).....	(2,524)	(2,400)
Minimum pension liability		
adjustment, net of taxes (Note 3).....	(243)	-
	-----	-----
Total shareowners' equity.....	99,823	80,557
	-----	-----
Total Liabilities and Shareowners' Equity	\$173,459	\$153,357
	=====	=====

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

	1996	1995	1994
(In thousands)			
Cash flows from operating activities:			
Net income.....	\$21,510	\$15,502	\$18,709
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization.....	8,389	8,890	6,961
Equity in earnings of affiliate, less dividends.....	-	-	(217)
Deferred income taxes.....	(56)	(2,091)	(311)
Gain on disposals of plant and equipment.....	(20)	(43)	(132)
Changes in assets and liabilities:			
Receivables.....	(3,190)	29	(1,516)
Inventories.....	2,164	(7,628)	(2,355)
Other assets.....	(291)	417	(572)
Accounts payable and other accrued expenses.....	3,834	(679)	7,168
Employee benefit plan obligations....	(571)	1,166	2,122
Other long-term liabilities.....	(827)	(69)	(1,604)
Net cash flows from operating activities.	30,942	15,494	28,253
Cash flows from investing activities:			
Additions to plant and equipment.....	(6,235)	(6,111)	(7,612)
Proceeds from sale of plant and equipment.....	257	70	278
Acquired cash of subsidiary (Note 2)...	-	-	1,020
Additions to deferred assets.....	(445)	(630)	-
Purchases of marketable securities....	(52,866)	-	-
Proceeds from maturities of marketable securities.....	21,242	-	-
Other, net.....	(69)	78	-
Net cash flows from investing activities.	(38,116)	(6,593)	(6,314)
Cash flows from financing activities:			
Borrowing on long-term debt.....	199	-	-
Repayment of long-term debt (Note 6)...	(97)	-	(10,016)
Borrowing on line of credit.....	-	3,549	-
Repayment of line of credit.....	(393)	(18,300)	(68)
Redemption of preferred stock (Note 7)...	-	-	(5,818)
Proceeds from issuance of common stock.	811	530	130
Purchase of treasury stock (Note 7)....	-	-	(3,757)
Proceeds from stock subscriptions.....	25	866	-
Loan to ESOP Trust.....	(324)	-	-
Reduction of loan to ESOP Trust.....	200	200	200
Dividends paid.....	(2,912)	(2,370)	(1,942)
Net cash flows from financing activities.	(2,491)	(15,525)	(21,271)
Effect of exchange rate changes on cash..	556	(189)	(865)
Net decrease in cash and equivalents.....	(9,109)	(6,813)	(197)
Cash and equivalents at beginning of year.....	32,077	38,890	39,087
Cash and equivalents at end of year.....	\$22,968	\$32,077	\$38,890
	=====	=====	=====

Cash paid during 1996, 1995 and 1994 for interest was \$1.3 million, \$2.4 million and \$2.1 million, respectively. Also, cash paid during 1996, 1995 and 1994 for income taxes was \$9.3 million, \$12.0 million and \$10.0 million, respectively.

Non-cash transactions:

During the first quarter of 1995, the Company issued 20,000 common shares valued at \$0.6 million under the 1988 Executive Stock Purchase Plan.

During the first quarter of 1994, the Company issued 17,310 common shares valued at \$0.6 million to Company-sponsored benefit plans.

During the second quarter of 1994, the Company issued 48,000 common shares valued at \$1.3 million under the 1988 Incentive Stock Award

Plan.

During the fourth quarter of 1994, previously 50 percent owned joint venture, Oil Dynamics, Inc., became a 97 percent owned consolidated subsidiary (see Note 2).

