

FRANKLIN ELECTRIC CO INC
Form 10-K/A
February 17, 2005

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
(Amendment No. 1)**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 1, 2005**

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 | | 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:

| | | |
|------------------------------|--|--|
| None | | None |
| (Title of each class) | | (Name of each exchange on which registered) |

**Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.10 par value
(Title of each class)**

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

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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2)

YES

NO

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant at July 3, 2004 (the last business day of the registrant's most recently completed second quarter) was \$804,461,906. The stock price used in this computation was the last sales price on that date.

Number of shares of common stock outstanding at January 28, 2005:

22,041,332 shares

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Explanatory Note

This amendment is being filed for the sole purpose of adding the name of the Registrant's independent registered public accounting firm, Deloitte & Touche LLP, to (i) its audit report with respect to the Registrant's consolidated financial statements and (ii) its attestation report with respect to management's assessment of the Registrant's internal control over financial reporting. As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this amendment sets forth the complete text of "Item 8, Financial Statements and Supplementary Data" and includes new Exhibits 31.1, 31.2, 32.1 and 32.2 relating to the certifications of the Registrant's chief executive officer and its chief financial officer. The Registrant's consolidated financial statements, as included herein, are identical to the consolidated financial statements set forth in the Registrant's original Form 10-K filing on February 14, 2005.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF INCOME

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

| (In thousands, except per share amounts) | 2004 | 2003 | 2002 |
|--|------------|------------|------------|
| Net sales | \$ 404,305 | \$ 359,502 | \$ 354,872 |
| Cost of sales | 274,120 | 248,501 | 250,374 |
| Gross profit | 130,185 | 111,001 | 104,498 |
| Selling and administrative expenses | 64,867 | 59,365 | 54,637 |
| Restructure expense | 5,536 | - | - |
| Operating income | 59,782 | 51,636 | 49,861 |
| Interest expense | (488) | (1,107) | (1,317) |
| Other income | 219 | 532 | 567 |
| Foreign exchange income (loss) | (479) | 266 | 1,366 |
| Income before income taxes | 59,034 | 51,327 | 50,477 |
| Income taxes | 20,951 | 16,847 | 18,273 |
| Net income | \$ 38,083 | \$ 34,480 | \$ 32,204 |
| Per share data : | | | |
| Basic earnings per share | \$ 1.73 | \$ 1.59 | \$ 1.48 |
| Diluted earnings per share | \$ 1.65 | \$ 1.52 | \$ 1.42 |
| Dividends per common share | \$.31 | \$.27 | \$.26 |

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

ASSETS

| (In thousands) | 2004 | 2003 |
|--|------------|------------|
| Current assets: | | |
| Cash and equivalents | \$ 50,604 | \$ 29,962 |
| Receivables (less allowances of \$2,281 and \$1,949, respectively) | 39,312 | 29,194 |
| Inventories: | | |
| Raw materials | 25,346 | 17,733 |
| Work-in-process | 7,939 | 6,636 |
| Finished goods | 44,912 | 40,686 |
| LIFO reserve | (15,755) | (10,402) |
| | 62,442 | 54,653 |
| Other current assets (including deferred income taxes of \$10,391 and \$9,672, respectively) | 13,784 | 14,232 |
| Total current assets | 166,142 | 128,041 |
| Property, plant and equipment, at cost: | | |
| Land and buildings | 52,809 | 44,577 |
| Machinery and equipment | 163,968 | 147,368 |
| | 216,777 | 191,945 |
| Less allowance for depreciation | 120,853 | 108,029 |
| | 95,924 | 83,916 |
| Deferred and other assets | 14,010 | 13,828 |
| Goodwill | 57,397 | 56,186 |
| Total Assets | \$ 333,473 | \$ 281,971 |

See Notes to Consolidated Financial Statements.

