FRANKLIN ELECTRIC CO INC
Form PRE 14A
February 23, 2004

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FRANKLIN ELECTRIC CO., INC.

400 East Spring Street
Bluffton, Indiana 46714

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held
May 5, 2004 at 9:00 A.M., E.S.T.

To the Shareholders of
Franklin Electric Co., Inc.

THE ANNUAL MEETING OF SHAREHOLDERS OF FRANKLIN ELECTRIC CO., INC. (THE "COMPANY"), AN INDIANA CORPORATION, WILL BE HELD AT THE PRINCIPAL OFFICE OF THE COMPANY, 400 EAST SPRING STREET, BLUFFTON, INDIANA, ON WEDNESDAY, MAY 5, 2004, AT 9:00 A.M., E.S.T. THE PURPOSES OF THE MEETING ARE TO:

1. Elect three directors for terms expiring at the 2007 Annual Meeting of Shareholders;

2. Approve an amendment to the Company's Restated Articles of Incorporation to increase the number of shares of authorized common stock;

3. Ratify the appointment of Deloitte & Touche LLP as independent auditors for the 2004 fiscal year; and

4. Transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only shareholders of record at the close of business on February 27, 2004 will be entitled to notice of and to vote at the Annual Meeting.

You are urged to vote your proxy regardless of whether you plan to attend the Annual Meeting. If you do attend, you may nevertheless vote in person which will revoke any previously executed proxy.

By order of the Board of Directors.

Gregg C. Sengstack
Senior Vice President, Chief Financial
Officer and Secretary

Bluffton, Indiana
March xx, 2004

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FRANKLIN ELECTRIC CO., INC.

400 East Spring Street
Bluffton, Indiana 46714

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 5, 2004

GENERAL INFORMATION

This Proxy Statement and the enclosed proxy are furnished to shareholders in connection with the solicitation of proxies by the Board of Directors of Franklin Electric Co., Inc. (the "Company"), 400 East Spring Street, Bluffton, Indiana, for use at the Annual Meeting of Shareholders to be held on May 5, 2004 or any adjournment or postponement thereof. This Proxy Statement, together with the Company's Annual Report to shareholders, including financial statements contained therein, is being mailed to shareholders on or about March xx, 2004. Neither the Annual Report nor the financial statements contained therein are to be considered part of this soliciting material.

The expenses of solicitation, including the cost of printing and mailing, will be paid by the Company. Officers and employees of the Company, without additional compensation, may solicit proxies personally, by telephone or by facsimile. Arrangements will also be made with brokerage firms and other custodians, nominees and fiduciaries to forward proxy solicitation material to the beneficial owners of shares held of record by such persons, and the Company will reimburse such entities for reasonable out-of-pocket expenses incurred by them in connection therewith.

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VOTING INSTRUCTIONS

Shareholders may attend the Annual Meeting and vote their shares in person. Shareholders may also choose to submit their proxies by any of the following methods:

VOTING BY MAIL: Complete the enclosed proxy, date and sign it, and return it in the envelope provided.

VOTING BY TELEPHONE: Call the toll-free telephone number provided on the proxy. Telephone voting will be available through April 30, 2004, 24 hours a day. Detailed instructions will be provided during the call, and the procedures are designed to authenticate votes cast by using the last 4 digits of a shareholder's social security/taxpayer I.D. number. Shareholders that vote by telephone should not return the proxy card.

VOTING BY INTERNET: Sign-on to the website address identified on the proxy. Internet voting will be available through April 30, 2004, 24 hours a day. Detailed instructions will be provided on the website, and the procedures are designed to authenticate votes cast by using the last 4 digits of a shareholder's social security/taxpayer I.D. number. Shareholders that vote by internet should not return the proxy card.

SHAREHOLDERS WHO ARE PARTICIPANTS IN THE COMPANY'S EMPLOYEE STOCK OWNERSHIP PLAN AND/OR DIRECTED INVESTMENT SALARY PLAN WILL RECEIVE A VOTING INSTRUCTION CARD THAT COVERS THE SHARES CREDITED TO THEIR PLAN ACCOUNTS. SUCH SHAREHOLDERS MAY NOT VOTE BY TELEPHONE OR INTERNET.

