FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1999-01-02**
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FILER

BALDOR ELECTRIC CO

CIK:**9342**| IRS No.: **430168840** | State of Incorp.:**MO** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-07284** | Film No.: **99573521**
SIC: **3621** Motors & generators

Business Address
5711 R S BOREHAM JR ST
P O BOX 2400
FORT SMITH AR 72902-2400
5016464711

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:	Commission File Number:
January 2, 1999	1-7284

B A L D O R E L E C T R I C C O M P A N Y
(Exact name of registrant as specified in its charter)

Missouri	43-0168840
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5711 R. S. Boreham, Jr St, Fort Smith, Arkansas	72908	(501) 646-4711
(Address of principal executive offices)	(Zip Code)	(Telephone Number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, $0.10 Par Value	New York Stock Exchange
Common Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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 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 common stock held by non-affiliates of the registrant based on the closing price on February 27, 1999, was $ 505,116,323.

At February 27, 1999, there were 36,222,522 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended January

2, 1999 (the "Annual Report to Shareholders for 1998"), are incorporated by reference into Part I and Part II.

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 1, 1999 (the "1999 Proxy Statement"), are incorporated by reference into Parts I and III.

PART I

Item 1. Business

Baldor Electric Company ("Baldor" or the "Company") was incorporated in Missouri in 1920. The Company operates in one industry segment which includes the design, manufacture, and sale of electric motors and drives. In addition to electric motors and drives, products include speed reducers, industrial grinders, buffers, polishing lathes, stampings, castings, and repair parts. Baldor has made several small acquisitions; however, the majority of its growth has come internally through broadening its markets and product lines.

Products

Sales of industrial electric motors represented approximately 76% of the Company's net sales in 1998, 1997 and 1996. The AC motor product and controls line presently ranges in size from 1/50 up to 1000 horsepower. The DC motor product line presently ranges from 1/50 through 700 horsepower.

The Company also sells industrial control products, which include servo products, DC controls, position controls, and inverter and vector drives. The Company's line of adjustable speed controls ranges from 1/50 to 800 horsepower. With these products, the Company provides its customers the ability to purchase a "Drive" which Baldor defines as an industrial motor and an electronic control, from one manufacturer. Sales of drives were approximately 23% of total 1998 and 1997 sales, and 22% of total 1996 sales.

Baldor's motors and drives are designed, manufactured, and marketed for general purpose uses ("stock products") and for individual customer requirements and specifications ("custom products"). Stock product sales represented approximately 63% of sales for 1998, 1997 and 1996. Most stock product sales are to customers who place their orders for immediate shipment from current inventory. Custom products generally are shipped within three weeks from the date of order. Because of these and other factors, the Company does not believe that its backlog represents an accurate indication of future shipments.

Sales and Marketing

The products of the Company are marketed throughout the United States and in more than 60 foreign countries. The company's field sales organization, comprised of independent manufacturer's representatives and company sales offices, consists of more than 51 groups, including 37 in the United States. The remainder of the Company's representatives are located in various parts of the world, including Canada, Europe, Latin America, Australia, and the Far East.

Custom products and stock products are sold to original equipment manufacturers ("OEMs") . Stock products are also sold to independent distributors for resale, often as replacement components in industrial machinery which is being modernized or upgraded for improved performance.

No single customer accounted for more than 4% of sales, therefore the Company does not believe that the loss of any single customer would have a material effect on its total business.

Competition

The Company faces substantial competition in the sales of its products in all markets served. Some of the Company's competitors are larger in size or are divisions of large diversified companies and have substantially greater financial resources. The Company competes by providing its customers better value through product quality and efficiency and better services, including availability, shorter lead-times, on-time delivery, product literature, and training.

The Company is not aware of any industry-wide statistics from which it can precisely determine its relative position in the industrial electric motor industry. In the United States, certain industry statistics are available from the U.S. Department of Commerce and the National Electric Manufacturers Association. However, these sources do not include all competitors or all sizes of motors. The Company believes that it is a significant factor in the markets it serves and that its share of the market has increased over the past several years.

Manufacturing

The Company manufactures many of the components used in its products including laminations, motor hardware, and aluminum die castings. Manufacturing many of its own components permits the Company to better manage cost, quality, and availability. In addition to the manufacture of components, the Company's motor manufacturing operations include machining, welding, winding, assembling, and finishing operations.

The raw materials necessary for the Company's manufacturing operations are available from several sources. These materials include steel, copper wire, gray iron castings, aluminum, and insulating materials, many of which are purchased from more than one supplier; the Company believes that alternative sources are available for such materials.

Research and Engineering

The Company's design and development of electric motors and drives includes both the development of products which extend the product lines and the modification of existing products to meet new application requirements. Additional development work is done to improve production methods. Costs associated with research, new product development, and product and cost improvements are treated as expenses when incurred and amounted to $25,300,000 in 1998, $22,900,000 in 1997, and $19,900,000 in 1996.

Environment

Compliance with laws relating to the discharge of materials into the environment or otherwise relating to the protection of the environment has not had a material effect on capital expenditures, earnings, or the financial position of the Company and is not expected to have such an effect.

Employees

As of January 2, 1999, the Company had 3,865 employees.

Executive Officers of the Registrant

Information regarding executive officers is contained in Part III, Item 10, and incorporated herein by reference.

International Operations

For each of the three fiscal years in the period ended January 2, 1999, export and international sales revenues have increased and represented approximately 15% of consolidated sales. See also Note H on page 24 of the Annual Report to Shareholders for 1998, incorporated by reference.

The Company's products are distributed in more than 60 foreign countries, principally in Canada, Europe, Australia, the Far East, and Latin America. The Company's international operations include the Baldor Europe group of companies which was acquired in 1983. Baldor Europe has sales offices in Switzerland, Germany, Italy, and the United Kingdom. Baldor Europe also has development and manufacturing operations in Germany. In April 1997, the Company acquired the UK-based Optimised Control Ltd to create Baldor England. Baldor England has sales offices and two development and manufacturing facilities. The Company also owns majority interests in Baldor Electric (Far East) Pte. Ltd., located in Singapore, and Australian Baldor Pty. Limited which has locations in Sydney and Melbourne. The Company wholly owns Baldor de Mexico, S.A. de C.V., located in Leon, Mexico.

The Company believes that it is in a position to act on global opportunities as they become available. The Company also believes that there are additional risks attendant to international operations including currency fluctuations and possible restrictions on the movement of funds. However, these risks have not had a significant adverse effect on the Company's business.

Item 2. Properties

The Company believes that its facilities, including equipment and machinery, are in good condition, suitable for current operations, adequately maintained and insured, and capable of sufficient additional production levels. The Company also has other properties for possible future expansion. The following table sets forth certain information with respect to the Company's properties.

LOCATION	PRIMARY USE	AREA (SQ. FT.)
Fort Smith, AR	AC motor production	298,150
	Distribution and service center	208,000
	Administration and engineering offices	70,950
	Aluminum die casting	76,400
	Drives production center	98,500
St. Louis County, MO	Metal stamping and engineering toolroom	133,850
	DC and miscellaneous motor production	55,600
Columbus, MS	AC motor production	191,000
Westville, OK	AC and DC motor production	207,900
Fort Mill, SC	DC motor, AC motor and tachometer production	108,000
Clarksville, AR	Subfractional motor, gear motor, and worm-gear speed reducer production	167,000
Ozark, AR	AC motor production	84,050
Four other domestic locations	Metal stamping and motor, drives, and servomotor production	85,900
Ten foreign locations	Sales and distribution centers and servodrive production	84,200
		1,869,500

Certain properties listed above (430,400 sq. ft. in the aggregate) are leased, principally pursuant to Industrial Revenue Bond agreements, and where material, are accounted for as capitalized lease obligations. Certain lease agreements contain purchase options at varying prices and/or renewal options at reduced rentals for extended additional periods.