LIABILITIES AND SHAREOWNERS' EQUITY

| | 2004 | 2003 |
|--|------------|------------|
| (In thousands) | | |
| Current liabilities: | | |
| Current maturities of long-term debt and short-term borrowings | \$ 1,304 | \$ 1,392 |
| Accounts payable | 16,594 | 15,958 |
| Accrued expenses | 33,354 | 28,051 |
| Income taxes | 3,193 | - |
| Total current liabilities | 54,445 | 45,401 |
| Long-term debt | 13,752 | 14,960 |
| Deferred income taxes | 6,304 | 4,354 |
| Employee benefit plan obligations | 18,801 | 18,697 |
| Other long-term liabilities | 5,838 | 5,621 |
| Shareowners' equity: | | |
| Common shares (45,000 shares authorized, \$.10 par value) outstanding (22,041 and 21,828, respectively) | 2,204 | 2,182 |
| Additional capital | 52,743 | 45,826 |
| Retained earnings | 166,557 | 139,057 |
| Loan to ESOP trust | (665) | (897) |
| Accumulated other comprehensive income | 13,494 | 6,770 |
| Total shareowners' equity | 234,333 | 192,938 |
| Total liabilities and shareowners' equity | \$ 333,473 | \$ 281,971 |

See Notes to Consolidated Financial Statements. CONSOLIDATED STATEMENTS OF CASH FLOWS

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

| | 2004 | 2003 | 2002 |
|--|-----------|-----------|-----------|
| (In thousands) | | | |
| Cash flows from operating activities: | | | |
| Net income | \$ 38,083 | \$ 34,480 | \$ 32,204 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | | |
| Depreciation and amortization | 15,143 | 13,748 | 12,878 |
| Deferred income taxes | 1,219 | 3,117 | 664 |
| Loss on disposals of plant and equipment | 187 | 489 | 428 |
| Changes in assets and liabilities, excluding the effects of acquisitions: | | | |
| Receivables | (1,243) | 4,875 | 3,125 |
| Inventories | (1,167) | (2,140) | 7,434 |
| Accounts payable and other accrued expenses | 7,305 | (4,439) | (315) |
| Employee benefit plan obligations | (3,491) | (2,584) | 1,128 |
| Other, net | 1,471 | (582) | (2,923) |
| Net cash flows from operating activities | 57,507 | 46,964 | 54,623 |
| Cash flows from investing activities: | | | |
| Additions to plant and equipment | (21,110) | (15,261) | (15,568) |
| Proceeds from sale of plant and equipment | 29 | 241 | 20 |
| Additions to deferred assets | (10) | (434) | (14,312) |
| Cash paid for acquisitions, net of cash acquired | (9,307) | - | (30,344) |
| Proceeds from maturities of marketable securities | - | - | 2,999 |
| Net cash flows from investing activities | (30,398) | (15,454) | (57,205) |
| Cash flows from financing activities: | | | |
| Borrowing of long-term debt | - | 6,648 | 8,575 |
| Repayment of long-term debt | (1,553) | (19,853) | (1,408) |
| Borrowing on line of credit and short-term borrowings | - | 11,000 | 3,000 |
| Repayment of line of credit and short-term borrowings | - | (11,024) | (3,017) |
| Proceeds from issuance of common stock | 4,110 | 4,750 | 2,320 |
| Purchases of common stock | (3,091) | (9,782) | (3,662) |
| Reduction of loan to ESOP Trust | 232 | 233 | 232 |
| Dividends paid | (6,815) | (5,946) | (5,505) |
| Net cash flows from financing activities | (7,117) | (23,974) | 535 |
| Effect of exchange rate changes on cash | 650 | 2,293 | 1,430 |
| Net change in cash and equivalents | 20,642 | 9,829 | (617) |
| Cash and equivalents at beginning of year | 29,962 | 20,133 | 20,750 |
| Cash and equivalents at end of year | \$ 50,604 | \$ 29,962 | \$ 20,133 |

Cash paid during 2004, 2003, and 2002 for interest was \$0.6 million, \$1.2 million and \$1.3 million, respectively. Also, cash paid during 2004, 2003 and 2002 for income taxes was \$19.0 million, \$13.8 million and \$16.6 million, respectively.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

(In thousands, except share amounts)