If the enclosed proxy is properly voted, the shares represented thereby will be voted in the manner specified in the proxy. If a shareholder does not specify the manner in which the proxy shall be voted, the shares represented thereby will be voted:

FOR the election of the nominees for director as set forth in this Proxy Statement;
FOR approval of an amendment to the Company's Restated Articles of Incorporation to increase the number of shares of authorized common stock;
FOR the ratification of the appointment of Deloitte & Touche LLP as independent auditors for the 2004 fiscal year; and
in accordance with the recommendations of management with respect to other matters that may properly come before the Annual Meeting.

A shareholder who has executed a proxy has the power to revoke it at any time before it is voted by (i) delivering written notice of such revocation to Mr. Gregg C. Sengstack, Senior Vice President, Chief Financial Officer and Secretary, 400 East Spring Street, Bluffton, Indiana 46714, (ii) executing and delivering a subsequently dated proxy by mail, over the telephone or through the Internet, or (iii) by attending the Annual Meeting and voting in person.

SHAREHOLDERS ENTITLED TO VOTE AND SHARES OUTSTANDING

The Board of Directors of the Company fixed the close of business on February 27, 2004 as the record date (the "Record Date") for determining shareholders entitled to notice of and to vote at the Annual Meeting. As of the Record Date, there were 25,000,000 shares of common stock, $.10 par value (the "Common Stock"), authorized, of which xx,xxx,xxx shares were outstanding. Each share of Common Stock is entitled to one vote on each matter submitted to a vote of the shareholders of the Company. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspectors of election appointed for the Annual Meeting and will be counted as present for purposes of determining whether a quorum is present. A majority of the outstanding shares of Common Stock, present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted for purposes of determining the presence or absence of a quorum but will not be counted as votes cast on any matter submitted to shareholders. As a result, abstentions and broker non-votes will not have any effect on the voting results with respect to any of the matters scheduled to be submitted to shareholders at the Annual Meeting.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the persons known by the Company to be the beneficial owners of more than five percent of the Company's Common Stock as of February 27, 2004, unless otherwise noted. The nature of beneficial ownership is sole voting and investment power, unless otherwise noted.

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Wells Fargo Bank Minnesota, N.A. Midwest Plaza, West Tower Suite 700 801 Nicolette Mall Minneapolis, MN 55479-0065	1,183,834 (1)	xx.xx
Select Equity Group, Inc., jointly with George S. Loening 380 Lafayette Street, 6th Floor New York, NY 10003	1,171,213 (2)	x.xx
Patricia Schaefer 5400 Deer Run Court Muncie, IN 47304	986,042 (3)	x.xx
Diane D. Humphrey 2279 East 250 North Road Bluffton, IN 46714	922,199	x.xx
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	773,600 (4)	x.xx
Ruane, Cunniff & Co., Inc. 767 5th Avenue, Suite 4701 New York, NY 10153	572,973 (5)	x.xx

Marvin C. Schwartz c/o Neuberger & Berman 605 Third Avenue New York, NY 10158	456,520 (6)	x.xx

(1) Wells Fargo Bank holds these shares as Trustee under the Company's Employee Stock Ownership Plan (the "ESOP"), Directed Investment Salary Plan (the "401(k) Plan"), and defined benefit pension plans. Share information is from January 2004 Trust records provided by Wells Fargo Bank. The shares held in the ESOP and 401(k) Plan will be voted pursuant to the direction of the participants to the extent these shares are allocated to participants' accounts. Unallocated shares and allocated shares for which no direction is received from participants will be voted by the Trustee in accordance with the direction of the Employee Benefits Committee of the Company. The Employee Benefits Committee is appointed by the Company's Board of Directors to oversee the Company's employee benefit plans. In the absence of any direction from the Employee Benefits Committee, such shares will be voted by the Trustee in the same proportion that the allocated shares were voted, unless inconsistent with the Trustee's fiduciary obligations. The Trustee has no investment power over allocated shares and has shared investment power over unallocated shares. The shares held in the defined benefit pension plans will be voted pursuant to the direction of the Employee Benefits Committee of the Company, which also has investment power over these shares.