**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.	Treasury Stock	Cumulative Translation Adjustment	Loan to ESOP Trust	Minimum Pension Liability
Balance year end 1993.....	6,230,668	\$623	\$3,052	\$50,621	\$ (902)	\$ -	\$ (467)	\$ (2,800)	\$ -
Net income.....				18,709					
Dividends on preferred stock.....				(153)					
Dividends on common stock.....				(1,789)					
Common stock issued.....	61,450	6	1,575						
Increase in stock subscriptions...					(1,210)				
Currency translation adjustment...							526		
Loan payment from ESOP.....								200	
Treasury stock purchases.....	(109,979)					(3,757)			
Treasury stock issued.....	17,310		40			591			
Treasury stock retired.....		(9)		(3,157)		3,166			
Balance year end 1994.....	6,199,449	\$620	\$4,667	\$64,231	\$ (2,112)	\$ -	\$ 59	\$ (2,600)	-
Net income.....				15,502					
Dividends on common stock.....				(2,370)					
Common stock issued.....	54,553	6	1,084		(530)				
Proceeds from stock subscriptions.					866				
Stock subscription amortization									
and adjustment.....			(68)		461				
Currency translation adjustment...							541		
Loan payment from ESOP.....								200	
Balance year end 1995.....	6,254,002	\$626	\$5,683	\$77,363	\$ (1,315)	\$ -	\$ 600	\$ (2,400)	-
Net income.....				21,510					
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				
Currency translation adjustment...							(1,225)		
Loan payment from ESOP.....								200	
Loan to ESOP Trust.....								(324)	
Minimum pension liability									
adjustment, net of tax benefit..									(243)
Balance year end 1996.....	6,371,029	\$638	\$7,613	\$95,961	\$ (997)	\$ -	\$ (625)	\$ (2,524)	\$ (243)

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 December 28, 1996 (52 weeks), December 30, 1995 (52 weeks) and December 31, 1994 (52 weeks) and are referred to as 1996, 1995 and 1994, respectively.

PRINCIPLES OF CONSOLIDATION--The financial statements include the accounts of the Company and all majority-owned subsidiaries. The accounts of certain foreign subsidiaries are included in the financial statements on their fiscal years ended November 30. Beginning November 29, 1994, the results of operations of Oil Dynamics, Inc. were included on a fully consolidated basis (see Note 2).

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 maturities of three months or less.

MARKETABLE SECURITIES--Marketable securities consist of short-term U.S. Treasury Bills with original maturities generally greater than three months. All securities are expected to be held to maturity and, as such, 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 64 percent of total inventories in 1996 and 1995. In 1996, due to the liquidation of LIFO inventories, net income increased by \$0.5 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.

STOCK-BASED COMPENSATION--Management of the Company has elected to adopt the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). 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--Primary and fully diluted earnings per common share are computed based upon earnings applicable to common shares, divided by the sum of the average number of common shares outstanding during the period plus dilutive common stock equivalents. Separate presentation of primary and fully diluted earnings per common share has not been made because the difference is immaterial.

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--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period.

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

## 2. INVESTMENT IN AFFILIATE

Summarized below is selected 1994 financial information for the Company's investment in its previously unconsolidated affiliate, Oil Dynamics, Inc.(ODI). Beginning November 29, 1994, ODI was included in the Company's financial statements on a fully consolidated basis.

(In thousands)

	1994
Net sales.....	\$44,043
Gross profit.....	10,735
Net income.....	773

On November 29, 1994, control of the previously 50 percent owned ODI was effectively transferred to the Company. The change in control resulted from receipt of a stock dividend (in lieu of a cash dividend received by the investment partner) which increased the Company's ownership interest to approximately 97 percent. The change in control has been accounted for under the purchase method. On April 4, 1996, the Company purchased the remaining 3 percent.

Equity in the earnings of ODI is included in the results of operations using the equity method of accounting for the thirteen months ended November 28, 1994. Beginning November 29, 1994, the results of operations and financial position of ODI have been included on a fully consolidated basis. In 1994, the fiscal year end of ODI was changed to conform with the Company's fiscal year end. This change did not materially affect the Company's financial statements.

Summarized below are the unaudited pro forma consolidated results of operations of the Company and ODI as though control of ODI had been transferred to the Company as of the beginning of 1994. These results include certain pro forma adjustments, primarily increased interest expense, and are not necessarily indicative of the results that would have been obtained had the Company controlled ODI during the respective periods.

(In thousands, except per share amounts)	
-----	
	1994
Net sales.....	\$285,483
Net income.....	18,967
Per share data:	
Net income.....	\$ 2.88

### 3. EMPLOYEE BENEFIT PLANS

**PENSION PLANS**--The Company's domestic operations maintain four separate pension plans covering substantially all of its U.S. employees. A non-contributory defined benefit pension plan covering substantially all U.S. employees provides benefits based upon years of credited service. A contributory defined benefit pension plan covering substantially all U.S. salaried employees provides benefits based upon the highest average thirty-six consecutive monthly earnings before retirement. A non-contributory defined benefit pension plan covering certain management employees provides benefits in excess of those provided under other plans. A non-contributory defined benefit pension plan covering substantially all other employees of the Company not covered under other plans provides benefits based upon a percentage of monthly earnings for each year of credited service. The Company's funding policy is to make the minimum annual contribution required by applicable regulations.