Item 3. Legal Proceedings
The Company is party to a number of legal proceedings incidental to its business, none of which is deemed to be material to its operations or business.

Item 4. Submission of Matters to a Vote of Security Holders
Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters Information under the captions "Dividends paid", "Common stock price range", and "Shareholders" on page 29 of the Annual Report to Shareholders for 1998 is incorporated herein by reference.

During the forth quarter of 1998, certain District Managers exercised non-qualified stock options previously granted to them under the Baldor Electric Company 1990 Stock Option Plan for District Managers (the DM Plan). The exercise price paid by the District Manager equaled the fair market value on the date of grant. The total amount of shares granted under the DM Plan is less than 1% of the outstanding shares of Baldor common stock.

None of the transactions were registered under the Securities Act of 1933, as amended (the "Act"), in reliance upon the exemption from registration afforded by Section 4(2) of the Act. The Company deems this exemption to be appropriate given that there are a limited number of participants in the DM Plan and all parties are knowledgeable about the Company.

Item 6. Selected Financial Data
Information under the caption "Eleven-Year Summary of Financial Data" only for years 1994 through 1998 for net sales, net earnings, net earnings per share, dividends per share, long-term obligations, and total assets on page 14 of the Annual Report to Shareholders for 1998 is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
"Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 16 and 17 of the Annual Report to Shareholders for 1998, is incorporated herein by reference.

Item 7a. Quantitative and Qualitative Disclosure about Market Risk
Information under the caption "Market Risk" of "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 17 of the Annual Report to Shareholders for 1998, is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data
The consolidated financial statements of the Company on pages 18 through 26, the "Report of Ernst & Young LLP, Independent Auditors," on page 26, and the "Summary of Quarterly Results of Operations (Unaudited)" on page 19 of the Annual Report to Shareholders for 1998, are incorporated herein by reference.

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
Information contained in the 1999 Proxy Statement under the caption "Proposal 1 -- Election of Directors -- Information Regarding the Nominees for Directors to

be Elected in 1999 for Terms Ending in 2002" and under the caption "--Information the Directors who are Not Nominees for Election and Whose Terms Continue Beyond 1999 or Expire during 1999," is incorporated herein by reference.

The current executive officers of the Company, each of whom is elected for a term of one year or until his successor is elected and qualified, are:

Name	Age	Position	Served as Officer Since
R. S. Boreham, Jr.	74	Chairman of the Board	1961
R. L. Qualls	65	Vice Chairman	1986
John A. McFarland	47	President	1990
Charles H. Cramer	54	Vice President-Personnel	1984
Lloyd G. Davis	51	Chief Financial Officer, Executive Vice President - Finance, Secretary, and Treasurer	1992
Gene J. Hagedorn	51	Vice President - Materials	1994
James R. Kimzey	60	Executive Vice President - Research and Engineering	1984
Randy L. Colip	39	Vice President - Sales	1997
Jerry D. Peerbolte	42	Vice President - Marketing	1990
Randal G. Waltman	49	Vice President - Engineering and Motor Operations	1997
Ronald E. Tucker	41	Controller	1997
John L. Peeples, III	46	Vice President-International	1998
Eddie L. Holderfield	59	Vice President-Fort Smith Motor Manufacturing	1999

Each of the executive officers, has served as an officer or in a management capacity with the Company for the last five years. There are no family relationships among the directors or executive officers.

Item 11. Executive Compensation
Information contained in the 1999 Proxy Statement under the caption "Information

About the Board of Directors and Committees of the Board -- Director Compensation" and information under the caption "Executive Compensation" and all sub-captions thereof, except for the information contained in sub-captions "Report of the Executive and Stock Option Committees" and "Performance Graph" is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management
Information contained under the caption "Security Ownership of Certain Beneficial Owners and Management" of the 1999 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions
Information about Mr. Richard E. Jaudes under the caption "Proposal 1 -- Election of Directors -- Information Regarding the Nominees for Directors to be Elected in 1999 for Terms Ending in 2002" and information about Mr. Robert L. Proost under the caption "-- Information the Directors who are Not Nominees for Election and Whose Terms Continue Beyond 1999 or Expire during 1999," is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) and (2) - The response to this portion of Item 14 is submitted as a separate section of this Report at page 13 hereof.

(3) Listing of Exhibits

Exhibit 3(i) - The Restated Articles of Incorporation (as amended) of Baldor Electric Company, incorporated herein by reference as Exhibit 3(i) to Form 10-Q for the quarter ended July 4, 1998.

Exhibit 3(ii) - Bylaws of Baldor Electric Company (as amended) incorporated herein by reference as Exhibit 3(ii) to Form 10-Q for the quarter ended October 3, 1998.

Exhibit 4(i)(a) - Rights Agreement dated May 6, 1988, between Baldor Electric Company and Wachovia Bank of North Carolina, N.A. (formerly Wachovia Bank & Trust Company, N.A.), as Rights Agent originally filed as Exhibit 1 to Registrant's Form 8-K Current Report, dated May 13, 1988, and refiled as Exhibit 4(i) to Form 10-K for the year ended December 31, 1994.

Exhibit 4(i)(b) - Amendment Number 1 to the Shareholders' Rights Agreement dated February 5, 1996 filed as Exhibit 2 to Registrant's Form 8-A/A dated March 21, 1996.

Exhibit 4(iii) - The Registrant agrees to furnish to the Securities and Exchange Commission upon request pursuant to Item 601(b)(4)(iii) of Regulation S-K copies of instruments defining the rights of the holders of long-term debt of the Registrant and its consolidated affiliates.

Exhibit (10) - Exhibits 10(iii)(A)(1) through 10(iii)(A)(6) were previously submitted as exhibits and are incorporated herein by reference:

- o 10(iii)(A)(1) 1982 Incentive Stock Option Plan (originally filed as Exhibit 10.8 to Form 10-K for year ended December 31, 1981, filed as Exhibit 10.1 to Form10-K for the year ended December 28, 1991).

- o 10(iii)(A)(2) Officers Compensation Plan (originally filed as Exhibit 10.6 to Form 10-K for year ended December 31, 1988, and filed as Exhibit 10(iii)(A)(2) to Form 10-K for the year ended December 31, 1994).

- o 10(iii)(A)(3) 1987 Incentive Stock Plan (originally filed as Appendix A to Registrant's Proxy Statement dated April 3, 1987, and refiled as Exhibit 10(iii)(A)(3) to Form 10-K for the year ended December 31, 1994.

- o 10(iii)(A)(4) 1989 Stock Option Plan for Non-Employee Directors (as amended) incorporated herein by reference to Exhibit 10 (iii) A.2 to Form 10-Q for quarter ended July 4,1998.

- o 10(iii)(A)(5) 1994 Incentive Stock Option Plan as (amended) incorporated herein by reference as Exhibit 10(iii)A.1 to Form 10-Q for the quarter ended July 4, 1998.

- o 10(iii)(A)(6) 1996 Stock Option Plan for Non-Employee Directors (as amended) incorporated herein by reference as Exhibit A (iii)A.3 to Form 10-Q for the quarter ended July 4, 1998).

For a listing of all management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K, see the exhibits listed above under Exhibit 10.

Exhibit (11) - Incorporated by reference in Note J of the Annual Report to Shareholders for 1998 filed as Exhibit (13).

Exhibit (13) - Portions of the Annual Report to Shareholders for 1998. The Annual Report is being filed as an exhibit solely for the purpose of incorporating certain provisions thereof by reference. Portions of the Annual Report not specifically incorporated are not deemed "filed" for the purposes of the Securities Exchange Act of 1934, as amended.

Exhibit (21) - Affiliates of the Registrant filed herewith.

Exhibit (23) - Consent of Independent Auditors filed herewith.

Exhibit (24) - Powers of Attorney. Included on signature pages 11 and 12.

(b) Reports on Form 8-K
No reports on Form 8-K have been filed during the last quarter of the period covered by this Report.

