FRANKLIN ELECTRIC CO INC
Form 10-K
February 28, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 30, 2006

OR

o **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	**35-0827455**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
400 East Spring Street	
Bluffton, Indiana	**46714-3798**
(Address of principal executive offices)	**(Zip Code)**

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

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

Common Stock, $.10 par value	**The NASDAQ Stock Market**
Preference Stock Purchase Rights	**The NASDAQ Stock Market**
(Title of each class)	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES x **NO** o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES o **NO** x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x **NO** o

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. o

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 x **Accelerated Filer** o **Non-Accelerated Filer** o

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

YES o **NO** x

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant at July 1, 2006 (the last business day of the registrant’s most recently completed second quarter) was $1,184,796,556. The stock price used in this computation was the last sales price on that date, as reported by The Nasdaq Stock Market. Determination of stock ownership by non-affiliates was made solely for the purpose of responding to this requirement and the registrant is not bound by this determination for any other purpose.

Number of shares of common stock outstanding at December 30, 2006:

23,009,513 shares

DOCUMENTS INCORPORATED BY REFERENCE

A portion of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2007 (Part III).

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PART I

ITEM 1. BUSINESS

Franklin Electric Co., Inc. is an Indiana corporation founded in 1944 and incorporated in 1946 that, together with its subsidiaries, conducts business as a single reportable segment: the design, manufacture and distribution of groundwater and fuel pumping systems, submersible pumps, motors, electronic controls and related parts and equipment. The Company's business consists of two operating segments based on the principal end market served: the Water Systems segment and the Fueling Systems segment. Except where the content otherwise requires, "Franklin Electric" or the "Company", shall refer to Franklin Electric Co., Inc. and its consolidated subsidiaries.

Description of Business

Franklin Electric is a global leader in the production and marketing of groundwater and fuel pumping systems and is a technical leader in submersible pumps, motors, drives, electronic controls, and monitoring devices. The Company is the world's largest manufacturer of Water and Fueling Systems motors, a leading manufacturer of Water and Fueling Systems pumps, underground Fueling Systems hardware and flexible piping systems. In 2006, the Company acquired a business specializing in vapor recovery systems and components.

During 2006, the Company acquired two companies and divested its Engineered Motor Products Division. In the second quarter of 2006, the Company acquired Little Giant Pump Company ("Little Giant") in a stock purchase transaction. Little Giant was a wholly-owned subsidiary of Tecumseh Products Company, and a leading worldwide provider of commercial and consumer water transfer solutions. Little Giant's products include sump, sewage, effluent, condensate and industrial submersible pumps and broaden the pump product offerings of Franklin Electric, as well as expand the Company's customer base. Little Giant's 2006 annual pro forma sales represented about 25 percent of the Company's prior year sales. In the third quarter of 2006 the Company acquired Healy Systems, Inc., ("Healy Systems") in a stock purchase transaction. Healy Systems is a worldwide provider of Stage II Vapor Recovery Systems and Components used primarily at gasoline stations to reduce gasoline vapor emissions during vehicle refueling. The Healy Systems product line is complementary to Franklin's existing fuel management products and presents cross selling opportunities for the Company. Healy Systems' 2006 annual pro forma sales represented less than 10 percent of the Company's prior year sales. In the fourth quarter of 2006, the Company divested its Engineered Motor Products Division ("EMPD"), which manufactured and sold fractional horsepower electric motors primarily to original equipment manufacturers for specialty applications such as ice cream dispensers, electric hoists, paint mixing machines, and food processing. The Engineered Motor Products Division's revenue represented less than 10 percent of Franklin Electric's consolidated sales for 2006.

Franklin Electric's motors and pumps are used principally in submersible applications for pumping fresh water, wastewater, fuel, and other liquids in a variety of applications, including residential, industrial, agricultural, fueling, off-shore drilling, and mining. Franklin Electric also manufactures electronic drives and controls for the motors which control functionality and provide protection from various hazards, such as electric surges, over-heating, or dry wells and tanks. Along with the fueling motor and pump applications, the Company supplies a variety of products to the petroleum equipment industry included with the submersible pumping systems, such as flexible piping, vapor recovery systems and components, electronic tank monitoring equipment, and fittings.

The Company's products are sold in North America, Europe, the Middle East, South Africa, Australia, Mexico, Japan, China, and other world markets. The Company's products are sold by its sales force, manufacturing representatives, and repair shops.