Net domestic pension cost for 1996, 1995 and 1994 was as follows:

(In thousands)			
-----			
	1996	1995	1994
	----	----	----
Service cost.....	\$ 2,295	\$ 1,846	\$ 1,726
Interest on projected benefit obligation.....	5,291	4,952	4,310
Actual return on plan assets....	(16,769)	(13,082)	1,356
Net amortization and deferral...	11,331	7,559	(6,367)
	-----	-----	-----
Net domestic pension cost.....	\$ 2,148	\$ 1,275	\$ 1,025
	=====	=====	=====

The following table sets forth the funded status of the Company's domestic plans and accrued pension costs reflected in the Company's balance sheet at year end. The Company's international subsidiaries' pension liabilities have

been excluded from the following presentation because the amounts are immaterial.

(In thousands)				
-----				
	ABO Exceeds Assets	Assets Exceed ABO		
	-----	-----		
	1996	1995	1996	1995
	----	----	----	----
Actuarial present value of				

benefit obligations:				
Vested employees.....	\$ 1,120	\$41,886	\$66,271	\$19,662
Nonvested employees.....	38	2,071	2,787	802
	-----	-----	-----	-----
Accumulated benefit obligation (ABO).....	1,158	43,957	69,058	20,464
Additional amount related to projected benefit or pay increases.....	307	386	5,624	4,853
	-----	-----	-----	-----
Projected benefit obligation...	1,465	44,343	74,682	25,317
Fair value of plan assets, primarily common stocks and bonds, including \$23,306 and \$16,500 of the Company's common stock in 1996 and 1995, respectively.....	-	41,013	86,030	29,871
	-----	-----	-----	-----
Funded status.....	(1,465)	(3,330)	11,348	4,554
Unrecognized net (gain) loss...	712	(4,037)	(18,698)	(4,000)
Unrecognized net obligation (asset) at date of initial application of SFAS No. 87...	-	273	(242)	(558)
Unrecognized prior service cost.....	32	2,556	4,674	(221)
Adjustment required to recognize minimum liability..	(437)	(134)	-	-
	-----	-----	-----	-----
Accrued pension liability.....	\$(1,158)	\$(4,672)	\$(2,918)	\$ (225)
	=====	=====	=====	=====
Actuarial Assumptions:				
	1996	1995	1994	
	----	----	----	
Discount rate.....	7.50%	7.50%	8.0-8.25%	
Rate of increase in future compensation.....	0-5.0%	0-5.0%	0-5.0%	
Expected long-term rate of return on plan assets.....	8.25-9.0%	8.25-9.0%	8.25-9.0%	

Pursuant to the provisions of Statement of Financial Accounting Standards No.

87 "Employers' Accounting for Pensions," the Company recorded in other noncurrent liabilities an additional minimum pension liability adjustment of \$437,000 as of December 28, 1996, to recognize the amount of the accumulated plan benefits which exceeds the fair value of the plan assets and the accrued pension liability. At December 28, 1996, the liability exceeded the unrecognized prior service cost resulting in a minimum pension liability, net of taxes, of \$243,000 recorded as a reduction of the Company's equity.

401(k)PLAN--Prior to January 1, 1995, the Company maintained a 401(k) Directed Investment Salary Plan (DISP) covering substantially all employees and a Savings Plan (Savings Plan) covering substantially all hourly employees at its Bluffton facility. Effective January 1, 1995, the Company merged the Savings Plan into the DISP.

EMPLOYEE STOCK OWNERSHIP PLAN--The Company maintains an Employee Stock Ownership Plan (ESOP) for substantially all of the its domestic employees excluding hourly employees at its Bluffton and Jonesboro, Indiana; Siloam Springs, Arkansas; and McFarland, Wisconsin, locations.

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 loans (6.31 percent at December 28, 1996), 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.

At December 28, 1996, 87,186 shares were allocated to the accounts of participants, 10,968 shares were committed to be released and allocated to the accounts of participants for service rendered during 1996, and 87,503 shares were held by the ESOP Trust in suspense.

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.