(c) Exhibits
See Exhibit Index at page 16 of this Report.

(d) Financial Statement Schedules
The response to this portion of Item 14 is submitted as a separate section of this Report at page 14 hereof.

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.

BALDOR ELECTRIC COMPANY
(Registrant)

By /s/ R. S. Boreham, Jr.

Chairman
(Principal Executive Officer)

Date: March 26, 1999

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints R. S. Boreham, Jr., R. L. Qualls, and John A. McFarland, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign this Report and any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as they might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

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.

Signature	Title	Date
/s/ R. S. Boreham, Jr. R. S. Boreham, Jr.	Chairman and Director (Principal Executive Officer)	March 26, 1999
/s/ R. L. Qualls R. L. Qualls	Vice Chairman and Director	March 26, 1999
/s/ John A. McFarland John A. McFarland	President and Director	March 26, 1999
/s/ Lloyd G. Davis Lloyd G. Davis	Chief Financial Officer, Executive Vice President - Finance, Secretary, and Treasurer (Principal Financial and Accounting Officer)	March 26, 1999
/s/ Jefferson W. Asher, Jr. Jefferson W. Asher, Jr.	Director	March 26, 1999
/s/ Fred C. Ballman Fred C. Ballman	Director	March 26, 1999
/s/ O. A. Baumann O. A. Baumann	Director	March 26, 1999

/s/ Robert J. Messey --------------------- Robert J. Messey	Director	March 26, 1999
/s/ Robert L. Proost --------------------- Robert L. Proost	Director	March 26, 1999
/s/ Willis J. Wheat -------------------- Willis J. Wheat	Director	March 26, 1999

ANNUAL REPORT ON FORM 10-K

ITEM 14(a)(1) and (2), (c) and (d)

LIST OF FINANCIAL STATEMENTS

FINANCIAL STATEMENT SCHEDULE

CERTAIN EXHIBITS

YEAR ENDED JANUARY 2, 1999

BALDOR ELECTRIC COMPANY

FORT SMITH, ARKANSAS

FORM 10-K, ITEM 14(a)(1) and (2)
LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE
BALDOR ELECTRIC COMPANY AND AFFILIATES

The following consolidated financial statements of Baldor Electric Company and Affiliates, included in the Annual Report to Shareholders for 1998, are incorporated by reference in Item 8:

- Consolidated Balance Sheets
  - January 2, 1999 and January 3, 1998
- Consolidated Statements of Earnings
  - for the three years in the period ended January 2, 1999
- Consolidated Statements of Cash Flows
  - for the three years in the period ended January 2, 1999
- Consolidated Statements of Shareholders' Equity
  - for the three years in the period ended January 2, 1999
- Notes to Consolidated Financial Statements

The following consolidated financial statement schedule of Baldor Electric Company and Affiliates is included in Item 14(d):

- Schedule II Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

BALDOR ELECTRIC COMPANY AND AFFILIATES

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts Describe	Additions Describe	Balance at End of Period
		(In thousands)			

Deducted from current assets:
Allowance for doubtful accounts

1998	$3,525	$ 511	$206(A)	$520(C)	$4,350
1997	3,200	509	184(A)		3,525
1996	2,800	695	295(A)		3,200

Included in current liabilities:
Anticipated warranty costs

1998	$5,200	$ 725(B)			$5,925
1997	4,500	700(B)			5,200
1996	4,100	400(B)			4,500

(A) Net uncollectible accounts written off during year.

(B) Additions to reserve for anticipated warranty costs, net of expenses incurred.

(C) Additions to reserve for acquisition, net of expenses incurred.

BALDOR ELECTRIC COMPANY AND AFFILIATES

INDEX OF EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
11	Computation of Earnings Per Common Share - Incorporated by reference in Note J of the Annual Report to Shareholders for 1998 in Exhibit (13)
13	Portions of the Annual Report to Shareholders for 1998- filed herewith
21	Affiliates of the Registrant - filed herewith

23	Consent of Independent Auditors - filed herewith
24	Powers of Attorney - Included on signature pages 11 and 12
27	Financial Data Schedules - filed herewith

Management's Discussion and Analysis of Financial

Results of Operations

Summary

Baldor posted record sales and earnings for the seventh consecutive year. For the fiscal year 1998, a 6% increase in sales was leveraged into an 11% increase in net earnings. This leverage is attributable to improved margins through increased productivity, lowered manufacturing costs and improved quality of products and services for our customers. As announced in October 1998, the lead times at all manufacturing plants was reduced from 4 to 3 weeks, the best in the industry.

Net Sales

Baldor reached a record sales level of $589.4 million in 1998, a 6% increase over 1997 sales of $557.9 million. Sales in 1996 were $502.9 million. In 1998, sales to distributor customers increased slightly compared with sales to OEM customers. The mix of sales between distributor and OEM customers remained consistent in 1998 and 1997, at 49% distributor sales and 51% OEM sales. Baldor serves many industries and geographic regions by selling to a broad base of distributors and OEMs both domestically and in more than 60 countries around the world. No single customer accounted for more than 4% of sales in any year covered by this report. During the past two years, we saw growth in a variety of products. During 1998, Baldor introduced nearly 300 new products in response to customer feedback. Sales for 1998 and 1997 were generated without a price increase, with the exception of the increase on EPAct-related products effective after October 24, 1997. Sales of products introduced in the previous five years accounted for approximately 30% of 1998 and 1997 sales.

Net Earnings

Net earnings of $44.6 million in 1998 exceeded 1997 net earnings of $40.4 million by 11%. Net earnings in 1996 were $35.2 million. Pre-tax margins improved to 12.2% in 1998 from 11.8% in 1997 and 11.4% in 1996. Selling prices remained flat during 1998, while net earnings improved to a record level due to productivity improvements and cost reduction programs. Gross margin, operating margin and pre-tax margin improved in 1998 compared to 1997. The gross margin improved to 30.3% in 1998 from 30.2% in 1997 and 29.7% in 1996. Manufacturing costs continued to improve in 1998 compared to 1997 and 1996. Selling and administrative costs as a percent of sales improved to 16.6% in 1998 compared to 16.8% in 1997 and 1996. Baldor continues to increase its sales volumes with a corresponding decrease in selling and administrative support costs. Our tax rate improved to 38.0% in 1998 compared to 38.5% in 1997 and 1996.

International Operations

Sales from international operations (foreign affiliates and exports) were $90.0 million in 1998, up from $84.2 million in 1997, and $72.8 million in 1996. Sales from international operations rose 6% compared to 1997. We saw strong sales increases in Mexico and Europe during 1998. Sales in Australia and the Far East continued to be weaker in 1998 and 1997. Even though foreign sales experienced only a moderate growth in 1998, foreign pre-tax earnings increased significantly in 1998 compared to 1997. The increase in foreign pre-tax earnings is a continuation of Baldor's efforts to increase productivity and improve costs on an international level.

Environmental Remediation

Management believes, based on their internal reviews and other factors, that the future costs relating to environmental remediation and compliance will not have a material effect on the capital expenditures, earnings, or competitive position of the Company.

Year 2000

The Company's comprehensive Year 2000 initiative is being managed internally. The Company's goal is to ensure that there is no material adverse effect on operations and that transactions with customers, vendors and financial institutions will be operational in the year 2000. A new Company-wide information system that is certified by the vendor to be Year 2000 compliant was purchased in 1996. This fully integrated information reporting system was purchased to improve visibility and reaction time to customer orders, reduce lead times, support international operations, improve productivity and better manage inventory. The Company is adhering to its implementation schedule with 75% completion as of year end 1998, with the remaining scheduled for completion in mid 1999. The only product that the Company presently produces that utilizes a real-time clock and a date stamp is the Baldor SmartMotor_. This date stamp is used only for run time and fault logging. It is not used in any control function and in this capacity will function in the year 2000. The Company has evaluated other potential areas, such as vendor compliance, shop floor technology, and other infrastructure such as phone and alarm systems. These non-information systems are expected to function properly in the year 2000. The cost of addressing these systems for the year 2000 is not expected to be material. Recently, a review of vendors was completed with written verification of their compliance status. Based on the certifications received, the Year 2000 problem is not expected to have a material adverse effect on business operations with our vendors. The Company's financial institutions have provided reasonable assurance that they are Year 2000 operational. While we cannot guarantee the performance of outside parties, we will establish contingency plans, when needed, in an attempt to minimize disruptions. Based upon the procedures described and results achieved, the Company does not anticipate a materially adverse affect from the Year 2000. We will continue to monitor our vendors, customers and financial institutions for any adverse reactions to their Year 2000 compliance. If the situation arises, we will establish contingency plans to address complications.

