

FRANKLIN ELECTRIC CO INC  
Form 10-Q  
August 02, 2006

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 July 1, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-362

FRANKLIN ELECTRIC CO., INC.  
(Exact name of registrant as specified in its charter)

Indiana  
(State or other jurisdiction of incorporation or  
organization)

35-0827455  
(I.R.S. Employer Identification No.)

400 East Spring Street  
Bluffton, Indiana  
(Address of principal executive offices)

46714  
(Zip Code)

(260) 824-2900  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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

NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**YES**

**NO**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class of Common Stock</u>	<u>Outstanding at</u>
<u>\$ .10 par value</u>	<u>July 1, 2006</u>
	22,943,388 shares

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## PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FRANKLIN ELECTRIC CO., INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In thousands)	July 1, 2006	December 31, 2005
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 32,931	\$ 52,136
Investments	-	35,988
Receivables, less allowances of \$2,761 and \$2,204, respectively	62,327	30,165
Inventories	107,012	70,381
Other current assets (including deferred income taxes of \$12,836 and \$10,744, respectively)	17,305	14,350
Total current assets	219,575	203,020
Property, plant and equipment, net	108,289	95,732
Deferred and other assets (including deferred income taxes of \$574 and \$0, respectively)	21,957	23,028
Goodwill and other intangible assets	141,512	57,982
Total assets	\$ 491,333	\$ 379,762
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt and short-term borrowings	\$ 11,300	\$ 1,303
Accounts payable	26,722	26,409
Accrued expenses	43,359	34,223
Income taxes	1,674	2,087
Total current liabilities	83,055	64,022
Long-term debt	62,434	12,324
Deferred income taxes	4,464	4,296
Employee benefit plan obligations	26,475	25,830
Other long-term liabilities	5,344	5,728
Shareowners' equity:		
Common shares (45,000 shares authorized, \$.10 par value) outstanding (22,943 and 22,485, respectively)	2,294	2,249
Additional capital	91,467	74,717
Retained earnings	210,976	190,381
Loan to ESOP Trust	(200)	(432)
Accumulated other comprehensive income	5,024	647
Total shareowners' equity	309,561	267,562
Total liabilities and shareowners' equity	\$ 491,333	\$ 379,762

See Notes to Condensed Consolidated Financial Statements.



FRANKLIN ELECTRIC CO., INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(In thousands, except per share amounts)

	Second Quarter Ended		Six Months Ended	
	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Net sales	\$ 162,669	\$ 123,537	\$ 273,649	\$ 205,971
Cost of sales	108,902	82,117	183,290	139,072
Gross profit	53,767	41,420	90,359	66,899
Selling and administrative expenses	27,626	19,976	49,241	36,248
Restructuring expense	-	505	-	710
Operating income	26,141	20,939	41,118	29,941
Interest expense	(1,076)	(183)	(1,269)	(355)
Other income, net	615	190	1,060	341
Foreign exchange loss	(81)	(43)	(126)	(32)
Income before income taxes	25,599	20,903	40,783	29,895
Income taxes	9,157	7,358	14,642	10,539
Net income	\$ 16,442	\$ 13,545	\$ 26,141	\$ 19,356
Per share data:				
Basic Earnings per Share	\$ .72	\$ .61	\$ 1.15	\$ .88
Diluted Earnings per Share	\$ .70	\$ .59	\$ 1.13	\$ .84
Dividends per share	\$ .11	\$ .10	\$ .21	\$ .18

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN ELECTRIC CO., INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(In thousands)	Six Months Ended	
	July 1, 2006	July 2, 2005
<b>Cash flows from operating activities:</b>		
Net income	\$ 26,141	\$ 19,356
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	8,452	7,783
Stock based compensation	1,549	-
Deferred income taxes	2,498	694
Loss/(gain) on disposals of plant and equipment	(69)	51
Changes in assets and liabilities:		
Receivables	(15,801)	(9,244)
Inventories	(7,484)	(16,879)
Accounts payable and other accrued expenses	(436)	6,879
Excess tax from share-based payment arrangements	(5,399)	-
Employee benefit plan obligations	334	451
Other, net	(3,836)	(234)
Net cash flows from operating activities	5,949	8,857
<b>Cash flows from investing activities:</b>		
Additions to plant and equipment	(8,749)	(5,569)
Proceeds from sale of plant and equipment	323	1,048
Additions to deferred and other assets	(293)	(1,005)
Purchases of securities	(63,500)	(93,500)
Proceeds from sale of securities	99,488	77,975
Cash paid for acquisitions, net of cash acquired	(122,713)	-
Net cash flows from investing activities	(95,444)	(21,051)
<b>Cash flows from financing activities:</b>		
Additions to long-term debt	70,000	-
Repayment of long-term debt	(10,144)	(142)
Proceeds from issuance of common stock	9,225	4,356
Excess tax from share-based payment arrangements	5,399	-
Purchases of common stock	(198)	(12,318)
Reduction of loan to ESOP Trust	232	233
Dividends paid	(4,780)	(3,970)
Net cash flows from financing activities	69,734	(11,841)
Effect of exchange rate changes on cash	556	(1,089)
Net change in cash and equivalents	(19,205)	(25,124)
Cash and equivalents at beginning of period	52,136	50,604
Cash and equivalents at end of period	\$ 32,931	\$ 25,480

See Notes to Condensed Consolidated Financial Statements.