The following table sets forth the interest expense and Company contributions to the ESOP and 401(k) Plan (dividends on the Company's common stock held by the ESOP are not used for debt service):

(In thousands)

	1996	1995	1994
	----	----	----
Interest expense incurred by the Plan			
on ESOP debt.....	\$ 153	\$ 155	\$167
Company contributions to ESOP and 401(k)...	1,217	1,292	992

POSTRETIREMENT BENEFIT PLANS OTHER THAN PENSIONS--The Company's postretirement plan covers domestic employees hired prior to 1992. The Company effectively capped its cost for such benefits through plan amendments made in 1992 freezing Company contributions for health and life insurance benefits at 1991 levels for current and future beneficiaries with actuarially reduced benefits for employees who retire before age 65.

Net postretirement benefit cost for 1996, 1995 and 1994 was as follows:

	(In thousands)		
	1996	1995	1994
	----	----	----
Service cost.....	\$ 244	\$ 219	\$ 246
Interest cost.....	803	837	806
Amortization of transition obligation.....	489	489	489
Net amortization and deferral.....	59	7	83
	-----	-----	-----
Net postretirement benefit cost.....	\$1,595	\$1,552	\$1,624
	=====	=====	=====

The following table sets forth the funded status of the Company's postretirement benefit plans and accrued postretirement benefit cost reflected in the Company's balance sheet at year end:

(In thousands)

1996 1995

Accumulated postretirement benefit obligation

Retirees.....	\$ (7,640)	\$ (7,939)
Active employees.....	(3,562)	(3,318)
	-----	-----
	(11,202)	(11,257)
Unrecognized net obligation at date		
of adoption of SFAS No. 106.....	7,823	8,312
Unrecognized net loss.....	1,714	1,773
	-----	-----
Accrued postretirement benefit cost.....	\$ (1,665)	\$ (1,172)
	=====	=====

The discount rate used in determining the accumulated postretirement benefit obligation was 7.50, 7.50 and 8.25 percent in 1996, 1995 and 1994, respectively.

#### 4. ACCRUED EXPENSES

Accrued expenses consisted of:

	(In thousands)	
	1996	1995
	----	----
Salaries, wages and commissions.....	\$ 7,178	\$ 6,100
Product warranty costs.....	4,719	4,745
Insurance.....	4,896	4,843
Employee benefits.....	2,818	2,971
Other.....	5,272	4,569
	-----	-----
	\$24,883	\$23,228
	=====	=====

## 5. INCOME TAXES

Income before income taxes consisted of:

	(In thousands)		
	1996	1995	1994
	----	----	----
Domestic.....	\$27,664	\$23,647	\$28,202
Foreign.....	5,673	632	2,011
	-----	-----	-----
	\$33,337	\$24,279	\$30,213
	=====	=====	=====

The income tax provision consisted of:

(In thousands)

	1996	1995	1994
	----	----	----
Currently payable:			
Federal.....	\$ 8,110	\$8,714	\$ 7,966
Foreign.....	1,611	113	1,277
State.....	2,162	2,041	2,572
Deferred:			
Federal.....	(44)	(2,293)	169
Foreign.....	50	343	(408)
State.....	(62)	(141)	(72)
	-----	-----	-----
	\$11,827	\$8,777	\$11,504
	=====	=====	=====

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

(In thousands)

	1996	1995
	----	----
Deferred tax assets:		
Accrued expenses and reserves.....	\$ 6,835	\$ 6,033
Compensation and employee benefits.....	4,380	4,516
Foreign tax credits.....	-	385
Other items.....	670	744
	-----	-----
Total deferred tax assets.....	11,885	11,678
	-----	-----
Deferred tax liabilities:		
Accelerated depreciation on fixed assets...	4,132	4,055
Other items.....	181	107
	-----	-----
Total deferred tax liabilities.....	4,313	4,162
	-----	-----
Net deferred tax assets.....	\$ 7,572	\$ 7,516
	=====	=====

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

	(In thousands)			
	1996		1995	
	-----	-----	-----	-----
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
	-----	-----	-----	-----
Current.....	\$ 7,840	\$ 85	\$ 7,908	\$ 85
Non-current....	4,045	4,228	3,770	4,077

Total.....	----- \$11,885 =====	----- \$4,313 =====	----- \$11,678 =====	----- \$4,162 =====
------------	----------------------------	---------------------------	----------------------------	---------------------------

There was no valuation allowance for deferred tax assets required in 1996 or 1995.