Financial Position

Summary
Baldor's financial position continued to remain strong in 1998. We improved our financial strength by expanding research and development for new and existing products, by capital investments in our manufacturing facilities, and by making additional investments in both our employees and customers through education and training. Also in 1998, the Company initiated a stock repurchase program. Our financial strength is an important competitive advantage which provides a strong base to better serve our customers and finance future growth opportunities.

Investments
Baldor believes the investment in our employees through training and education is a key to continued success and shareholder value. Once again, this investment was recognized when we were honored for the second consecutive year in Fortune magazine's list of "100 Best Companies To Work For In America." Investments in property, plant and equipment for 1998 were $38.2 million compared to $26.9 million in 1997 and $23.1 million in 1996. The 1998 investments in property, plant and equipment were made to centralize operations, increase capacity, and improve quality and productivity. The new Fort Smith Drives Center opened in 1998 and has received ISO 9000 certification. This new Drives Center is the consolidation of three locations and has resulted in quality and service improvements for our customers at less cost. These investments helped to improve operating margin to 13.8% in 1998 from 13.4% in 1997, the best levels achieved since 1981. Baldor's commitment to research and development continues to help it maintain a leadership position in the marketplace and to satisfy customers' needs. In 1998, Baldor increased its investments in research and development to $25.3 million compared to $22.9 million in 1997 and $19.9 million in 1996. We also continue to make investments in our existing products for greater performance, energy efficiency improvements, and manufacturability. In 1998 and 1997, new products developed in the last five years as a result of these investments accounted for approximately 30% of the Company's total sales.

Current Liquidity
Baldor's liquidity position in 1998 improved over 1997 with an increase in working capital of 24.6% and an increase in the current ratio to 3.2. Working capital was $176.1 million at the end of 1998 compared to $141.3 million in 1997, and $146.9 million in 1996. The current ratio was 3.2 in 1998 and 2.8 in 1997. The Company also has available lines of credit to support operations.

Long-Term Debt and Shareholders' Equity
Long-term debt increased to 17.7% of total capitalization at the end of 1998 compared to 10.3% in 1997. The increase in 1998 reflects the mid-term loan funded to repurchase common stock. Baldor also refinanced certain bond issues in 1998 to lower its cost of debt. Baldor repurchased 655,700 shares of common stock during 1998 and increased dividends per share by 11% over 1997. Shareholders' equity was $264.3 million at the end of 1998 compared to $243.4 million in 1997. Return on average shareholders' equity was 17.6% in 1998 compared to 18.2% in 1997.

Dividend Policy
Dividends per share for 1998 increased 11% over 1997. There have been six dividend increases in the last five years. These increases were in line with Baldor's policy of making increases periodically, as earnings and financial strength warrant, and reinvesting a major portion of earnings to finance growth opportunities. The objective is for shareholders to obtain dividend increases over time while also participating in the growth of the Company.

Market Risk
The Company's interest rate risk arises from its available-for-sale securities and long-term debt. Approximately 75% of the Company's securities portfolio mature within one year. Due to the short-term nature of these securities, anticipated interest rate risk is not considered material. The Company's fixed-rate debt is 61% of the total debt obligations. A one percent adverse move in interest rates would not materially affect earnings in a given year. The Company's risk to foreign currency exchange rates has historically been minimal. Foreign affiliates comprise less than 10% of total assets. The Company does not anticipate the use of derivatives for managing foreign currency risk, but continues to monitor the effects of foreign currency exchange rates. The Company utilizes short-term swaps to hedge against the fluctuations in copper prices. The hedges are for materials to be used in production and are not speculative. A 10% adverse movement in the price of copper would not result in a material

effect on earnings in a given year.

<TABLE>
<CAPTION>

Consolidated Balance Sheets

Baldor Electric Company and Affiliates

<S>	<C>	<C> JANUARY 2 1999	<C> JANUARY 3 1998
ASSETS (In thousands, except share data)			
CURRENT ASSETS:	Cash and cash equivalents	$ 24,793	$ 9,575
	Marketable securities	13,996	11,900
	Receivables, less allowances of $4,350 and $3,525, respectively	90,045	88,740
	Inventories: Finished products	74,561	71,616
	Work-in-process	12,939	10,675
	Raw materials	42,477	41,793
		129,977	124,084
	LIFO valuation adjustment (deduction)	(26,170)	(27,543)
		103,807	96,541
	Other current and deferred tax assets	23,847	12,684
	TOTAL CURRENT ASSETS	256,488	219,440
OTHER ASSETS		32,301	32,352
PROPERTY, PLANT AND EQUIPMENT:	Land and improvements	6,007	4,533
	Buildings and improvements	42,283	33,227
	Machinery and equipment	213,793	190,009
	Allowances for depreciation and amortization (deduction)	(138,946)	(123,672)
	Net property, plant and equipment	123,137	104,097
		$ 411,926	$ 355,889
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:	Accounts payable	$ 18,900	$ 19,935
	Employee compensation	5,620	5,684
	Profit sharing	9,420	8,858
	Anticipated warranty costs	5,925	5,200
	Accrued insurance obligations	15,960	13,836
	Other accrued expenses	20,052	22,003
	Income taxes	3,505	1,586
	Current maturities of long-term obligations	980	1,070
	TOTAL CURRENT LIABILITIES	80,362	78,172
LONG-TERM OBLIGATIONS		57,015	27,929
DEFERRED INCOME TAXES		10,257	6,354
SHAREHOLDERS' EQUITY:	Preferred stock, $0.10 par value Authorized shares: 5,000,000 Issued and outstanding shares: None		
	Common stock, $0.10 par value Authorized shares: 1998 - 150,000,000; 1997 - 50,000,000 Issued shares: 1998 - 38,409,135; 1997 - 37,951,901 ...	3,841	3,795
	Additional capital	31,495	44,606
	Retained earnings	264,545	233,602
	Accumulated other comprehensive income	(428)	(582)
	Treasury stock at cost (1,732,116 shares in 1998 and 1,923,142 shares in 1997)	(35,161)	(37,987)
	TOTAL SHAREHOLDERS' EQUITY	264,292	243,434
		$ 411,926	$ 355,889

</TABLE>

See notes to consolidated financial statements.