The Company changed its marketing strategy in late 2004 and began selling certain Water Systems products directly to specialty Water Systems distributors, as well as original equipment manufacturers (OEMs) of pumps. This change in marketing strategy has resulted in a broader customer base with fewer sales to pump OEMs. The Company has also announced that, beginning in 2007, Water Systems product sales to integrated pump manufacturers will be significantly curtailed. The market for the Company's products is highly competitive and includes large and small accounts. The Company's Water Systems and Fueling Systems products and related equipment are sold to pump OEMs and specialty Water Systems distributors, as well as, industrial equipment distributors, major oil and utility companies.

ITT Industries, Inc. and its various subsidiaries and affiliates, accounted for 11 percent, 16 percent, and 20 percent of the Company's consolidated sales in 2006, 2005, and 2004, respectively. Pentair Corporation and its various subsidiaries and affiliates, accounted for 12 percent, 14 percent, and 22 percent of the Company's consolidated sales in 2006, 2005, and 2004, respectively.

The Company offers normal and customary trade terms to its customers, no significant part of which is of an extended nature. Special inventory requirements are not necessary, and customer merchandise return rights do not extend beyond normal warranty provisions.

The principal raw materials used in the manufacture of the Company’s products are steel in coils and bars, stainless steel, copper wire, and aluminum ingot. Major components are capacitors, motor protectors, forgings, gray iron castings and bearings. Most of these raw materials are available from multiple sources in the United States and world markets. In the opinion of management, no single source of supply is critical to the Company's business. Availability of fuel and energy is adequate to satisfy current and projected overall operations unless interrupted by government direction or allocation.

The Company employed approximately 3,100 persons at the end of 2006.

Segment and Geographic Information

The segment and geographic information set forth below under Note 15, “Segments and Geographic Information,” to the consolidated financial statements is incorporated herein by reference.

Research and Development

The Company spent approximately $8.1 million in 2006, $5.6 million in 2005, and $4.2 million in 2004 on activities related to the development of new products, improvement of existing products and manufacturing methods, and other applied research and development.

In 2006, the Company continued developing new pump products (including jet, centrifugal and turbine pumps), extending current product offerings, and improving the functional performance of all products. The Company introduced new hydraulic technology (patent pending) which improved performance of residential submersible pumps. The Company also continued to develop its motor drives and controls systems improving performance in harsh environments. The Company introduced the MonodriveXT system for single phase, 3-wire motors which added to the already extensive motor drives product line. Fueling Systems added bio-diesel and ethanol (E85) fuel product offerings and established the next generation tank gauge platform products. Further, the Company introduced new electronics with liquid density monitoring equipment for the fueling industry. Research continued on new materials and processes designed to achieve higher quality and more cost-effective construction of the Company’s high volume products.

The Company owns a number of patents, trademarks and licenses. In aggregate, these patents are of material importance in the operation of the business; however, the Company believes that its operations are not dependent on any single patent or group of patents.

Backlog

The dollar amount of backlog at the end of 2006 and 2005 was as follows:

	(In millions)	
	2006	2005
Backlog	$ 24.1	$ 21.1

The backlog is composed of written orders at prices adjustable on a price-at-the-time-of-shipment basis for products, primarily standard catalog items. All backlog orders are expected to be filled in fiscal 2007. The Company's sales in the first quarter are generally less than its sales in other quarters due to generally lower construction activity during that period in the northern hemisphere. Beyond that, there is no seasonal pattern to the backlog and the backlog has not proven to be a significant indicator of future sales.

Environmental Matters

The Company believes that it is in compliance with all applicable federal, state and local laws concerning the discharge of material into the environment, or otherwise relating to the protection of the environment. The Company has not experienced any material costs in connection with environmental compliance, and does not believe that such compliance will have any material adverse effect upon the financial position, capital expenditures, earnings, or competitive position of the Company.

Available Information

The Company's website address is http://www.fele.com. The Company makes available free of charge on or through its website: its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Additionally, the Company's website also includes the Company's corporate governance guidelines, its Board committee charters, and the Company's code of ethics. Information contained on the Company's website is not part of this annual report on Form 10-K.

ITEM 1A. RISK FACTORS

The following describes the principal risks affecting the Company and its business. Additional risks and uncertainties, not presently known to the Company or currently deemed material, could negatively impact the Company's results of operations or financial condition in the future.

The Company must successfully implement its new marketing and operating strategies.