(2) According to a Schedule 13G jointly filed with the SEC on February 12, 2004, Select Equity Group, Inc., Select Offshore Advisors, LLC and George S. Loening have sole investment and voting power with respect to

1,171,213 shares, and no shared voting or investment power.
(3) Includes 32,000 shares issuable pursuant to stock options exercisable within 60 days after February 27, 2004.
(4) According to a Schedule 13G filed with the SEC on February 13, 2004, T. Rowe Price Associates, Inc. has sole investment power with respect to 773,600 shares, sole voting power with respect to 314,900 shares and no shared voting or investment power. These securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc. serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, T. Rowe Price Associates, Inc. is deemed to be a beneficial owner of such securities; however, T. Rowe Price Associates, Inc. expressly disclaims that it is, in fact, the beneficial owner of such securities.
(5) According to a Schedule 13G filed with the SEC on February 13, 2004, Ruane, Cunniff & Co., Inc. has sole investment power with respect to 572,973 shares, sole voting power with respect to 126,912 shares and no shared voting or investment power.
(6) According to a Schedule 13D filed with the SEC on December 10, 2003, Marvin C. Schwartz has sole investment and sole voting power with respect to 456,520 shares, shared investment power with respect to 39,872 shares and no shared voting power.

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The following table shows the number of shares of Common Stock beneficially owned by directors, nominees, each of the executive officers named in the "Summary Compensation Table" below, and all executive officers and directors as a group, as of February 27, 2004. The nature of beneficial ownership is sole voting and investment power, unless otherwise noted.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
Peter-Christian Maske	135,098(1)(2)	*
Donald J. Schneider	105,042(1)(3)	*
Gregg C. Sengstack	96,693(1)(2)	*
Jess B. Ford	67,233(1)(2)	*
R. Scott Trumbull	62,481(1)(3)	*
Robert H. Little	41,490(1)	*
Howard B. Witt	39,300(1)	*
William H. Lawson	39,009	*
Jerome D. Brady	20,411(1)(3)	*
Kirk M. Nevins	6,686(1)(2)	*

David A. Roberts	0	*
All directors and executive officers as a group	1,798,073(1)(2)(3)	xx.xx

* Less than 1 percent of class

(1) Includes shares issuable pursuant to stock options exercisable within 60 days after February 27, 2004 as follows: Mr. Maske, 96,000; Mr. Schneider, 32,000; Mr. Sengstack, 38,800; Mr. Ford, 60,000; Mr. Trumbull, 60,000; Mr. Little, 27,000; Mr. Witt, 26,000; Mr. Brady, 20,000; Mr. Nevins, 3,000; and all directors and executive officers as a group, 505,800.

(2) Includes shares held by the ESOP Trustee as to which the individuals do not have investment power as follows: Mr. Maske, 835; Mr. Sengstack, 3,031; Ford, 1,547; Mr. Nevins, 1,606 and all directors and executive officers as a group, 15,401.

(3) Excludes 1,401 stock units credited to Mr. Schneider, 890 stock units credited to Mr. Trumbull and 2,499 stock units credited to Mr. Brady pursuant to the terms of the Nonemployee Directors' Deferred Compensation Plan described under "Information About the Board and its Committees".

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, officers and greater than 10 percent shareholders of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock of the Company and to furnish the Company with copies of all Section 16(a) reports they file. Based solely on a review of the copies of these reports furnished to the Company and written representations that no other reports were required to be filed, the Company believes that its directors, officers and greater than 10 percent shareholders complied with all applicable Section 16(a) filing requirements applicable to them during 2003.

ELECTION OF DIRECTORS

The Company's By-laws provide that the Board of Directors shall consist of five to nine directors, with the exact number set by the Board of Directors by resolution. The Board of Directors currently consists of seven directors, divided into three classes of two or three directors each. Each year, the directors of one of the three classes are elected to serve terms of three years and until their successors have been elected and qualified. Two directors will be elected at the Annual Meeting this year. Directors are elected by the affirmative vote of a plurality of the shares voted (i.e., the two nominees who receive the most votes will be elected).

Donald J. Schneider and R. Scott Trumbull have been nominated to serve as directors of the Company for terms expiring in 2007. Mr. Schneider and Mr. Trumbull are currently directors of the Company. The nominees have indicated their willingness to serve as a director if elected. If, however, any nominee is unwilling or unable to serve as a director, shares represented by the proxies will be voted for the election of another nominee proposed by the Board of Directors or the Board may reduce the number of directors to be elected at the Annual Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH NOMINEE.