| | Common Shares Outstanding | Common Stock | Additional Capital | Retained Earnings | Loan to ESOP Trust | Accumulated Other Comprehensive Income (Loss) | Comprehensive Income |
|---|---------------------------------|-----------------|-----------------------|----------------------|--------------------------|---|-------------------------|
| Balance year end 2001 | 21,337,068 | \$ 2,134 | \$ 22,281 | \$ 109,103 | \$ (1,362) | (8,887) | |
| Net income | | | | 32,204 | | | \$ 32,204 |
| Currency translation adjustment | | | | | | 5,858 | 5,858 |
| Pension liability adjustment | | | | | | (3,172) | (3,172) |
| Comprehensive income, net of tax | | | | | | | \$ 34,890 |
| Dividends on common stock | | | | (5,505) | | | |
| Common stock issued | 757,000 | 76 | 5,869 | | | | |
| Common stock repurchased or received for stock options exercised | (446,998) | (46) | 23 | (10,494) | | | |
| Tax benefit of stock options exercised | | | 4,824 | | | | |
| Loan payment from ESOP | | | | | 232 | | |
| Balance year end 2002 | 21,647,070 | 2,164 | 32,997 | 125,308 | (1,130) | (6,201) | |
| Net income | | | | 34,480 | | | \$ 34,480 |
| Currency translation adjustment | | | | | | 10,983 | 10,983 |
| Pension liability adjustment | | | | | | 1,988 | 1,988 |
| Comprehensive income, net of tax | | | | | | | \$ 47,451 |
| Dividends on common stock | | | | (5,946) | | | |
| Common stock issued | 748,000 | 74 | 7,722 | | | | |
| Common stock repurchased or received for stock options exercised | (567,126) | (56) | 28 | (14,785) | | | |
| Tax benefit of stock options exercised | | | 5,079 | | | | |
| Loan payment from ESOP | | | | | 233 | | |
| Balance year end 2003 | 21,827,944 | 2,182 | 45,826 | 139,057 | (897) | 6,770 | |

| | | | | | | | | | |
|--|------------|----------|-----------|------------|----------|----|---------|----|--------|
| Net income | | | | 38,083 | | | | \$ | 38,083 |
| Currency translation adjustment | | | | | | | 6,935 | | 6,935 |
| Pension liability adjustment | | | | | | | (211) | | (211) |
| Comprehensive income, net of tax | | | | | | | | \$ | 44,807 |
| Dividends on common stock | | | | | | | (6,815) | | |
| Common stock issued | 337,500 | 35 | 4,495 | | | | | | |
| Common stock repurchased or received for stock options exercised | (124,112) | (13) | | | | | (3,768) | | |
| Tax benefit of stock options exercised | | | 2,422 | | | | | | |
| Loan payment from ESOP | | | | | | | 232 | | |
| Balance year end 2004 | 22,041,332 | \$ 2,204 | \$ 52,743 | \$ 166,557 | \$ (665) | \$ | | | 13,494 |

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year--The Company's fiscal year ends on the Saturday nearest December 31. The financial statements and accompanying notes are as of and for the years ended January 1, 2005 (52 weeks), January 3, 2004 (53 weeks) and December 28, 2002 (52 weeks) and are referred to as 2004, 2003 and 2002, respectively.

Principles of Consolidation--The consolidated financial statements include the accounts of the Company and its subsidiaries.

Revenue Recognition--Products are shipped utilizing common carriers direct to customers or, for consignment products, to customer specified warehouse locations. Sales are recognized when the Company's products are shipped direct or transferred from a warehouse location to the customer, at which time transfer of ownership and risk of loss pass to the customer.

Cash Equivalents--Cash equivalents consist of highly liquid investments which are readily convertible to cash, present insignificant risk of changes in value due to interest rate fluctuations and have original or purchased maturities of three months or less.

Research and Development Expenses--The Company's research and development activities are charged to expense in the period incurred.

Fair Value of Financial Instruments--The carrying amounts for cash and equivalents, long-term debt, and short-term debt approximate fair value. The fair value of long-term debt is estimated based on current borrowing rates for similar issues and current exchange rates for foreign currency denominated amounts. The Company's off-balance sheet instruments consist of operating leases which are not significant (see Note 13).

Accounts Receivable--Accounts receivable are stated at estimated net realizable value. Accounts receivable comprise balances due from customers net of estimated allowances for uncollectible accounts. In determining collectibility, historical trends are evaluated and specific customer issues are reviewed to arrive at appropriate allowances.

Inventories--Inventories are stated at the lower of cost or market. The majority of the cost of domestic inventories is determined using the last-in, first-out (LIFO) method; all remaining inventory costs are determined using the first-in, first-out (FIFO) method. Inventories stated on the LIFO method approximated 33.1 percent and 42.8 percent of total inventories in 2004 and 2003, respectively. The Company reviews its inventories for excess or obsolete products or components. Based on an analysis of historical usage and management's evaluation of estimated future demand, market conditions and alternative uses for possible excess or obsolete parts, reserves are recorded or changed.