From 2004 through 2006, the Company implemented significant new marketing and operating strategies as follows:
- During 2004, the Company began selling its Water Systems products directly to wholesale specialty Water Systems distributors, as well as original equipment manufacturers (OEMs) of pumps. Previously, the Company sold its Water Systems products primarily to pump OEMs (i.e., the Company was primarily a supplier of submersible motors and controls to the OEMs) who then re-sold the Water Systems products, usually combined with pumps and related products, to the wholesale specialty Water Systems distributors. As a result of this change, the Company became a competitor, as well as a supplier to many of the pump OEMs.
- Also in 2004, the Company purchased a pump manufacturer. The acquisition of certain assets of JBD, Inc. (formerly the Jacuzzi brand pump manufacturer) was completed in the fourth quarter of 2004.
- During 2006, the Company acquired Little Giant Pump Company, a manufacturer of sump, sewage, effluent, condensate and industrial submersible pumps, further expanding its pump product offerings and further increasing its competition with pump OEMs.
- Also in 2006, the Company announced a new general sales policy, effective January 1, 2007. The new general sales policy, effective for the Water Systems Industry in North America, will be to sell all of its products, including 2HP and smaller submersible electric motors and associated products, only on a direct basis to wholesale Water Systems distributors. Exceptions will be made only where the Company determines, on a case-by-case basis, that sales to a particular pump OEM will add significant customer value to the distribution of its products.

The Company believes that these strategic changes will result in increased sales and earnings; however, actual results may vary.

The Company's acquisition strategy entails expense, integration risks, and other risks.

One of the Company's continued strategies is to increase revenues and expand market share through acquisitions that will provide complementary Water and Fueling Systems products. The Company will spend significant time and effort expanding existing businesses through identifying, pursuing, completing, and integrating acquisitions. Competition for acquisition candidates may limit the number of opportunities and may result in higher acquisition prices. There is uncertainty related to successfully acquiring and profitably managing additional companies and integrating additional companies without substantial costs, delays or other problems. There can also be no assurances that acquired companies will achieve revenues, profitability or cash flows that justify the investment in them. The Company believes that these strategic acquisitions will result in increased sales and earnings; however, actual results may vary.

The Company's sales have historically been dependent on a limited number of customers.

As of the end of fiscal year 2004, approximately 42 percent of the Company's consolidated sales were attributable to two customers, both of which were pump OEMs. With the Company's changes in marketing and operating strategies, the Company reduced its dependency on the pump OEMs, which lowered the potential sales loss if one of these customers reduced its purchases from the Company. At the end of fiscal year 2006, these two pump OEM customers accounted for approximately 23 percent of the Company's consolidated sales. The Company believes that the strategic initiatives announced in 2004 through 2006 will continue to reduce the potential sales risk associated with customer concentration; however, actual results may vary.

The Company faces increased competition due to industry consolidation and new entrants into the Company's existing markets.

The Company is a global leader in the production and marketing of groundwater and fuel pumping systems. The industry in which the Company operates has experienced significant consolidation in recent years, primarily in the pump OEM companies but increasingly at the distributor level, as well as the addition of submersible motor manufacturing by pump OEMs. Some of the Company's competitors have substantially greater financial resources than the Company. The Company believes that consistency of product quality, timeliness of delivery, service, continued product innovation, as well as price, are the principal factors considered by customers in selecting suppliers. The Company further believes that successful implementation of the strategic initiatives, previously mentioned, will enhance its competitive position; however, actual results may vary.

Competitive pressures may lead to declines in sales or in the prices of submersible electric motor products.

Pump OEMs have acquired the ability to produce submersible electric motors and have purchased significant quantities of the Company submersible electric motors during 2006, possibly in excess of 2006 requirements. Their ability to produce these motors and the potential excess inventory supply of motors as of the beginning of 2007 may result in a decline in motor unit sales or motor unit prices during 2007. The Company cannot assure that these or other competitive pressures will not adversely affect profitability or performance, which could in turn have materially adverse effects on the results of operations and financial condition.

A decline in housing starts could lead to reduced demand for the Company's products, thereby reducing revenues and earnings.

Demand for certain Company products is affected by housing starts. Many economic and other factors outside the Company's control, including housing starts, could impact operating results. A decline in housing starts or general slowdown in the United States or other economies in the international markets the Company serves could reduce demand and adversely impact gross margins and operating results.

Increases in the prices of raw materials, components, finished goods and other commodities could adversely affect operations.

The Company purchases most of the raw materials for its products on the open market and relies on third parties for the sourcing of certain finished goods. Accordingly the cost of its products may be affected by changes in the market price of raw materials, sourced components, or finished goods. Natural gas and electricity prices have historically been volatile. The Company does not generally engage in commodity hedging for raw materials. Significant increases in the prices of commodities, sourced components, finished goods, or other commodities could cause product prices to increase, which may reduce demand for products or make the Company more susceptible to competition. Furthermore, in the event the Company is unable to pass along increases in operating costs to its customers, margins and profitability may be adversely affected.