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

	1996	1995	1994
	----	----	----
U.S. Federal statutory rate.....	35.0%	35.0%	35.0%
State income taxes, net of federal benefit.....	4.1	5.1	5.4
Effect of higher foreign tax rates.....	(.5)	1.0	.5
Earnings of foreign sales corporation .....	(3.1)	(.4)	(.3)
Utilization of foreign tax credits.....	-	(5.2)	(3.9)
Other items.....	-	.7	1.7
	----- 35.5% =====	----- 36.2% =====	----- 38.4% =====

Accumulated undistributed earnings of foreign subsidiaries expected to be permanently invested approximated \$5.2 million at December 28, 1996. The Company does not anticipate incurring any tax should these earnings be repatriated in the future.

## 6. DEBT

Short-term debt consisted of:

(In thousands)

	1996	1995
	----	----
Bank--other.....	\$ - =====	\$452 =====

Long-term debt consisted of:

(In thousands)

	1996	1995
	----	----
Insurance Company--6.31%, principal payments of \$1.0 million due in annual installments, starting in 1998 with a balloon payment of \$10,000 in 2008.....	\$20,000	\$20,000
Bank--other.....	297	180
	----- 20,297	----- 20,180
Less current maturities.....	21	9
	----- \$20,276 =====	----- \$20,171 =====

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 financial covenants in 1996 and 1995.

On January 5, 1996, the Company entered into an unsecured, five-year \$40 million revolving credit agreement (the "Agreement"). The Agreement, which includes a facility fee of one-tenth of one percent on the committed amount, 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 consolidated tangible net worth. The 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 6,371,029 shares of common stock (10,000,000 shares authorized, \$.10 par value) outstanding at the end of 1996. On January 26, 1994, the Company purchased 109,979 common shares for \$3.8 million under the terms of a stock redemption agreement entered into in 1988 with Edward J. Schaefer, co-founder of the Company. Under the terms of the agreement, the Company had the right, but not the obligation, to purchase any and all shares that the estate elected to sell. Of the 109,979 shares repurchased, 17,310 were re-issued to Company-sponsored employee benefit plans and the remaining shares were retired.

Stock subscriptions are principally deferred costs recognized in connection with the issuance of common stock under the 1988 Incentive Award Plan and loans to officers under the 1988 Purchase Plan.

During the first quarter of 1994, the Company redeemed all outstanding shares of Class C Cumulative Preferred Stock for its stated value of \$5.8 million.

## 8. STOCK BASED COMPENSATION

At December 28, 1996, the Company had seven stock-based compensation plans which are described as follows.

**FIXED STOCK OPTION PLANS**--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 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 1996, 1995 and 1994 follows:

Fixed Options	1996		1995		1994	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	861,092	\$18.69	753,645	\$15.90	513,095	\$10.34
Granted	116,500	41.74	192,000	31.82	254,000	26.71
Exercised	(121,467)	6.90	(34,553)	15.36	(13,450)	8.39
Forfeited	(6,000)	22.13	(50,000)	29.25	-	-
Outstanding at end of year	850,125	\$23.51	861,092	\$18.69	753,645	\$15.90

The following summarizes information about fixed stock options outstanding at December 28, 1996:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/28/96	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/28/96	Weighted-Average Exercise Price
\$ 3.38 to 10.00	265,025	2.60 years	\$ 7.66	265,025	\$ 7.66
10.01 to 30.00	270,000	7.02	25.08	129,000	23.53
30.01 to 42.00	315,100	8.96	35.49	43,800	31.80
\$ 3.38 to 42.00	850,125	6.36	\$23.51	437,825	\$14.75

For pro forma information regarding net income and earnings per share, the fair value for the options awarded in 1996 and 1995 for all fixed



stock option plans was estimated as of the date of the grant using a Black-Scholes option valuation model with the following weighted average assumptions for 1996 and 1995, respectively: risk-free interest rates of 6.18 percent and 6.42 percent; dividend yields of 1.4 percent; volatility factors of the expected market price of the Company's common stock of .257 and .260; and a weighted-average expected life of the option of six 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)		
	1996	1995
Reported net income	\$21,510	\$15,502
Pro forma net income	\$21,245	\$15,362
Reported net income available per common share	\$3.22	\$2.35
Pro forma net income available per common share	\$3.18	\$2.33

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.