<TABLE>
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Consolidated Statements of Earnings
Baldor Electric Company and Affiliates

	Years ended		
(In thousands, except share data)	January 2 1999	January 3 1998	December 28 1996
<S>	<C>	<C>	<C>

Net sales	$ 589,406	$ 557,940	$ 502,875
Other income, net	2,019	1,843	2,497
	591,425	559,783	505,372
Costs and expenses: Cost of goods sold	410,747	389,711	353,345
Selling and administrative	97,566	93,455	84,522
Profit sharing	9,439	8,858	7,645
Interest	1,721	2,124	2,668
	519,473	494,148	448,180
Earnings before income taxes	71,952	65,635	57,192
Income taxes	27,342	25,270	22,019
NET EARNINGS	$ 44,610	$ 40,365	$ 35,173
Net earnings per share-diluted	$ 1.17	$ 1.09	$ 0.97
Net earnings per share-basic	$ 1.21	$ 1.13	$ 1.00
Weighted average shares outstanding-diluted	38,067,014	37,062,624	36,290,312
Weighted average shares outstanding-basic	36,911,175	35,691,572	35,091,161

</TABLE>

See notes to consolidated financial statements

<TABLE>
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Summary of Quarterly Results of Operations (unaudited)
Baldor Electric Company and Affiliates

(In thousands, except per share data):		First	Second	Third	Fourth	Total
1998:	Net sales	$154,209	$152,083	$147,358	$135,756	$589,406
	Gross profit	46,583	46,122	44,550	41,404	178,659
	Net earnings	11,580	11,544	11,192	10,294	44,610
	Net earnings per share-diluted	0.31	0.30	0.29	0.27	1.17
	Net earnings per share-basic	0.32	0.31	0.30	0.28	1.21
1997:	Net sales	$129,914	$141,929	$142,492	$143,605	$557,940
	Gross profit	39,077	42,841	42,983	43,328	168,229
	Net earnings	9,392	10,258	10,291	10,424	40,365
	Net earnings per share-diluted	0.26	0.28	0.27	0.28	1.09
	Net earnings per share-basic	0.27	0.29	0.29	0.29	1.13

</TABLE>

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Consolidated Statements of Cash Flow
Baldor Electric Company and Affiliates

(In thousands)		Years Ended January 2 1999	January 3 1998	December 28 1996
Operating activities:	Net earnings	$ 44,610	$ 40,365	$ 35,173
	Adjustments to reconcile net earnings to net cash provided by operating activities: Depreciation and amortization	20,511	19,337	17,277
	Deferred income taxes	2,968	5,316	(1,943)
	Changes in operating assets and liabilities: Receivables	(931)	(7,295)	(2,815)
	Inventories	(7,312)	(3,181)	(8,698)
	Other current assets	(9,851)	(813)	(2,826)
	Accounts payable	(1,280)	(1,093)	1,318
	Accrued expenses	(617)	7,558	7,149
	Income taxes	2,249	447	(1,201)
	Other, net	191	(2,498)	(873)
	Net cash from operating activities	50,538	58,143	42,561
Investing activities:	Additions to property, plant and equipment	(38,210)	(26,857)	(23,183)
	Marketable securities purchased	(17,996)	(14,847)	(33,315)
	Marketable securities sold	15,900	20,839	43,910
	Acquisitions	732		(7,597)
	Net cash used in investing activities	(39,574)	(28,462)	(12,588)

Financing activities:	Additional long-term borrowings	30,750		38,000
	Reduction of long-term obligations	(1,754)	(17,141)	(18,093)
	Unexpended debt proceeds	466	(367)	353
	Dividends paid	(14,832)	(12,958)	(10,498)
	Stock option plans	3,073	2,410	3,902
	Common stock repurchased	(13,449)		(42,009)
		-------	------	-------
	Net cash from (used in) financing activities	4,254	(28,056)	(28,345)
		-----	-------	-------
Net increase in cash and cash equivalents		15,218	1,625	1,628
Beginning cash and cash equivalents		9,575	7,950	6,322
		-----	-----	-----
Ending cash and cash equivalents		$ 24,793	$ 9,575	$ 7,950
		========	========	========

</TABLE>

See notes to consolidated financial statements

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Consolidated Statements of Shareholders' Equity
Baldor Electric Company and Affiliates

(In thousands, except per share amounts)	Shares	Amount	Additional Capital	Retained Earnings	Other Accumulated Comprehensive Income	Treasury Stock (at cost)	Total
	------	------	-------	--------	------	---------	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 1995	27,870	$2,817	$32,476	$182,354	$ 1,246	$ (7,516)	$211,377
Comprehensive income							
Net earnings				35,173			35,173
Other comprehensive income							
Securities valuation adjustment, net of taxes of $22					35		35
Translation adjustments, net of taxes of $563					(900)		(900)

Total other comprehensive income							(865)

Total comprehensive income							$ 34,308
							========
Stock option plans (net of shares exchanged)	380	45	5,290			(1,433)	3,902
Cash dividends at $0.30 per share				(10,498)			(10,498)
Common stock repurchased	(2,210)					(42,009)	(42,009)
Contributions to benefit plans	160		(654)			3,899	3,245
	---	-----	----	-------	----	-----	-----
BALANCE AT DECEMBER 28, 1996	26,200	2,862	37,112	207,029	381	(47,059)	200,325
Comprehensive income							
Net earnings				40,365			40,365
Other comprehensive income							
Translation adjustments, net of taxes of $603					(963)		(963)

Total comprehensive income							$ 39,402
							========
Stock option plans (net of shares exchanged)	263	33	4,365			(1,988)	2,410
Four-for-three common stock split	8,999	900		(900)			
Cash dividends at $0.36 per share				(12,958)			(12,958)
Contributions to benefit plans	115		647			2,242	2,889
Acquisition and other	452		2,482	66		8,818	11,366
	---	-----	-----	--	----	-----	------
BALANCE AT JANUARY 3, 1998	36,029	3,795	44,606	233,602	(582)	(37,987)	243,434
Comprehensive income							
Net earnings				44,610			44,610
Other comprehensive income							
Securities valuation adjustment, net of taxes of $54					87		87
Translation adjustments, net of taxes of $41					67		67
							--
Total other comprehensive income							154

Total comprehensive income							$ 48,505
							========
Stock option plans (net of shares exchanged)	355	46	5,547			(2,520)	3,073
Cash dividends at $0.40 per share				(14,832)			(14,832)
Common stock repurchased	(656)					(13,449)	(13,449)
Acquisition and other	949		(18,658)	1,165		18,795	1,302
	---	------	-------	-----	-----	------	-----
BALANCE AT JANUARY 2, 1999	36,677	$3,841	$31,495	$264,545	$ (428)	$(35,161)	$264,292
	======	======	=======	========	=======	========	========

</TABLE>

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
Baldor Electric Company and Affiliates January 2, 1999

NOTE A
SIGNIFICANT ACCOUNTING POLICIES

Line of Business: The Company operates in one industry segment which includes the design, manufacture, and sale of electric motors and drives.

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 amounts reported in the statements and accompanying notes. Actual results may differ from those estimates.

Consolidation: The consolidated financial statements include the accounts of the Company and all its affiliates. Intercompany accounts and transactions have been eliminated in consolidation. Fiscal Year: The Company's fiscal year ends on the Saturday nearest to December 31 which results in a 52- or 53-week year. Fiscal year 1998 and 1996 contained 52 weeks, while fiscal year 1997 contained 53 weeks. In 1998, the Company changed the fiscal year end of certain foreign affiliates from November 30 to December 31. The extra month was recorded as an adjustment to retained earnings.

Cash Equivalents: Cash equivalents consist of highly liquid investments having original maturities of three months or less and are valued at cost which approximates market.

Marketable Securities: All marketable securities are classified as available-for-sale and are available to support current operations or to take advantage of other investment opportunities. Those securities are stated at estimated fair value based upon market quotes. Unrealized gains and losses, net of tax, are computed on the basis of specific identification and are included in Accumulated Other Comprehensive Income. Realized gains, realized losses, and declines in value, judged to be other-than- temporary, are included in Other Income. The cost of securities sold is based on the specific identification method and interest earned is included in Other Income.

Inventories: The Company values inventories at the lower of cost or market, cost being determined principally by the last-in, first-out method (LIFO), except for $16,718,000 in 1998, $13,882,000 in 1997 and $14,166,000 in 1996 at foreign locations, valued by the first-in, first-out method (FIFO).

Property, Plant and Equipment: Property, plant and equipment, including assets under capital leases, are stated at cost. Depreciation and amortization are computed principally using the straight-line method over the estimated useful lives of the assets and the remaining term of capital leases, respectively.

Fair Value of Financial Instruments: The Company's methods and assumptions used to estimate the fair value of financial instruments include quoted market prices for marketable securities and discounted cash flow analysis for fixed long-term debt. The Company estimates that the fair value of its financial instruments approximates carrying value at January 2, 1999 and January 3, 1998.

Long-Lived Assets: Impairment losses are recognized on long-lived assets when information indicates the carrying amount of these assets, intangibles and any goodwill related to long-lived assets will not be recovered through future operations or sale.

Benefit Plans: The Company has a profit-sharing plan covering most employees with more than two years of service. Baldor contributes 12% of earnings before income taxes of participating companies to the Plan.

Income Taxes: Income taxes are provided based on the liability method of accounting. Deferred income taxes are provided for the expected future tax consequences of temporary differences between the basis of assets and liabilities reported for financial and tax purposes.

Research and Engineering: Costs associated with research, new product development and product cost improvements are treated as expenses when incurred and amounted to approximately $25,300,000 in 1998, $22,900,000 in 1997, and $19,900,000 in 1996.

Comprehensive Income: In 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income. This statement requires companies to classify components of other comprehensive income by their nature in a financial statement and disclose the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The effect of the adoption was not material.

Segment Reporting: In 1998, the Company adopted SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information. The statement requires public companies to report financial and descriptive information about their reportable operating segments. Currently, the Company has only one reportable segment. Therefore, adoption of SFAS No. 131 was not material.

Computer Software Costs: In March 1998, the AICPA issued Statement of Position (SOP) 98-1, Accounting For the Costs of Computer Software Developed For or Obtained For Internal-Use. The SOP is effective for fiscal years beginning after December 15, 1998, with early adoption encouraged. The Company adopted the SOP at the beginning of 1998. The SOP requires the capitalization of certain costs incurred with developing or obtaining software for internal-use. The effect of this accounting change did not have a material effect on the Company's results of operations.

Financial Derivatives: In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement becomes effective for fiscal year 2000. The Statement will require companies to recognize all derivatives on the balance sheet at fair value. The Company's use of derivatives is minimal, and management continues to study the effects of adopting the standard and currently believes the adoption will not have a material effect.

Reclassification: The Company has reclassified the presentation of certain prior year information to be consistent with the presentation in the current year.

NOTE B LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

(In thousands)	1998	1997
Industrial Development Bonds:		
due through 2004 at 5.30% fixed rate	$ 3,970	$ 4,515
due through 2004 at 4.15% variable rate	2,300	2,300
due through 2004 at 6.0% fixed rate	15	24
due through 2009 at 7.75% fixed rate (refinanced in 1998)		2,860
due through 2009 at 7.875% fixed rate	6,495	6,860
due through 2010 at 3.15% variable rate	3,440	3,440
due through 2010 at 4.10% variable rate	2,025	
Notes payable to banks:		
due March 1, 2000 at 5.55% variable rate	14,750	9,000
due October 23, 2001 at 5.07% fixed rate	25,000	
	57,995	28,999
Less current maturities	980	1,070
	$57,015	$27,929

At January 2, 1999, Industrial Development Bond proceeds of $6,291,000 are included in Other Assets. Certain long-term obligations are collateralized by property, plant and equipment with a net book value of $8,882,000 at January 2, 1999.

Maturities of long-term obligations during each of the five fiscal years ending 2003 are: 1999 - $980,000; 2000 - $15,790,000; 2001 - $26,100,000; 2002 - $2,265,000; and 2003 - $2,420,000. Industrial Development Bonds include capital lease obligations of $2,040,000 at January 2, 1999. Aggregate future minimum capital lease payments at January 2, 1999 are $3,505,000 including interest of $1,465,000.

Certain long-term obligations require, among other things, that the Company maintain certain financial ratios and restrict cumulative cash dividends and other distributions. Retained earnings of $15,204,000 at January 2, 1999, were unrestricted. At January 2, 1999, the Company had outstanding letters of credit totaling $8,733,000.

Interest paid was $2,233,000 in 1998, $3,577,000 in 1997, and $2,988,000 in 1996.

The Company had lines of credit aggregating $15,000,000 available at January 2, 1999, with no outstanding borrowings under these lines. These arrangements do not have termination dates but are reviewed annually. Interest on these lines of credit is at rates mutually agreed upon at the time of borrowing.

NOTE C MARKETABLE SECURITIES

Baldor currently invests in only high-quality, short-term investments which it classifies as available-for-sale. Differences between amortized cost and estimated fair value at January 2, 1999, and January 3, 1998 are not material and are included in Other Comprehensive Income. Because investments are predominantly short-term and are generally allowed to mature, realized gains and losses for both years have been minimal.

The following table presents the estimated fair value breakdown of investments by category:

(In thousands)	January 2 1999	January 3 1998
Municipal debt securities	$19,759	$ 3,858
U.S. corporate debt securities ..	12,909	5,213
U.S. Treasury & agency securities	1,500	5,500
Other debt securities	6,010	563
	40,178	15,134
Less cash equivalents	26,182	3,234
	$13,996	$11,900

The estimated fair value of marketable debt and equity securities at January 2, 1999, was $30,259,000 due in one year or less, $5,466,000 due in one to three years, and $4,453,000 due after three years. Because of the short-term nature of the investments, expected maturities and contractual maturities are generally the same.

NOTE D INCOME TAXES

The Company made income tax payments of $23,694,000 in 1998, $24,101,000 in 1997, and $22,718,000 in 1996. Income tax expense consists of the following:

(In thousands)	1998	1997	1996
Current: Federal	$20,820	$22,879	$19,887
State	2,646	2,949	2,591
Foreign	908	573	637
Deferred:	2,968	(1,131)	(1,096)
	$27,342	$25,270	$22,019

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The sources of these differences relate primarily to depreciation, certain liabilities, and bad debt expense.

The following table reconciles the difference between the Company's effective income tax rate and the federal corporate statutory rate:

	1998	1997	1996
Statutory federal income tax rate .	35.0%	35.0%	35.0%
State taxes, net of federal benefit	2.8	2.9	3.0
Other	0.2	0.6	0.5
Effective income tax rate	38.0%	38.5%	38.5%

NOTE E FINANCIAL DERIVATIVES

Hedging of Copper and Aluminum Requirements

The Company purchases significant amounts of copper and aluminum, key ingredients in its motor production, under short-term firm price contracts which are renegotiated annually. In order to hedge itself from exposure to price fluctuations on these two metals, the Company utilizes options and swaps for quantities of metal estimated to be used in our product in the future. Option costs are carried in Other Current Assets, net of realized gains deferred, and are amortized to Cost of Goods Sold over the period that the metal is used. Gains and losses on swaps are recorded in Cost of Goods Sold when the contracts are settled.

The net unamortized costs with respect to the Company's metal hedging programs were not material at January 2, 1999, and January 3, 1998.

NOTE F SHAREHOLDERS' EQUITY

In 1997, the Company's Board of Directors authorized a four-for-three stock split effected in the form of a 33% stock dividend. This resulted in the issuance of 8,999,078 additional shares of common stock. All per share and weighted average share amounts have been restated to reflect this stock split.

The Company maintains a shareholder rights plan intended to encourage a potential acquirer to negotiate directly with the Board of Directors. The purpose of the plan is to ensure the best possible treatment for all shareholders. Under the terms of the plan, one Common Stock Purchase Right (a Right) is associated with each outstanding share of common stock. If an acquiring person acquires 20% or more of the Baldor common stock then outstanding, the Rights become exercisable and would cause substantial dilution. Effectively, each such Right would entitle its holder (excluding the 20% owner) to purchase shares of Baldor common stock for half of the then current market price, subject to certain restrictions under the plan. A Rights holder is not entitled to any benefits of the Right until it is exercised. The Rights, which expire in May 2008, may be redeemed by the Company at any time prior to someone acquiring 20% or more of Baldor's outstanding common stock and in certain events thereafter.