INFORMATION CONCERNING NOMINEES AND DIRECTORS

The ages, principal occupations during the past five years and certain other affiliations of the director nominees and the continuing directors, and the years in which they first became directors of the Company, are as follows:

NOMINEES FOR TERMS EXPIRING IN 2007

NAME AND POSITION	AGE	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Donald J. Schneider, Director of the Company	68	Chairman of the Board of Schneider National Inc., an asset based logistics company. Director of Green Bay Packers.	1988
R. Scott Trumbull, Chairman of the Board and Chief Executive Officer of the Company	55	Chairman of the Board and Chief Executive Officer of the Company. Formerly Executive Vice President and Chief Financial Officer, International Operations and Corporate Development, Owens-Illinois, a manufacturer of glass and plastic packaging. Director, Health Care REIT and Schneider National, Inc.	1998

CONTINUING DIRECTORS

DIRECTORS WHOSE TERMS EXPIRE IN 2005

NAME AND POSITION	AGE	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Howard B. Witt, Director of the Company	63	Chairman of the Board, President and Chief Executive Officer, Littelfuse, Inc.; a manufacturer of electronic, electrical and automotive fuses. Director, Artisan Funds, Inc.	1994
David A. Roberts Director of the Company	56	President and Chief Executive Officer, Graco, Inc., a manufacturer of fluid-handling equipment and systems, since June 2001; Formerly, Group Vice President, The Marmon Group, Inc. a diversified manufacturer, 1995 to 2001.	2003

DIRECTORS WHOSE TERMS EXPIRE IN 2006

NAME AND POSITION	AGE	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Jerome D. Brady, Director of the Company	60	Retired in 2000; Formerly President & Chief Executive Officer of C&K Components; a manufacturer of electro-mechanical switches; Director, Circor International, Inc.	1998
Robert H. Little, Director of the Company	68	Retired in 1997; Formerly President, Waddle Manufacturing Inc., a producer of precision fabrications for the electronics and medical device industries.	1987
Patricia Schaefer, Director of the Company	73	Retired; Director Muncie Public Library; Muncie, Indiana.	1982

INFORMATION ABOUT THE BOARD AND ITS COMMITTEES

Nonemployee directors are paid an annual director's fee of $35,000 plus a fee of $1,500 for each Board and Board committee meeting attended. The audit committee chairman receives an additional fee of $6,000 and the personnel and compensation committee chairman receives a fee of $3,500. Directors who are employees of the Company receive no additional compensation for serving on the Board or Board committees. John B. Lindsay, a director of the Company until his retirement in August 2003, received $22,500 for consulting services he rendered to the Company.

Nonemployee directors participate in the Franklin Electric Co., Inc. Stock Option Plan (the "Stock Option Plan"). Under the Stock Option Plan, each person who is a nonemployee director of the Board following each Annual Meeting is granted an option to purchase 4,000 shares at an option price equal to the fair market value of the Company's Common Stock on the date the option is granted. On April 25, 2003, Mr. Brady, Mr. Lindsay, Mr. Little, Ms. Schaefer, Mr. Schneider, and Mr. Witt each received an option to purchase 4,000 shares at an exercise price of $50.45 per share.

Nonemployee directors may also participate in the Nonemployee Directors' Deferred Compensation Plan (the "Deferred Compensation Plan"). Under the Deferred Compensation Plan, each nonemployee director may elect to receive his or her annual director's fee in Company shares or in cash. If Company shares are elected, nonemployee directors may also elect to defer issuance of the shares (until service on the Board terminates), in which case the director's fee is converted into stock units. Mr. Schneider elected to receive his respective fiscal 2003 director's fees in Company shares and to defer issuance of the shares. Accordingly, on April 25, 2003, Mr. Schneider was credited with 693 stock units.