Property, Plant and Equipment--Property, plant and equipment are stated at cost. Depreciation of plant and equipment is provided principally on a straight line basis over the estimated useful lives of 5 to 50 years for land improvements and buildings, 2 to 10 years for machinery, equipment, furniture, and fixtures. Accelerated methods are used for income tax purposes. The Company reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Goodwill and Other Intangible Assets--The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," in 2002. Under SFAS No. 142, goodwill is not amortized; however, it must be tested for impairment at least annually. Amortization continues to be recorded for other intangible assets with definite lives. The goodwill is subject to adjustment in the event that it becomes impaired.

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Stock-Based Compensation--The Company accounts for its stock-based compensation plans under the intrinsic value method in accordance with the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. No stock-based compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

For pro forma information regarding net income and earnings per share, the fair value for the options awarded in 2004, 2003 and 2002 for all fixed stock option plans was estimated as of the date of the grant using a Black-Scholes option valuation model. The following table sets forth the weighted-average assumptions for 2004, 2003 and 2002, respectively.

| | 2004 | 2003 | 2002 |
|--------------------------------|---------|---------|---------|
| Risk-free interest rate | 3.60% | 3.34% | 4.23% |
| Dividend yield | .63% | .88% | 1.10% |
| Volatility factor | .181 | .211 | .207 |
| Weighted-average expected life | 6 years | 6 years | 6 years |

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the option's vesting period. Therefore, in the year of adoption and subsequently affected years, the effects of applying SFAS No. 123 for providing pro forma net income and earnings per share are not likely to be representative of the effects on reported income in future years. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation:

(In millions, except per share amounts)

| | 2004 | 2003 | 2002 |
|--|---------|---------|---------|
| Reported net income | \$ 38.1 | \$ 34.5 | \$ 32.2 |
| Less: Total fair value computed stock-based compensation, net of tax | (1.5) | (1.5) | (1.3) |
| Pro forma net income | \$ 36.6 | \$ 33.0 | \$ 30.9 |
| Reported net income available per common share | \$ 1.73 | \$ 1.59 | \$ 1.48 |
| Pro forma net income available per common share | \$ 1.67 | \$ 1.52 | \$ 1.43 |
| Reported net income available per common share, assuming dilution | \$ 1.65 | \$ 1.52 | \$ 1.42 |
| Pro forma net income available per common share, assuming dilution | \$ 1.59 | \$ 1.46 | \$ 1.36 |

The weighted-average grant-date fair value of options granted during 2004, 2003 and 2002 was \$7.47, \$6.06 and \$6.28, respectively.

The Black-Scholes option valuation model used by the Company was developed for use in estimating the fair value of fully tradable options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. It is management's opinion that the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Earnings Per Common Share--Basic and diluted earnings per share are computed and disclosed under SFAS No. 128, "Earnings Per Share". Diluted earnings per share is computed based upon earnings applicable to common shares divided by the weighted-average number of common shares outstanding during the period adjusted for the effect of other dilutive securities.

Translation of Foreign Currencies--All assets and liabilities of foreign subsidiaries whose functional currency is other than the U.S. dollar are translated at year end exchange rates. All revenue and expense accounts are translated at average rates in effect during the respective period.

Use of Estimates--Management's best estimates of certain amounts are required in preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and actual results could differ from those estimates.

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Reclassifications--Certain prior year amounts are reclassified when necessary to conform to the current year presentation. All share and per share data included in these financial statements reflect the Company's two-for-one stock splits effected in the form of a 100 percent stock distribution made on June 15, 2004.

Accounting Pronouncements-- In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs", an amendment of ARB No. 43, Chapter 4. The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The pronouncement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company currently recognizes, as period costs, any abnormal amounts of idle facility expense, freight, handling costs and wasted materials and allocates fixed production overhead to inventory based on the normal capacity of the production facilities. The adoption of this pronouncement will not have a significant impact on the Company's results of operations or financial position. The Company will adopt this pronouncement for fiscal 2005.