**ADDITIONAL AWARD PLANS**--The Company has authorized the grant of up to 888,000 restricted shares of its common stock to employees of the Company and its subsidiaries under the 1988 Stock Incentive Award Plan (1988 Award Plan). Vesting of shares awarded under the 1988 Award Plan is contingent upon increases in the Company's actual Return on Equity (ROE) during the restriction period relative to an established threshold ROE. No shares were awarded under the 1988 Award Plan during 1996 or 1995. At December 28, 1996, 671,936 shares were reserved for future awards.

The Company has allocated 888,000 shares of its common stock for the 1988 Executive Stock Purchase Plan (1988 Purchase Plan). Under this plan executives of the Company and its subsidiaries are awarded the right to purchase shares of its common stock through a Company loan. The purchase price per share is the closing price of a share on the day prior to the date of purchase. During 1995, 20,000 shares were awarded under the 1988 Purchase Plan. No shares were awarded in 1996. At December 28, 1996, 512,800 shares were reserved for future awards.

## 9. SEGMENT AND GEOGRAPHIC INFORMATION

The Company's single business segment is the design, manufacture and sale of electric motors, electronic controls and related equipment. These products are sold to original equipment manufacturers in the United States, Canada, Europe, Australia, South Africa, Mexico and other world markets.

Manufacturing plants are located in the United States, Germany, Czech Republic, Italy and South Africa.

GEOGRAPHICAL AREAS	(In thousands)		
	1996	1995	1994
NET SALES			
North America.....	\$252,007	\$225,958	\$200,216
Foreign.....	48,682	50,482	41,224
	\$300,689	\$276,440	\$241,440
	=====	=====	=====
OPERATING MARGIN			
North America.....	\$44,011	\$38,885	\$43,030
Foreign.....	7,425	2,148	3,342
Equity in earnings of affiliate.....	-	-	217
Interest expense.....	(1,308)	(2,128)	(2,172)
Interest income.....	2,052	1,866	1,678
Corporate expenses.....	(18,843)	(16,492)	(15,882)
	\$33,337	\$24,279	\$30,213
	=====	=====	=====
IDENTIFIABLE ASSETS			
North America.....	\$ 81,570	\$ 84,013	\$ 82,247
Foreign.....	29,966	29,697	24,188

Corporate .....	61,923	39,647	45,146
	-----	-----	-----
	\$173,459	\$153,357	\$151,581
	=====	=====	=====

The Company has no single geographic area within its foreign operations whose revenues or assets exceed 10 percent of such amounts on a consolidated basis. The Company had \$49.4 million, \$32.7 million and \$23.2 million of export sales (from domestic sources) in 1996, 1995 and 1994, respectively, to various geographic areas, of which no single geographic area was significant.

One customer accounted for 12.5 percent, 12.9 percent and 14.1 percent of the consolidated sales in 1996, 1995 and 1994, respectively.

#### 10. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited quarterly financial information for the years 1996 and 1995 is as follows:

(In thousands, except per share amounts)

	Net Sales	Gross Profit	Net Income	Net Income Per Weighted Average Common Share
-----	-----	-----	-----	-----
1996				
1st Quarter	\$ 62,754	\$14,910	\$ 3,008	\$ .45
2nd Quarter	73,107	19,212	5,081	.76
3rd Quarter	79,380	20,000	5,612	.84
4th Quarter	85,448	24,931	7,809	1.17
	-----	-----	-----	-----
	\$300,689	\$79,053	\$21,510	\$3.22
	=====	=====	=====	=====
-----	-----	-----	-----	-----
1995				
1st Quarter	\$ 59,788	\$13,297	\$ 1,644	\$ .25
2nd Quarter	76,442	17,573	4,542	.69
3rd Quarter	66,188	14,954	3,301	.50
4th Quarter	74,022	19,547	6,015	.91
	-----	-----	-----	-----
	\$276,440	\$65,371	\$15,502	\$2.35
	=====	=====	=====	=====

#### 11. CONTINGENT LIABILITIES 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 \$1.6 million and \$1.4 million at December 28, 1996 and December 30, 1995, respectively, to provide for such actions.

Included in such matters are two pending governmental actions associated with hazardous waste sites falling under the Comprehensive Environmental Response Compensation and Liability Act in which the Company has been designated, in conjunction with other parties, as a "potentially responsible party" (PRP). The range of the Company's potential liability for the first site is unknown as the total cost for the site remediation and allocation among the PRPs has not been determined; however, the Company believes such matters are substantially covered by the Company's insurance. The current estimate for remediation at the second site is \$15.0 million, for which the Company has agreed under consent decree to pay 1.341 percent (approximately \$201,000) over the next five to fifteen years. The Company has paid approximately \$103,000 of this amount through December 28, 1996.