The Company is exposed to political, economic and other risks that arise from operating a multinational business.

The Company has significant operations outside the United States, including Europe, Mexico and China. Further, the Company obtains raw materials and finished goods from foreign suppliers. Accordingly, the Company's business is subject to political, economic, and other risks that are inherent in operating a multinational business. These risks include, but are not limited to, the following:

- Difficulty in enforcing agreements and collecting receivables through foreign legal systems

- Trade protection measures and import or export licensing requirements
- Imposition of tariffs, exchange controls or other restrictions
- Difficulty in staffing and managing widespread operations and the application of foreign labor regulations
- Compliance with foreign laws and regulations
- Changes in general economic and political conditions in countries where the Company operates

Business success depends in part on the ability to anticipate and effectively manage these risks. The Company cannot assure that these and other factors will not have a material adverse impact on its international operations or on the business as a whole.

Delays in introducing new products or the inability to achieve or maintain market acceptance with existing or new products may cause the Company's revenues to decrease.

The industries to which the Company belongs are characterized by intense competition, changes in end-user requirements, and evolving product offerings and introductions. The Company believes future success will depend, in part, on the ability to anticipate and adapt to these factors and offer on a timely basis, products that meet customer demands. Failure to develop new and innovative products or to enhance existing products could result in the loss of existing customers to competitors or the inability to attract new business, either of which may adversely affect the Company's revenues. The Company believes that the successful introduction of new products will enhance competitive position; however, actual results may vary.

Additional Risks to the Company

The Company is subject to various risks in the normal course of business. Exhibit 99.1 sets forth a list of risks, including those identified above, that may adversely affect the Company and is incorporated herein by reference.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company maintains its principal executive offices in Bluffton, Indiana. Manufacturing plants or primary distribution centers are located in the following countries: Australia, China, The Czech Republic, Germany, Italy, Japan, Mexico, South Africa, and the United States. Within the United States, manufacturing facilities are located in Grant County, Indiana; Little Rock, Arkansas; Siloam Springs, Arkansas; Wilburton, Oklahoma; Oklahoma City, Oklahoma; Madison, Wisconsin; Saco, Maine; and Hudson, New Hampshire. The Company also maintains warehouse facilities in Orange, California; Sanford, Florida; and Bolton, Ontario, Canada. All principal properties are owned or held under operating leases.

In the Company's opinion, its facilities are suitable for their intended use, adequate for the Company's business needs, and in good condition.

ITEM 3. LEGAL PROCEEDINGS

The information set forth below under Note 16, "Contingencies and Commitments," to the consolidated financial statements is incorporate herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages, and all positions and offices held by the executive officers of the Company as of December 30, 2006 are:

Name	Age	Positions and Offices	In This Office Since
R. Scott Trumbull	58	Chairman of the Board and Chief Executive Officer	2003
Peter C. Maske	56	Senior Vice President and President of Europa	1999
Gregg C. Sengstack	48	Senior Vice President, International & Fueling Systems	2005
Thomas J. Strupp	53	Vice President, Chief Financial Officer, Secretary, Water Transfer Systems	2005
Thomas A. Miller	57	Vice President, Engineering and Electronic Technology	2005
Kirk M. Nevins	63	Vice President, Office of the Chairman	2005
Robert J. Stone	42	Vice President, Sales, Marketing and Technology	2005
Daniel J. Crose	58	Vice President, North American Submersible Operations	2003
Gary D. Ward	51	Vice President, Human Resources	2004

All executive officers are elected annually by the Board of Directors at the Board meeting held in conjunction with the annual meeting of shareowners. All executive officers hold office until their successors are duly elected or until their death, resignation, or removal by the Board. All executive officers have been in executive or management positions of Franklin Electric for the last five years with the exception of R. Scott Trumbull and Thomas J. Strupp.

R. Scott Trumbull has been a Director of Franklin for the last seven years and was Executive Vice President and Chief Financial Officer of Owens-Illinois, Inc. prior to joining Franklin Electric as Chairman of the Board and Chief Executive Officer in 2003.

Thomas J. Strupp was Vice President of Sales and Marketing at Pentair Water Group, Inc. prior to joining Franklin Electric in 2005. Previously, he held other executive positions in finance and general management with Sta-Rite Industries, Inc.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES