

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

FORM 10-Q

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

For the quarterly period ended June 30, 1998

OR

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

For the transition period from _____ to _____

Commission file number 1-278

EMERSON ELECTRIC CO.
(Exact name of registrant as specified in its charter)

Missouri (State or other jurisdiction of incorporation or organization)	43-0259330 (I.R.S. Employer Identification No.)
8000 W. Florissant Ave. P.O. Box 4100 St. Louis, Missouri (Address of principal executive offices)	63136 (Zip Code)

Registrant's telephone number, including area code: (314) 553-2000

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 ()

Common stock outstanding at June 30, 1998: 440,458,350 shares.

1
PART I. FINANCIAL INFORMATION
Item 1. Financial Statements. FORM 10-Q

EMERSON ELECTRIC CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
THREE MONTHS AND NINE MONTHS ENDED JUNE 30, 1998 AND 1997
(Dollars in millions except per share amounts; unaudited)

	Three Months		Nine Months	
	1998	1997	1998	1997
Net sales	\$ 3,465.2	3,208.4	10,019.1	9,142.5
Costs and expenses:				
Cost of sales	2,211.1	2,067.0	6,400.6	5,859.8
Selling, general and administrative expenses	684.8	621.8	2,004.5	1,817.3
Interest expense	37.3	30.0	112.8	87.3
Other deductions, net	24.5	18.0	72.0	55.5
Total costs and expenses	2,957.7	2,736.8	8,589.9	7,819.9

Income before income taxes	507.5	471.6	1,429.2	1,322.6
Income taxes	182.7	175.0	514.5	490.7
Net earnings	<u>\$ 324.8</u>	<u>296.6</u>	<u>914.7</u>	<u>831.9</u>
Basic earnings per common share	<u>\$.74</u>	<u>.67</u>	<u>2.08</u>	<u>1.87</u>
Diluted earnings per common share	<u>\$.73</u>	<u>.66</u>	<u>2.06</u>	<u>1.85</u>
Cash dividends per common share	<u>\$.295</u>	<u>.27</u>	<u>.885</u>	<u>.81</u>

See accompanying notes to consolidated financial statements.

2

EMERSON ELECTRIC CO. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in millions except per share amounts; unaudited)

ASSETS	June 30, 1998	September 30, 1997
CURRENT ASSETS		
Cash and equivalents	\$ 413.7	221.1
Receivables, less allowances of \$63.1 and \$54.0	2,445.0	2,200.2
Inventories	1,953.9	1,881.6
Other current assets	365.3	413.9
Total current assets	5,177.9	4,716.8
PROPERTY, PLANT AND EQUIPMENT, NET	2,885.3	2,735.4
OTHER ASSETS		
Excess of cost over net assets of purchased businesses	3,356.5	3,116.0
Other	909.0	895.1
Total other assets	4,265.5	4,011.1
	<u>\$12,328.7</u>	<u>11,463.3</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings and current maturities of long-term debt	\$ 1,994.4	1,445.1
Accounts payable	767.1	942.1
Accrued expenses	1,206.2	1,241.9
Income taxes	244.1	213.3
Total current liabilities	4,211.8	3,842.4
LONG-TERM DEBT	610.4	570.7
OTHER LIABILITIES	1,734.5	1,629.5
STOCKHOLDERS' EQUITY		
Preferred stock of \$.25 par value per share.		
Authorized 5,400,000 shares; issued - none	-	-
Common stock of \$.50 par value per share.		
Authorized 1,200,000,000 shares; issued 476,677,006 shares	238.3	238.3
Additional paid in capital	31.7	3.3
Retained earnings	6,872.3	6,348.9
Cumulative translation adjustments	(224.0)	(205.9)

Cost of common stock in treasury, 36,218,656 shares and 35,873,321 shares	(1,146.3)	(963.9)
	-----	-----
Total stockholders' equity	5,772.0	5,420.7
	-----	-----
	\$12,328.7	11,463.3
	=====	=====

See accompanying notes to consolidated financial statements.

3

EMERSON ELECTRIC CO. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 1998 AND 1997
(Dollars in millions; unaudited)

FORM 10-Q

	1998	1997
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 1,015.4	877.7
	-----	-----
INVESTING ACTIVITIES		
Capital expenditures	(408.1)	(373.1)
Purchases of businesses, net of cash and equivalents acquired	(209.4)	(40.1)
Other, net	32.8	(11.1)
	-----	-----
Net cash used in investing activities	(584.7)	(424.3)
	-----	-----
FINANCING ACTIVITIES		
Net increase in short-term borrowings	669.4	367.0
Proceeds from long-term debt	1.5	5.9
Principal payments on long-term debt	(129.0)	(11.1)
Dividends paid	(391.3)	(361.1)
Net purchases of treasury stock	(377.4)	(264.4)
	-----	-----
Net cash used in financing activities	(226.8)	(263.7)
	-----	-----
Effect of exchange rate changes on cash and equivalents	(11.3)	(13.3)
	-----	-----
INCREASE IN CASH AND EQUIVALENTS	192.6	176.4
Beginning cash and equivalents	221.1	149.0
	-----	-----
ENDING CASH AND EQUIVALENTS	\$ 413.7	325.4
	=====	=====

See accompanying notes to consolidated financial statements.