On December 16, 2004, the FASB issued SFAS No. 123(R) "Share-Based Payment", that requires compensation costs related to share-based payment transactions recognized in the financial statements. With minor exceptions, the amounts of compensation costs will be measured based on the grant-date fair value of the equity or liability instruments issued, over the period that the employee provides service in exchange for the award. In addition liability awards will be re-measured each reporting period. This pronouncement is effective as of the first interim or annual reporting period that begins after June 15, 2005. The impact on the Company's results of operations or financial position as of the adoption of this pronouncement is not expected to be materially different from the pro-forma results included above: Stock-Based Compensation.

On December 21, 2004, the FASB issued "Application of FASB Statement No. 109, *Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004", a FASB Staff Position (FSP) that provides guidance on the application of SFAS No. 109 to the tax deduction on qualified production activities provided by the American Jobs Creation Act of 2004. FSP FAS 109-1 states that the qualified production activities deduction should be accounted for as a special deduction in accordance with SFAS No. 109, whereby the deduction is contingent upon the future performance of specific activities, including wage levels. The FASB also concluded that the special deductions should be considered with measuring deferred taxes and assessing a valuation allowance. The impact on the Company's results of operations or financial position of FSP FAS 109-1 has not yet been determined.

On December 21, 2004, the FASB issued "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004", a FSP that provides accounting and disclosure guidance for the foreign earnings repatriation provision within the American Jobs Creation Act of 2004. The Act provides special, one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer. FSP FAS 109-2 states that a company is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings, as it applies to the application of SFAS No. 109. The decision process to build the plan may occur in stages, as an enterprise may separately evaluate the provisions of the Act. The Company has not begun the evaluation process of the effects of the repatriation provision.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

The company uses the purchase method of accounting for business combinations and accounts for goodwill on an impairment-only basis in accordance with SFAS Nos. 141 and 142, "Business Combinations" and "Goodwill and Other

Intangible Assets”, respectively. During the fourth quarter of each year, the Company performs its annual impairment testing required by SFAS No. 142. No impairment loss was required to be recognized.

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Information regarding the Company's other intangible assets which are included in deferred and other assets, and goodwill follows:

| (in millions) | 2004 | 2003 |
|--------------------------|---------|---------|
| Amortized intangibles | | |
| Patents | \$ 3.5 | \$ 3.5 |
| Supply agreements | 10.4 | 10.2 |
| Other | 1.7 | 1.6 |
| Accumulated amortization | (9.3) | (6.8) |
| Total | \$ 6.3 | \$ 8.5 |
| Goodwill | \$ 57.4 | \$ 56.2 |

The change in goodwill from 2003 to 2004 is related to foreign exchange rate changes from year to year. Amortization expense related to intangible assets for the year ended January 1, 2005 was \$2.1 million. Amortization expense for each of the five succeeding years is projected as \$1.2 million, \$0.8 million, \$0.7 million, \$0.7 million and \$0.7 million for fiscal 2005, 2006, 2007, 2008, 2009, respectively.

Acquisitions

During 2004, the Company acquired certain assets of JBD, Inc., a pump manufacturer located in Little Rock, Arkansas, for their estimated fair value of approximately \$9.3 million. During 2002, the Company paid \$30.3 million for acquisitions, net of cash acquired, of which \$24.3 million was recorded as goodwill based on the estimated fair values of the net assets acquired. In January 2002, the Company acquired certain assets and liabilities of Coverco S.p.A., and Emco S.r.L.(jointly "Coverco") manufacturers of submersible and industrial electric motors and controls in Italy. In July 2002, the Company acquired all of the outstanding shares of Intelligent Controls, Inc., a producer of fueling systems electronic leak detection and inventory management systems controls in Maine. These acquisitions did not materially affect the Company's financial statements. The pro forma results of the Company's operations as if these acquisitions had occurred at the beginning of the year acquired would not differ materially from the reported results.

These acquisitions were 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 the estimated fair values. When applicable, the excess of purchase price over the fair value of the net assets acquired has been recorded as goodwill.

3. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans - As of January 1, 2005, the Company maintains three domestic pension plans and one German pension plan. The Company uses a December 31 measurement date for its plans.