NOTE G COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases certain computers, buildings, and other equipment under operating lease agreements. Related rental expense was $4,800,000 in 1998, $5,500,000 in 1997, and $4,800,000 in 1996. Future minimum payments for operating leases having noncancelable lease terms in excess of one year are: 1999 - $2,271,000; 2000 - $2,434,000; 2001 - $2,050,000; 2002 - $2,004,000; 2003 - $1,645,000; and decline substantially thereafter.

Legal Proceedings

The Company is subject to a number of legal actions arising in the ordinary course of business. In management's opinion, the ultimate resolution of these actions will not materially affect the Company's financial position or results of operations.

NOTE H FOREIGN OPERATIONS

The Company's foreign operations include both export sales and the results of its foreign affiliates in Europe, Australia, Singapore and Mexico. Consolidated sales, earnings before income taxes, and identifiable assets consist of the following:

(In thousands)	1998	1997	1996
Net Sales:			
United States Companies			
Domestic customers	$499,390	$473,702	$430,014
Export customers	41,855	38,762	30,831
	541,245	512,464	460,845
Foreign Affiliates	48,161	45,476	42,030
	$589,406	$557,940	$502,875
Earnings Before Income Taxes:			
United States Companies	$ 69,164	$ 64,710	$ 55,160
Foreign Affiliates	2,788	925	2,032
	$ 71,952	$ 65,635	$ 57,192
Assets:			
United States Companies	$378,468	$322,245	$297,496
Foreign Affiliates	33,458	33,644	27,990
	$411,926	$355,889	$325,486

Assets and liabilities of foreign affiliates are translated into U. S. dollars at year-end exchange rates. Income statement items are generally translated at average exchange rates prevailing during the period. Translation adjustments are recorded in the Accumulated Other Comprehensive Income in Shareholders' Equity.

NOTE I STOCK PLANS

The Company accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Grants can and have included: (1) incentive stock options to purchase shares at prices not less than the market value at grant date, and/or (2) non-qualified stock options to purchase shares of restricted stock equal to and less than the stock's market value at grant date. Grants expire 10 years from the grant date (except for grants made from the 1990 Plan which expire six years from grant date). The 1981, 1987, and 1989 Plans have expired except for options outstanding. A summary of the Company's stock plans follows.

1990 Plan - Only non-qualified options can be granted and options vest and become 50% exercisable at the end of one year and 100% exercisable at the end of two years. There are no charges to income.

1981, 1987 and 1994 Plans - Incentive stock options vest and become fully exercisable with continued employment of six months for officers and three years for non-officers. Restrictions on non-qualified stock options normally lapse after a period of five years or earlier under certain circumstances. Related compensation expense for the non-qualified stock options is amortized over the restriction period.

1996 Plan - Each non-employee director is granted an annual grant consisting of non-qualified stock options to purchase: (1) 3,240 shares at a price equal to the market value at grant date, and (2) 2,160 shares at a price equal to 50% of the market value at grant date. These options become exercisable in five equal installments beginning on the grant's first anniversary. Related compensation expense on the options granted at 50% of market is amortized over the restriction period.

Plan	Type	Administrator	Recipients	Status
1981	Non-compensatory	Board of Directors	Employees	Expired
1987	Compensatory	Stock Option Committee	Employees	Expired
1989	Compensatory	Executive Committee	Non-employee directors	Expired
1990	Non-compensatory	Stock Option Committee	District Managers	Active
1994	Compensatory	Stock Option Committee	Employees	Active
1996	Compensatory	Executive Committee	Non-employee directors	Active

The alternative fair value accounting provided for under Statement of Financial Accounting Standards No. 123 (SFAS No. 123), Accounting for Stock-Based Compensation, requires the use of an option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions. Traded options have no vesting restrictions and are fully transferable. The Company's stock options have characteristics significantly different from those of traded options and the assumptions can materially affect the fair value estimate. Therefore, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

For purposes of pro forma disclosures, net income and earnings per share required by SFAS No. 123 have been determined as if the Company had accounted for its stock options under SFAS No. 123 using the Black-Scholes model. The fair value for these options was estimated as of the grant date. The estimated fair value of the option is amortized to expense over the options' vesting periods. The initial impact on pro forma net income and net income per share may not be representative of the compensation expense in future years when the effect of the amortization of multiple awards would be reflected in the pro forma disclosure. A summary of the Company's weighted average variables, pro forma information, and stock option activity for fiscal years 1998, 1997, and 1996 follows.

	1998	1997	1996
Weighted Average Variables			
Volatility	16.6%	22.4%	19.2%
Risk-free interest rates	5.7%	6.4%	7.9%
Dividend yields	1.7%	1.7%	1.8%
Expected option life	7.0 years	7.0 years	7.1 years
Remaining contractual life	6.3 years	6.4 years	6.6 years
Fair value per share price granted during year			
At market price	$ 6.24	$ 6.21	$ 4.01
At less than market price	$ 9.31	$ 10.26	$ 7.93
Pro Forma Information			
Pro forma net income (in thousands)	$ 41,602	$ 37,537	$ 33,989
Pro forma earnings per share	$ 1.10	$ 1.02	$ 0.95

Stock Option Activity	1998 Shares	1998 Weighted Average Price/Share	1997 Shares	1997 Weighted Average Price/Share	1996 Shares	1996 Weighted Average Price/Share
Total options outstanding						
Beginning Balance	2,766,005	$ 11.44	2,804,114	$ 9.60	2,784,838	$ 7.27
Granted	497,400	21.67	446,618	17.80	813,066	13.89
Exercised	(459,768)	7.57	(426,641)	5.56	(728,640)	4.94
Canceled	(123,034)	17.12	(58,086)	14.92	(65,150)	10.85
Ending Balance	2,680,603	13.74	2,766,005	11.44	2,804,114	9.60
Shares authorized for grant	11,991,600		9,991,600		9,991,600	
Shares exercisable	1,704,866		1,955,856		1,811,808	
Shares reserved for future grants	2,745,305		1,133,103		1,539,506	

</TABLE>

NOTE J EARNINGS PER SHARE

The Company's presentation of financial results now includes both diluted earnings per share and basic earnings per share in accordance with SFAS No. 128, Earnings Per Share. Basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share includes all common stock equivalents. The table below details earnings per share for the years indicated:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Numerator Reconciliation:			
The numerator is the same for diluted and basic EPS:			
Net earnings (in thousands)	$ 44,610	$ 40,365	$ 35,173
Denominator Reconciliation:			
The denominator for basic earnings per share:			
Weighted average shares	36,911,175	35,691,572	35,091,161
Effect of dilutive securities:			
Stock options	1,155,839	1,371,052	1,199,151
The denominator for diluted earnings per share:			
Adjusted weighted average shares	38,067,014	37,062,624	36,290,312
Basic Earnings Per Share	$ 1.21	$ 1.13	$ 1.00
Diluted Earnings Per Share	$ 1.17	$ 1.09	$ 0.97

</TABLE>

NOTE K ACQUISITIONS

In 1997, the Company acquired Optimised Controls Ltd. for cash and shares of the Company's common stock. The acquisition has been accounted for as a purchase. Goodwill associated with the acquisition is being amortized on a straight-line basis over 25 years.

On March 5, 1998, the Company issued 951,000 shares of common stock for all of the outstanding stock of Northern Magnetics, Inc., a motor manufacturer. The transaction was accounted for as a pooling of interests. Northern Magnetics' results of operations in prior years was not material to the Company's financial statements. As such, prior year financial statements have not been restated.

Report of Ernst & Young LLP, Independent Auditors

Shareholders and Board of Directors
Baldor Electric Company and Affiliates

We have audited the accompanying consolidated balance sheets of Baldor Electric Company and affiliates as of January 2, 1999 and January 3, 1998, and the related consolidated statements of earnings, cash flows and shareholders' equity for each of the three years in the period ended January 2, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baldor Electric Company and affiliates at January 2, 1999 and January 3, 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 2, 1999, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Little Rock, Arkansas
February 3, 1999

Report of Management on Responsibility
for Financial Reporting

Baldor management is responsible for the integrity and objectivity of the financial information contained in this annual report. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, applying informed judgements and estimates where appropriate.