The Company has a Consulting Directors' Plan for nonemployee directors who retire from Board service at age 70 or older. Under the Consulting Directors' Plan, a retiring director may enter into a consulting agreement with the Company under the terms of which the consulting director agrees to be available for consultation from time to time and is entitled to receive an annual fee for such services equal to the director's fee in effect at retirement. The consulting director can receive this fee up to the same number of years that were served as director. During 2003, Dr. N. A. Lamberti and Mr. William W. Keefer, who retired in 1988 and 1996, with 19 and 28 years of service, respectively, participated in the Consulting Directors' Plan. In 2003, Messrs. Lamberti and Keefer received an annual fee of $15,000 and $20,000, respectively. The Company froze the Consulting Directors' Plan in 2003; accordingly, future participation in the Consulting Directors' Plan will be limited to the Company's nonemployee directors first elected for service before 2003, and those retired nonemployee directors currently receiving annual fees for their consulting services.

DIRECTOR INDEPENDENCE

The Board of Directors of the Company has determined that each of the current directors, except for R. Scott Trumbull, Chairman of the Board and Chief Executive Officer of the Company, is an independent director in compliance with the independence standards set forth in the Company's Corporate Governance Guidelines and under the applicable rules adopted by the Nasdaq Stock Market ("Nasdaq").

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MEETINGS

The Board held six (6) regularly scheduled meetings during 2003. Each director attended at least 75 percent of the aggregate meetings of the Board and Board committees of which he or she was a member during the period that each served as a director. All directors, who were members of the Board at that time, attended the 2003 Annual Meeting of Shareholders.

COMMITTEES

The committees of the Board are: the Audit Committee and the Personnel and Compensation Committee.

AUDIT COMMITTEE. The current members of the Audit Committee are Jerome D. Brady (Chairman), Robert H. Little and Patricia Schaefer. The Board of Directors has determined that each member of the Audit Committee is an independent director in compliance with the independence standards set forth in the Company's Corporate Governance Guidelines and under applicable Nasdaq rules. In February 2004, the Board of Directors adopted a revised Audit Committee charter. A copy of the charter is included as Exhibit A to this Proxy Statement and is also available on the Company's website at www.fele.com under "Corporate Governance." Under its charter, the Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to shareholders and others, the system of internal control which management has established, the Company's process for monitoring compliance with laws and regulations, and the audit process. It is the general responsibility of the Audit Committee to advise and make recommendations to the Board of Directors in all matters regarding the Company's accounting methods and internal control procedures. The Audit Committee held five (5) meetings in 2003.

PERSONNEL AND COMPENSATION COMMITTEE. The current members of the Personnel and Compensation Committee (the "Compensation Committee") are Howard B. Witt (Chairman), David A. Roberts and Donald J. Schneider. The Board of Directors has determined that each member of the Compensation Committee is an independent director in compliance with the independence standards set forth in the Company's Corporate Governance Guidelines and under applicable Nasdaq rules. In February 2004, the Board of Directors adopted a Compensation Committee charter, a copy of which is available on the Company's website at www.fele.com under "Corporate Governance." Under its charter, the Compensation Committee determines and approves the annual salary, bonus and other benefits of the chief executive officer and the other executive officers and directors of the Company; reviews and submits to the Board of Directors recommendations concerning stock plans; periodically reviews the Company's policies in the area of management benefits; and oversees the Company's management development and organization structure. The Compensation Committee held four (4) meetings in 2003.

The Compensation Committee is also responsible for identifying and recommending to the Board candidates for director. The Compensation Committee seeks to identify as candidates for director persons from various backgrounds and with a variety of life experiences who have a reputation for and a record of integrity and good business judgment. The Committee also considers whether a person has experience in a highly responsible position in a profession or industry relevant to the conduct of the Company's business. The Compensation Committee takes into account the current composition of the Board and the extent to which a person's particular expertise, experience and ability and willingness to make an appropriate time commitment will complement the expertise and experience of other directors. Candidates for director should

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also be free of conflicts of interest or relationships that may interfere with the performance of their duties. Based on its evaluation and consideration, the Compensation Committee submits its recommendation for director candidates to the full Board of Directors, which is then responsible for selecting the candidates to be elected by the shareholders.

The Compensation Committee will consider as candidates for director persons recommended or nominated by shareholders. Nominations of directors may be made by any shareholder entitled to vote in the election of directors, provided that written notice of intent to make a nomination is given to the Secretary of the Company not later than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting of shareholders. The notice must set forth: (i) information regarding the proposed nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, and (ii) the consent of such nominee to serve as a director of the Corporation if so elected.