4

EMERSON ELECTRIC CO. AND SUBSIDIARIES

FORM 10-Q

Notes to Consolidated Financial Statements

1. The accompanying unaudited consolidated financial statements, in the opinion of management, include all adjustments necessary for a fair presentation of the results for the interim periods presented. These adjustments consist of normal recurring accruals. The consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required by generally accepted accounting principles. For further information refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 1997.

2. Other Financial Information
(Dollars in millions; unaudited)

	June 30, 1998	September 30, 1997
Inventories		
-----	-----	-----
Finished products	\$ 800.1	789.6
Raw materials and work in process	1,153.8	1,092.0
	-----	-----
	\$ 1,953.9	1,881.6
	=====	=====
Property, plant and equipment, net	June 30, 1998	September 30, 1997
-----	-----	-----
Property, plant and equipment, at cost	\$ 5,884.8	5,433.7
Less accumulated depreciation	2,999.5	2,698.3
	-----	-----
	\$ 2,885.3	2,735.4
	=====	=====

3. In December 1997, the Company purchased Computational Systems, Inc. (CSI) for approximately \$160 million, primarily in common stock. CSI is a supplier of condition monitoring and diagnostic products and services for motors and other rotational equipment.

During the third quarter of fiscal 1998, the Company announced an agreement to acquire the Westinghouse Process Control Division (PCD) from CBS Corporation for approximately \$265 million. PCD is a supplier of process controls for the power generation, water and wastewater treatment industries. In addition, the Company acquired Hiross Austria GmbH and several other businesses.

During the fourth quarter of fiscal 1998, Astec (BSR) Plc, a subsidiary of Emerson, announced an agreement to acquire the Advanced Power Systems (APS) business from Northern Telecom Limited for approximately \$325 million. APS manufactures power conversion products for a wide variety of telecommunications applications.

4. In the quarter ended December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share," (SFAS 128) which establishes standards for computing and presenting earnings per share. Basic earnings per common share considers only the weighted average of common shares outstanding while diluted earnings per common share considers the dilutive effects of stock options, incentive shares and convertible securities. Previously reported earnings per share amounts have been restated to conform to SFAS 128 requirements. Reconciliations of basic earnings per common share and diluted earnings per common share follow (dollars and shares in millions except per share amounts):

	1998			1997		
	Earnings	Weighted-Average Shares	Earnings Per Share	Earnings	Weighted-Average Shares	Earnings Per Share
-----	-----	-----	-----	-----	-----	-----
Three Months Ended June 30,						

Basic	\$ 324.8	439.4	\$.74	\$ 296.6	443.8	\$.67
			=====			=====
Convertible debt	.2	.9		.2	1.3	
Stock plans		4.2			3.2	
	-----	-----	-----	-----	-----	-----
Diluted	\$ 325.0	444.5	\$.73	\$ 296.8	448.3	\$.66
	=====	=====	=====	=====	=====	=====

Nine Months Ended
June 30,

Basic	\$ 914.7	439.8	\$ 2.08	\$ 831.9	445.8	\$ 1.87
			=====			=====
Convertible debt	.5	1.0		.7	1.4	
Stock plans		4.0			3.0	

Diluted	----- \$ 915.2	----- 444.8	----- \$ 2.06	----- \$ 832.6	----- 450.2	----- \$ 1.85
	=====	=====	=====	=====	=====	=====

Items 2 and 3. Management's Discussion and Analysis of Results of Operations and Financial Condition.

Results of Operations

Sales, net earnings and earnings per share for the third quarter and first nine months of fiscal 1998 were the highest for any quarter and first nine-month period in the Company's history.

Net sales were \$3,465.2 million for the quarter ended June 30, 1998, up 8.0 percent (10 percent at constant currency) over net sales of \$3,208.4 million for the quarter ended June 30, 1997. The sales growth reflected balanced contributions from the Company's Commercial and Industrial and Appliance and Construction-Related segments, and acquisitions. Demand was solid in the United States and Europe, which account for more than three-quarters of consolidated revenue. Strong growth in Latin America, Canada and other regions of the world largely offset the impact of weak Asian economies. Net sales were \$10,019.1 million for the nine months ended June 30, 1998, up 9.6 percent (12 percent at constant currency) over net sales of \$9,142.5 million for the same period a year ago.

In the Commercial and Industrial segment, the underlying electronics business continued its very strong performance in the third quarter, particularly in the U.S. and European markets. This performance was achieved despite comparison to very strong results a year ago. Sales of the process business reflected moderate domestic demand limited by weaker international results. Excluding the impact of currency translation, the industrial motors and drives business achieved moderate sales growth as a result of solid international and modest domestic demand. The industrial components and equipment business benefited from moderate international demand limited by unfavorable currency.

In the Appliance and Construction-Related segment, the heating, ventilating and air-conditioning business reported moderate sales growth as European demand remained very strong. In addition, the strong pace of new construction and recent hot weather in various regions of the U.S. supported much improved domestic demand. Moderate gains in the underlying motors and appliance components business reflected continued strength in domestic markets, while sales of the underlying tools business were slightly lower than the solid results of the prior year.