The following table sets forth aggregated information related to the Company's pension benefits and other postretirement benefits, including changes in the benefit obligations, changes in plan assets, funded status, amounts recognized in the Consolidated Balance Sheets, and actuarial assumptions:

(In millions)

| | Pension Benefits | | Other Benefits | |
|--|------------------|-----------|----------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Change in benefit obligation: | | | | |
| Benefit obligation, beginning of year | \$ 126.5 | \$ 117.1 | \$ 13.2 | \$ 12.9 |
| Service cost | 4.3 | 4.1 | 0.4 | 0.3 |
| Interest cost | 7.5 | 7.6 | 0.9 | 0.8 |
| Plan amendments | - | 1.1 | 2.4 | - |
| Actuarial loss | 6.1 | 6.4 | .6 | 0.4 |
| Settlements paid | (0.9) | (1.0) | - | - |
| Benefits paid | (9.2) | (9.1) | (1.6) | (1.2) |
| Exchange | 0.1 | 0.3 | - | - |
| Benefit obligation, end of year | \$ 134.4 | \$ 126.5 | \$ 16.0 | \$ 13.2 |
| Change in plan assets: | | | | |
| Fair value of assets, beginning of year | \$ 115.9 | \$ 98.0 | \$ - | \$ - |
| Actual return on plan assets | 17.9 | 22.2 | - | - |
| Company contributions | 5.8 | 5.8 | 1.6 | 1.2 |
| Settlements paid | (1.0) | (1.0) | - | - |
| Benefits paid | (9.2) | (9.1) | (1.6) | (1.2) |
| Fair value of assets, end of year | \$ 129.4 | \$ 115.9 | \$ - | \$ - |
| Reconciliation of funded status: | | | | |
| Funded status | \$ (5.0) | \$ (10.6) | \$ (16.0) | \$ (13.2) |
| Unrecognized net (gain)/loss | (0.6) | 0.6 | 3.6 | 3.1 |
| Unrecognized transition obligation | - | - | 3.9 | 4.4 |
| Unrecognized prior service cost | 4.0 | 5.3 | 2.2 | - |
| Net amount recognized | \$ (1.6) | \$ (4.7) | \$ (6.3) | \$ (5.7) |
| Amounts recognized in the Consolidated Balance Sheets: | | | | |
| Employee benefit plan obligations | \$ (12.5) | \$ (13.0) | \$ (6.3) | \$ (5.7) |
| Accrued expenses | (0.1) | (0.1) | - | - |
| Deferred income taxes | 1.4 | 1.3 | - | - |
| Deferred and other assets | 7.4 | 5.1 | - | - |
| Accumulated other comprehensive income (loss) | 2.2 | 2.0 | - | - |
| Net amount recognized | \$ (1.6) | \$ (4.7) | \$ (6.3) | \$ (5.7) |
| Increase/(decrease) in minimum liability included in other comprehensive income | | | | |
| | Pension Benefits | | Other Benefits | |
| | 2004 | 2003 | 2004 | 2003 |
| | \$ 0.2 | \$ (2.0) | \$ - | \$ - |

Actuarial assumptions used to determine benefit obligations:

| | Pension Benefits | | | | Other Benefits | | | |
|---|------------------|-----------|-----------|-----------|----------------|--|------|--|
| | 2004 | | 2003 | | 2004 | | 2003 | |
| Discount rate | 5.75% | 6.25% | 5.75% | 6.25% | | | | |
| Rate of increase in future compensation | 2.5-7.00% | 2.5-7.00% | 2.5-7.00% | 2.5-7.00% | | | | |
| | (Graded) | (Graded) | (Graded) | (Graded) | | | | |

Actuarial assumptions used to determine periodic benefit cost:

| | Pension Benefits | | Other Benefits | |
|--|------------------|-----------|----------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Discount rate | 6.25% | 6.75% | 6.25% | 6.75% |
| Rate of increase in future compensation | 2.5-7.00% | 2.5-7.00% | 2.5-7.00% | 2.5-7.00% |
| | (Graded) | (Graded) | (Graded) | (Graded) |
| Expected long-term rate of return on plan assets | 9.25% | 9.25% | - | - |

The accumulated benefit obligation for the Company's qualified defined benefit pension plans was \$124.6 million and \$117.1 million at January 1, 2005 and January 3, 2004.