OTHER CORPORATE GOVERNANCE MATTERS

In February 2004, the Board of Directors adopted revised Corporate Governance Guidelines, a copy of which is available on the Company's website at www.fele.com under "Corporate Governance." The Guidelines provide, among other things, that the Company's independent directors will meet in executive session, outside the presence of the non-independent directors and management, at least twice a year.

Shareholders may contact the Board of Directors, any Board committee, any independent director or any other director by writing to the Secretary of the Company as follows:

Franklin Electric Co., Inc.
Attention: [Board of Directors]
[Board Committee] [Board Member]
c/o Corporate Secretary
Franklin Electric Co., Inc.
400 E. Spring Street
Bluffton, IN 46714

The independent directors of the Board have approved a process for collecting, organizing and responding to written shareholder communications addressed to the Board, Board committees or individual directors.

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AUDIT COMMITTEE REPORT

In accordance with SEC rules the Audit Committee of the Company states that:

The Audit Committee has reviewed and discussed with management the Company's audited financial statements for the fiscal year ended January 3, 2004.

The Audit Committee has reviewed and discussed with Deloitte & Touche LLP, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61, as modified or supplemented ("Communications with Audit Committees").

The Audit Committee has received the written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1, as modified or supplemented ("Independence Discussions with Audit Committees"), and has discussed with Deloitte & Touche LLP the independent accountant's independence.

Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2004 for filing with the SEC.

This report is submitted on behalf of the members of the Audit Committee:

Jerome D. Brady (Chairman)
Robert H. Little
Patricia Schaefer

COMPENSATION COMMITTEE REPORT

It is the philosophy of the Compensation Committee to maintain a compensation program to attract and retain executive officers who can successfully build the Company's long-term strategic capability. The Compensation Committee has retained a compensation consulting firm to provide information on compensation packages of firms of similar size and industries to aid in the design of its package for the Company's executive officers. The Committee encourages superior performance through the use of annual performance targets for the purpose of determining cash bonuses as well as stock incentive vehicles designed to closely align the executive's reward to that of the shareholders.

For the Chief Executive Officer, the current compensation package includes a base salary, an annual incentive cash bonus and stock options. The Compensation Committee believes the combined value of base salary plus incentive cash bonus approximates the market value of compensation provided to similarly situated executives as reflected in published market surveys. The Compensation Committee believes, however, that a significant portion of executive officer compensation, including the Chief Executive Officer, should be dependent upon corporate performance. Accordingly, base salaries have been established at average market levels, while a greater than average annual incentive cash bonus may be achieved.

The Compensation Committee fixed a benchmark to determine the level, if any, of the annual incentive cash bonus to be paid. The benchmarks used were pre-tax return on net assets and earnings per share growth rate. Considering these ratios, a bonus percentage of base salary was then determined. For 2003, however, according to the terms of his employment contract, the bonus percentage for the Chief Executive Officer was set at 100 percent of base salary for 2003.

As an additional incentive, the Committee makes grants and awards under the Company's shareholder-approved stock option plans. The purpose of these plans is to encourage elective stock ownership, offer long-term performance incentive and to more closely align the executive's compensation with the return received by the Company's shareholders. Using information, observations and recommendations on incentive compensation programs provided by an outside consultant, the Committee reviews annually the financial incentives to officers under prior grants and awards and determines whether additional grants or awards are appropriate. In 2003, according to the terms of his employment contract the Committee made a stock option grant to the Chief Executive Officer for 200,000 shares. The Committee did not make any other stock option grants in 2003 to any of the other executive officers named in the Summary Compensation Table.

The annual compensation of the other executive officers includes a base salary and an annual incentive cash bonus, determined similarly to that described above for the Chief Executive Officer.

Section 162(m) of the Internal Revenue Code, which sets limitations on the deductibility of executive compensation, did not affect compensation paid to any executive officer in 2003 and is not expected to have an effect on compensation payable in 2004.

Howard B. Witt (Chairman)
David A. Roberts
Donald J. Schneider

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STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return on an investment in (1) the Company's Common Stock (including reinvestment of dividends), (2) the Standard & Poor's 500 Stock Index (including reinvestment of dividends), and (3) the Russell 2000 Stock Index (including reinvestment of dividends) for the period December 31, 1998 through December 31, 2003. In each case, the graph assumes the investment of $100 on December 31, 1998.

$200

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