FRANKLIN ELECTRIC CO., INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1: Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all accounting entries and adjustments (including normal recurring accruals) considered necessary for a fair presentation of the financial position and the results of operation for the interim period have been made. Prior year amounts are reclassified when necessary to conform to current year presentation. Operating results for the second quarter ended July 1, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2006. For further information, including a description of Franklin Electric's critical accounting policies, refer to the consolidated financial statements and footnotes thereto included in Franklin Electric Co., Inc.'s annual report on Form 10-K for the year ended December 31, 2005.

Note 2: Investments

As of July 1, 2006, the Company held no investments in current assets. All income generated from investments held during the second quarter ended July 1, 2006 was recorded as other income, net. Cash paid for these securities and proceeds from the sale of these securities have been included as part of "Cash flows from investing activities" section of the cash flow statement.

The Company holds a 35 percent equity interest, in Pioneer Pump, Inc. which is accounted for using the equity method and is included as part of "Deferred and other assets" in the balance sheet. The carrying amount of the investment is adjusted for the Company's proportionate share of earnings, losses, and dividends. At July 1, 2006, the carrying value of the investment was \$5.8 million.

Note 3: Inventories

Inventories consist of the following:

(In millions)	July 1, 2006	December 31, 2005
Raw Materials	\$ 36.2	\$ 25.3
Work in Process	13.1	10.6
Finished Goods	77.2	51.8
LIFO Reserve	(19.5)	(17.3)
Total Inventory	\$ 107.0	\$ 70.4

Note 4: Property, Plant and Equipment

Property, plant and equipment, at cost, consist of the following:

(In millions)	July 1, 2006	December 31, 2005
Land and Building	\$ 58.2	\$ 52.8
Machinery and Equipment	179.8	164.9

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	238.0	217.7
Allowance for Depreciation	(129.7)	(122.3)
Other - Held for Sale	0.0	0.3
	\$ 108.3	\$ 95.7

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Note 5: Goodwill and Other Intangible Assets

The carrying amount of the Company's intangible assets, which is included in deferred and other assets, and goodwill include:

(In millions)	July 1, 2006	Dec 31, 2005
Amortized intangibles		
Patents	\$ 6.0	\$ 5.9
Supply agreements	10.2	10.0
Other	4.3	4.2
Accumulated amortization	(11.2)	(10.1)
Total	\$ 9.3	\$ 10.0
Goodwill and other intangible assets	\$ 141.5	\$ 58.0

Other changes in the carrying amount of intangibles and goodwill reflect foreign currency fluctuations.

Amortization expense related to intangible assets for the six months ended July 1, 2006 and July 2, 2005, was \$1.0 million.

During the second fiscal quarter, there has been no change in the projected amortization expense for each of the five succeeding years, as reported in the Company's annual report on Form 10-K for the year ended December 31, 2005.

Acquisition

During April 2006, the Company completed its acquisition of all of the outstanding shares of capital stock of Little Giant Pump Company ("Little Giant") from Tecumseh Products Company ("Tecumseh") for a cash purchase price of \$121 million, excluding transaction costs and subject to a final post-closing working capital adjustment. This acquisition was accounted for using the purchase method of accounting. Accordingly, a portion of the aggregate purchase price was allocated to the net assets acquired based on preliminary estimated fair values. The excess of purchase price over the fair value of the net assets acquired has been recorded as goodwill.

Note 6: Employee Benefits

The following table sets forth aggregated net periodic benefit cost:

(In millions)	Pension Benefits Second Quarter Ended		Pension Benefits Six Months Ended	
	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Service cost	\$ 1.1	\$ 0.9	\$ 2.2	\$ 2.0
Interest cost	2.0	2.1	4.2	3.9
Expected return on assets	(2.4)	(2.8)	(5.2)	(5.3)
Amortization of unrecognized:				
(Gain)/Loss	-	0.1	0.1	0.1

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Prior service cost	0.4	0.5	0.8	0.8
Net periodic benefit cost	1.1	0.8	2.1	1.5
Settlement cost	-	-	-	0.1
Total benefit cost	\$ 1.1	\$ 0.8	\$ 2.1	\$ 1.6

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	Other Benefits			
	Second Quarter Ended		Six Months Ended	
	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Service cost	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2
Interest cost	0.2	0.2	0.4	0.4
Amortization of unrecognized:				
Obligation/(asset)	0.1	0.2	0.2	0.3
Prior service costs	0.0	0.0	0.1	0.1
Loss/(Gain)	0.1	0.1	0.1	0.1
Net periodic benefit cost	0.5	0.6	1.0	1.1
Total benefit cost	\$ 0.5	\$ 0.6	\$ 1.0	\$ 1.1

As of July 1, 2006 the Company has made contributions to the plans of \$0.9 million and expects to make additional contributions of \$1.7 million in 2006.

#### Note 7: Tax Rates

The effective tax rate on income before income taxes in 2006 and 2005 varies from the United States statutory rate of 35 percent primarily due to the foreign income exclusion and R & D credits and to the effects of state and foreign income taxes net of federal tax benefits.

#### Note 8: Shareowners' Equity

The Company had 22,943,388 shares of common stock (45,000,000 shares authorized, \$.10 par value) outstanding as of July 1, 2006.

Year to date 2006, pursuant to a stock repurchase program authorized by the Company's Board of Directors, the Company repurchased 5,000 shares for \$0.2 million. All repurchased shares were retired.