Baldor maintains a system of internal accounting controls that provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The Audit Committee of the Board of Directors is composed solely of outside directors and is responsible for recommending to the Board the independent accounting firm to be retained for the coming year. The Audit Committee meets regularly with the independent auditors, with the Manager of Audit Services, as well as with Baldor management, to review accounting, auditing, internal accounting controls and financial reporting matters. The independent auditors, Ernst & Young LLP, and the Manager of Audit Services, have direct access to the Audit Committee without the presence of management to discuss the results of their audits.

Ernst & Young LLP, independent certified public accountants, have audited Baldor's financial statements. Management has made available to Ernst & Young LLP all of the Company's financial records and related data, as well as the minutes of shareholders' and directors' meetings.

/s/ R.S. Boreham, Jr. -------------------- R. S. BOREHAM, JR. Chairman of the Board	/s/ R.L. Qualls --------------- R. L. QUALLS Vice Chairman
/s/ John McFarland -------------------- President	/s/ Lloyd G. Davis ------------------ Chief Financial Officer Executive Vice President-Finance Secretary, and Treasurer

Board of Directors

Roland S. Boreham, Jr., Chairman
Chairman of the Board since 1981.
Former Chief Executive Officer.
Officer since 1961.
Director since 1961.
Chairman - Executive Committee.
Member - Nominating Committee.

R. L. Qualls, Vice Chairman
Vice Chairman of the Board since 1996.
Former Chief Executive Officer.
Officer since 1986.
Director since 1987.
Member - Executive Committee.
Member - Nominating Committee.

John A. McFarland, President
Officer since 1990.
Director since 1996.
Chairman - Nominating Committee.
Member - Executive Committee.

Jefferson W. Asher, Jr.
Independent management consultant.
Director since 1973.
Chairman - Audit Committee.

Fred C. Ballman
Former Chairman.
Former Chief Executive Officer.

Director from 1944 to 1982 and since 1992.

O. A. Baumann
The Company's manufacturer's sales representative in St. Louis, Missouri, from 1947 to 1987.
Director since 1961.

Robert J. Messey
Senior Vice President, CFO, and Director of Sverdrup Corporation, a wholly owned subsidiary of Jacobi Engineering Corp. (NYSE).
Director since 1993.
Chairman - Stock Option Committee.
Member - Audit Committee.

Robert L. Proost
Corporate Vice President, Treasurer, and Director of Administration of A.G. Edwards & Sons, Inc.
Director since 1988.
Member - Audit Committee.
Member - Stock Option Committee.

Willis J. Wheat
President Emeritus of Oklahoma City University.
Director since 1991.
Member - Stock Option Committee.

Shareholder Information

Dividend policy
Baldor's dividend policy is to periodically increase dividends as earnings and financial strength warrant, but also to reinvest a major portion of earnings to help finance growth opportunities. The objective is for shareholders to obtain dividend increases over time while also participating in the growth of the Company.

Dividends paid
Baldor's dividend rate for 1998 remained at $0.10 per quarter. There have been six dividend increases in the last five years.

	1998	1997	1996
1st quarter	$0.10	$0.08	$0.07
2nd quarter	0.10	0.09	0.07
3rd quarter	0.10	0.09	0.08
4th quarter	0.10	0.10	0.08
Year	$0.40	$0.36	$0.30

Common stock price range

	1998		1997	
	HIGH	LOW	HIGH	LOW
1st quarter	27.1875	21.0625	19.9688	18.1875
2nd quarter	26.8750	23.0000	22.3125	18.4688
3rd quarter	26.0000	19.6250	23.8125	21.7969
4th quarter	22.0000	19.0625	23.4844	21.2500

Shareholders
At January 2, 1999, there were 5,400 shareholders of record including employee shareholders through participation in the benefit plans.

Independent auditors
Ernst & Young LLP
425 West Capitol - Suite 3600
Little Rock, Arkansas 72201

General counsel
Blackwell Sanders Peper Martin LLP
720 Olive Street - Suite 2400

St. Louis, Missouri 63101

Ticker
The common stock of Baldor Electric Company trades on the New York Stock Exchange (NYSE) with the ticker symbol BEZ.

Form 10-K report
Baldor's Form 10-K report is filed with the Securities and Exchange Commission and the NYSE. Shareholders may obtain a copy of the Form 10-K report (without charge) by contacting the Company's Investor Relations Department.

Shareholder inquiries
To request additional copies of the Annual Report, or other materials and information about Baldor Electric Company, please contact us at:

Baldor Electric Company
Attn: Investor Relations
P. O. Box 2400
Fort Smith, Arkansas 72902
Phone: (501) 646-4711
Fax: (501) 648-5752
Internet: www.baldor.com

Transfer agent and registrar
Wachovia Bank, N.A.
c/o Boston EquiServe, LP
P.O. Box 8217
Boston, Massachusetts 02266-8217
(800) 633-4236

EXHIBIT 21

BALDOR ELECTRIC COMPANY AND AFFILIATES
AFFILIATES OF THE REGISTRANT

NAME OF AFFILIATE	
Baldor of Arkansas	Arkansas
Baldor of Nevada, Inc.	Nevada
BEC Business Trust	Massachusetts
Baldor of Texas, L.P	Texas
Baldor International, Inc.	U.S.Virgin Islands
Southwestern Die Casting, Inc.	Arkansas
Baldor UK Holdings, Inc.	Delaware
Baldor Optimised Control Limited	United Kingdom
Optimized Control (NZ) Limited	New Zealand
Baldor Holdings, Inc.	Delaware
Baldor de Mexico, S.A. de C.V.	Mexico
Baldor ASR, AG	Switzerland
Baldor ASR GmbH fuer Antriebstechnik	Germany
Baldor ASR U.K. Limited	United Kingdom
Baldor Italia S.R.L.	Italy
Australian Baldor Pty. Limited	Australia
Baldor Electric (Far East) PTE. Ltd.	Singapore

Baldor Electric (Thailand) Limited	Thailand
Baldor Industrial Automation PTE.Ltd.	Singapore
Northern Magnetics, Inc.	California
Baldor Japan Corporation	Japan
Baldor (Taiwan) Ltd.	Taiwan

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Baldor Electric Company and affiliates of our report dated February 3, 1999, included in the 1998 Annual Report to Shareholders of Baldor Electric Company and affiliates.

Our audits also included the financial statement schedule of Baldor Electric Company and affiliates listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8, No. 2-77046) pertaining to the Baldor Electric Company 1982 Incentive Stock Option Plan, (Form S-8, No. 33-16766) pertaining to the Baldor Electric Company 1987 Incentive Stock Plan, (Form S-8, No. 33-28239) pertaining to the Baldor Electric Company Employee Savings Plan, (Form S-8, No. 33-36421) pertaining to the Baldor Electric Company 1989 Stock Option Plan for Non-Employee Directors, (Forms S-8, No. 33-60731 and No. 333-62331) pertaining to the Baldor Electric Company 1994 Incentive Stock Plan, (Form S-8, No. 333-33109) pertaining to the Baldor Electric Company 1996 Stock Option Plan for Non-Employee Directors, and (Form S-8, No. 333-33287) pertaining to the Baldor Electric Company Employees' Profit Sharing and Savings Plan of our report dated February 3, 1999, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the proceeding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Baldor Electric Company and affiliates.

/s/ Ernst & Young LLP

Ernst & Young LLP
Little Rock, Arkansas
March 26, 1999

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Amounts from audited financial statements for Baldor Electric Company and Affiliates as of January 3, 1998 and January 2, 1999. Amounts for January 3, 1998 have been restated to reflect current presentation.
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