Total rent expense charged to operations for operating leases including contingent rentals was \$2.4 million, \$2.0 million and \$1.3 million for 1996, 1995 and 1994, respectively. The future minimum rental payments for noncancellable operating leases as of December 28, 1996, are as follows:

1997, \$.7 million; 1998, \$.3 million and 1999, \$.2 million. Rental commitments subsequent to 1999 are not material.

#### 12. SUBSEQUENT EVENTS

In January 1997, pursuant to the stock repurchase plan authorized by the Company's Board of Directors in October 1996, the Company completed three separate, privately negotiated transactions to repurchase 500,000 shares of the Company's common stock for a total purchase price of \$24.0 million. Of these shares, 175,000 were repurchased from a director of the Company. The shares were subsequently retired.

## **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 December 28, 1996 and December 30, 1995 and the related consolidated statements of income, shareowners' equity and cash flows for each of the three years in the period ended December 28, 1996. 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 financial statements present fairly, in all material respects, the financial position of Franklin Electric Co., Inc. and consolidated subsidiaries as of December 28, 1996 and December 30, 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

### **DELOITTE & TOUCHE LLP**

Deloitte & Touche LLP  
Chicago, Illinois  
January 30, 1997

**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 11, 1997, 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 11, 1997, under the headings of "INFORMATION ABOUT THE BOARD AND ITS COMMITTEES," "SUMMARY COMPENSATION TABLE," "OPTION GRANTS IN 1996 FISCAL YEAR" AND "1996 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 11, 1997, 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 11, 1997, 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

Consolidated Statements of Income for the three years ended December 28, 1996 Consolidated Balance Sheets, as of December 28, 1996 and December 30, 1995 Consolidated Statements of Cash Flows for the three years ended December 28, 1996 Consolidated Statements of Shareowners' Equity for the three years ended December 28, 1996 Notes to Consolidated Financial Statements

(including quarterly financial data)

2. Financial Statement Schedules - Franklin Electric

**II Valuation and Qualifying Accounts**

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.

Management Contract or Compensatory Plan or

Arrangement is denoted by an asterisk (\*).

(b) Reports on Form 8-K filed during the fourth quarter ended December 28, 1996: None.

(c) See the Exhibit Index.

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

## 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.

### WILLIAM H. LAWSON

William H. Lawson Chairman of the Board Chief Executive Officer (Date) February 14, 1997

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.

WILLIAM H. LAWSON Chairman of the Board  
- ----- Chief Executive Officer

William H. Lawson      February 14, 1997      (Principal Executive Officer)

JOHN B. LINDSAY  
- -----  
John B. Lindsay      February 14, 1997      President and Director

JESS B. FORD      Vice President and Chief  
- -----      Financial Officer (Principal  
Jess B. Ford      February 14, 1997      Financial and Accounting  
Officer)

ROBERT H. LITTLE  
- -----  
Robert H. Little      February 14, 1997      Director

### PATRICIA SCHAEFER

Patricia Schaefer February 14, 1997 Director

### DONALD J. SCHNEIDER

Donald J. Schneider February 14, 1997 Director

GERARD E. VENEMAN  
- -----  
Gerard E. Veneman      February 14, 1997      Director

JURIS VIKMANIS  
- -----  
Juris Vikmanis      February 14, 1997      Director

HOWARD B. WITT  
- -----  
Howard B. Witt      February 14, 1997      Director

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**

For the years 1996, 1995 and 1994

(In thousands)

Description -----	Balance at beginning of period -----	Additions charged to costs and expenses -----	Deductions ----- (A)	Balance at end of period -----
----------------------	---	---	----------------------------	---

Allowance for doubtful accounts:

1996	\$1,351 =====	\$227 =====	\$143 =====	\$1,435 =====
1995	\$1,271 =====	\$190 =====	\$110 =====	\$1,351 =====
1994	\$1,269 =====	\$201 =====	\$199 =====	\$1,271 =====

**NOTES:**

(A) Uncollectible accounts written off, net of recoveries

**FRANKLIN ELECTRIC CO., INC.**

**EXHIBIT INDEX FOR THE FISCAL YEAR  
ENDED DECEMBER 28, 1996**

Sequentially  
Numbered

Item Description Pages

3(i) Restated Articles of Incorporation of Franklin Electric Co., Inc. (incorporated herein by reference to Exhibit 3 of the Company's Form 10-K for the fiscal year ended December 30, 1989)