Cost of sales for the third quarter was \$2,211.1 million or 63.8 percent of sales, compared with \$2,067.0 million, or 64.4 percent of sales, for the third quarter of 1997. Cost of sales for the nine months ended June 30, 1998, was \$6,400.6 million or 63.9 percent of sales, compared to \$5,859.8 million or 64.1 percent of sales for the same period a year ago. Selling, general and administrative expenses for the three months ended June 30, 1998, were \$684.8 million, or 19.8 percent of sales, compared to \$621.8 million, or 19.4 percent of sales for the same period a year ago. For the first nine months of 1998, selling, general and administrative expenses were \$2,004.5 million or 20.0 percent of sales, compared to \$1,817.3 million or 19.9 percent of sales for the same period in 1997. Consolidated operating margins increased from the previous year's high levels, reflecting productivity improvement and cost containment programs which resulted in gains that more than

offset the dampening effect of lower margin acquisitions.

Financial Condition

A comparison of key elements of the Company's financial condition at the end of the third quarter as compared to the end of the prior

fiscal year follows:

	June 30, 1998	September 30, 1997
	-----	-----
Working capital (in millions)	\$ 966.1	874.4
Current ratio	1.2 to 1	1.2 to 1
Total debt to total capital	31.1%	27.1%
Net debt to net capital	27.5%	24.9%

The Company's interest coverage ratio (earnings before income taxes and interest expense, divided by interest expense) was 13.7 times for the nine months ended June 30, 1998, compared to 16.1 times for the same period one year earlier. The decrease in the interest coverage ratio reflects higher average borrowings resulting from share repurchases and acquisitions, partially offset by earnings growth. In the first quarter of fiscal 1998, the Company entered into an interest rate agreement which caps the rate on \$250 million of commercial paper at 6.0 percent through September 1999. During the third quarter, the Company and its subsidiaries increased lines of credit to \$1.8 billion in support of the commercial paper program. There have been no borrowings against these lines of credit.

Cash and equivalents increased by \$192.6 million during the nine months ended June 30, 1998. Cash flow provided by operating activities of \$1,015.4 million and a net increase in borrowings of \$541.9 million were used primarily to fund capital expenditures of \$408.1 million, pay dividends of \$391.3 million, fund net purchases of treasury stock of \$377.4 million, and fund purchases of businesses of \$209.4 million. Receivables increased primarily due to sales growth and minor seasonality.

The Company is in a strong financial position, continues to generate strong operating cash flows, and has the resources available for reinvestment in existing businesses, strategic acquisitions and managing the capital structure on a short- and long-term basis.

Statements in this report that are not strictly historical may be "forward-looking" statements which involve risks and uncertainties. These include economic and currency conditions, market demand, pricing, and competitive and technological factors, among others which are set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 1997.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

- (a) Exhibits (Listed by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K).
 - 3(a) Restated Articles of Incorporation of Emerson Electric Co., incorporated by reference to Emerson Electric Co. Form 10-Q for the quarter ended March 31, 1997, Exhibit 3(a).
 - 3(b) Bylaws of Emerson Electric Co., as amended through October 7, 1997, incorporated by reference to Emerson Electric Co. 1997 Form 10-K, Exhibit 3(b).
 - 27 Financial Data Schedule.
- (b) Reports on Form 8-K. The Company did not file any reports on Form 8-K during the quarter ended June 30, 1998.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMERSON ELECTRIC CO.

Date: August 14, 1998

By /s/ Walter J. Galvin

Walter J. Galvin

Senior Vice President - Finance
and Chief Financial Officer

(on behalf of the registrant and
as Chief Financial Officer)

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE EMERSON ELECTRIC CO. CONSOLIDATED STATEMENT OF EARNINGS AND CONSOLIDATED BALANCE SHEET AS OF AND FOR THE NINE MONTHS ENDED JUNE 30, 1998, FILED WITH THE COMPANY'S 1998 THIRD QUARTER FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	9-MOS
<FISCAL-YEAR-END>	SEP-30-1998
<PERIOD-END>	JUN-30-1998
<CASH>	413,700
<SECURITIES>	0
<RECEIVABLES>	2,508,100
<ALLOWANCES>	63,100
<INVENTORY>	1,953,900
<CURRENT-ASSETS>	5,177,900
<PP&E>	5,884,800
<DEPRECIATION>	2,999,500
<TOTAL-ASSETS>	12,328,700
<CURRENT-LIABILITIES>	4,211,800
<BONDS>	610,400
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	238,300
<OTHER-SE>	5,533,700
<TOTAL-LIABILITY-AND-EQUITY>	12,328,700
<SALES>	10,019,100
<TOTAL-REVENUES>	10,019,100
<CGS>	6,400,600
<TOTAL-COSTS>	6,400,600
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	112,800
<INCOME-PRETAX>	1,429,200
<INCOME-TAX>	514,500
<INCOME-CONTINUING>	0
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	914,700
<EPS-PRIMARY>	2.08
<EPS-DILUTED>	2.06

</TABLE>