Articles of Amendment of the Restated Articles of Incorporation of Franklin Electric Co., Inc. effective February 26, 1991 (incorporated herein by reference to the Company's current report on Form 8-K dated February 26, 1991)

3(ii) By-Laws of Franklin Electric Co., Inc. as amended, effective July 15, 1994 (incorporated herein by reference to the Company's Form 10-K for the fiscal year ended December 31, 1994)

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 Stock Redemption Agreement dated October 28, 1988, as amended on December 12, 1988, between the Company and Edward J. Schaefer (incorporated herein by reference to Exhibit 10.1 of the Company's Form 10-K for the fiscal year ended December 31, 1988)

10.2 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)\*

10.3 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)\*

10.4 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)\*

10.5 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)\*

10.6 Franklin Electric Nonemployee Director Stock Option Plan (incorporated herein by reference to the Company's 1991 Proxy Statement for the Annual Meeting on April 19, 1991)\*

10.7 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)

10.8 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 Credit Agreement dated as of January 5, 1996 between the Company and various commercial banks (incorporated herein by reference to Exhibit 10.9 of the Company's Form 10-K for the fiscal year ended December 30, 1995)

10.10 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)\*

10.11 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)\*

11 Primary Earnings per Share and Fully Diluted Earnings per Share

21 Subsidiaries of the Registrant

23 Consent of Independent Auditors

27 Financial Data Schedule

\* Management contract or compensatory plan or arrangement



**EXHIBIT 11****FRANKLIN ELECTRIC CO., INC.****PRIMARY EARNINGS PER SHARE AND FULLY DILUTED EARNINGS PER SHARE**

(In thousands, except per share amounts)

	Year Ended		
	December 28, 1996	December 30, 1995	December 31, 1994
Net income available to common shares and common share equivalents.....	\$21,510 =====	\$15,502 =====	\$18,556 =====
Shares outstanding, beginning of period.....	6,254	6,199	6,231
Weighted average of options issued during the period.....	-	-	19
Dilutive effect of options outstanding during the period.....	349	364	337
Weighted average of common shares issued during the period.....	73	35	53
Weighted average common shares repurchased during the period.....	- -----	- -----	(103) -----
Weighted average primary shares outstanding during the period.....	6,676	6,598	6,537
Additional dilutive effect of options outstanding during the period.....	87 -----	16 -----	27 -----
Weighted average fully diluted shares outstanding during the period.....	6,763 =====	6,614 =====	6,564 =====
Earnings per share			
Primary.....	\$ 3.22 =====	\$ 2.35 =====	\$ 2.84 =====
Fully diluted.....	\$ 3.18 =====	\$ 2.34 =====	\$ 2.83 =====

**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
Oil Dynamics, Inc.	Oklahoma	100
Franklin Electric Subsidiaries, Inc. [inactive]	Indiana	100
Franklin Electric International, Inc.	Delaware	100
Franklin Electric AG	Switzerland	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 of Canada, Limited [inactive]	Canada	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 and 33-38200) of our report dated January 30, 1997 appearing in the Annual Report on Form 10-K of Franklin Electric Co., Inc. for the year ended December 28, 1996.

**DELOITTE & TOUCHE LLP**

Deloitte & Touche LLP  
Chicago, Illinois  
February 20, 1997

**ARTICLE 5**

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FORM 10-K FOR THE PERIOD ENDED DECEMBER 28, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 28 1996
PERIOD END	DEC 28 1996
CASH	22,968
SECURITIES	31,624
RECEIVABLES	25,134
ALLOWANCES	1,435
INVENTORY	42,305
CURRENT ASSETS	131,516
PP&E	123,792
DEPRECIATION	83,695
TOTAL ASSETS	173,459
CURRENT LIABILITIES	43,292
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	638
OTHER SE	99,185
TOTAL LIABILITY AND EQUITY	173,459
SALES	300,689
TOTAL REVENUES	302,387
CGS	221,636
TOTAL COSTS	269,050
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	1,308
INCOME PRETAX	33,337
INCOME TAX	11,827
INCOME CONTINUING	21,510
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	21,510
EPS PRIMARY	3.22
EPS DILUTED	3.18

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