The following table sets forth aggregated net periodic benefit cost for 2004, 2003 and 2002:

(In millions)

| | Pension Benefits | | | Other Benefits | | |
|---|------------------|--------|--------|----------------|--------|--------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Service cost | \$ 4.3 | \$ 4.1 | \$ 3.6 | \$ 0.4 | \$ 0.3 | \$ 0.3 |
| Interest cost | 7.5 | 7.6 | 7.6 | 0.9 | 0.8 | 0.9 |
| Expected return on assets | (10.9) | (10.6) | (10.4) | - | - | - |
| Amortization of unrecognized obligation/(asset) | - | - | - | 0.5 | 0.5 | 0.5 |
| Prior service cost | 1.4 | 1.5 | 1.2 | 0.2 | - | - |
| Loss/(Gain) | - | (0.2) | (0.7) | 0.2 | 0.2 | 0.1 |
| Net periodic benefit cost | \$ 2.3 | \$ 2.4 | \$ 1.3 | \$ 2.2 | \$ 1.8 | \$ 1.8 |
| Settlement | 0.3 | 0.2 | 0.1 | - | - | - |
| Total benefit cost | \$ 2.6 | \$ 2.6 | \$ 1.4 | \$ 2.2 | \$ 1.8 | \$ 1.8 |

The Company consults with actuaries, asset allocation consultants and investment advisors to determine the expected long term rate of return on plan assets. While past performance is not a guarantee of future returns, the plan assets of the pension plans for the past fifteen years have averaged in excess of 12% annually. Effective January 1, 2005 an expected long term rate of return on plan assets of 8.50% was selected to reflect capital market expectations based in part on input from the Company's actuaries, consultants and advisors.

The plans asset allocations at December 31, 2004, and 2003, by asset category are as follows:

| | Plan Assets at December 31 | |
|-------------------------|----------------------------|------|
| | 2004 | 2003 |
| Equity Securities | 74% | 76% |
| Fixed Income Securities | 26% | 24% |
| Total | 100% | 100% |

Equity securities include Company stock of \$25.5 million (20% of total plan assets) and \$22.0 million (19% of total plan assets) at December 31, 2004 and 2003, respectively.

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The Company employs a total return investment approach whereby a mix of equity and fixed-income investments are used to maximize the long-term return on plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across growth, value, and small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

One of the Company's four pension plans covers certain management employees. The Company does not fund this plan, and its assets were zero in 2004 and 2003. The plan's projected benefit obligation and accumulated benefit obligation were \$6.4 million and \$5.0 million, respectively, at January 1, 2005, and \$6.2 million and \$4.8 million, respectively, at January 3, 2004.

The Company estimates total contributions to the plans of \$3.4 million in 2005.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(In millions)

| | Pension Benefits | Other Benefits |
|-------------------------|---------------------|-------------------|
| 2005 | \$ 9.2 | \$ 1.6 |
| 2006 | 8.6 | 1.3 |
| 2007 | 8.0 | 1.3 |
| 2008 | 8.3 | 1.3 |
| 2009 | 9.6 | 1.3 |
| Years 2010 through 2014 | 49.6 | 6.5 |

The Company's other postretirement benefit plans provide health and life insurance benefits to domestic employees hired prior to 1992. The Company effectively capped its cost for those benefits through plan amendments made in 1992, freezing Company contributions for insurance benefits at 1991 levels for current and future beneficiaries with actuarially reduced benefits for employees who retire before age 65. On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. After reviewing the Act, it was determined that there was no direct impact to the Company's postretirement medical plan. However, to assist retirees in maintaining their current standard of living, the Company decided to make a one-time increase to its post-65 benefit payment to retirees. The accumulated postretirement benefit obligation for this benefit change increased \$2.4 million and the annual net periodic postretirement benefit cost increased \$0.3 million.

Defined Contribution Plans - The Company maintains an integrated 401(k) and Employee Stock Ownership Plan (ESOP). In 1996 and 1992, the ESOP Trustee acquired shares of Company common stock on the open market using the proceeds of a ten-year, \$0.3 million loan and a fifteen-year, \$3.0 million loan, respectively, from the Company. Under the terms of the variable rate loan (6.31 percent at January 1, 2005), principal plus interest is payable in equal annual installments. The shares of stock purchased with the loan proceeds are collateral for the loan and are considered outstanding for purposes of calculating earnings per share.

The Company contributes a portion of its 401(k) matching contribution as well as an additional annual contribution, both subject to the Company's annual financial results, to the ESOP Trust. The ESOP Trustee uses a portion of the Company's contributions to make principal and interest payments on the loan. As loan payments are made, shares of common stock are released as collateral and are allocated to participants' accounts. The balance of the Company's contributions in cash or common stock is made to the Company stock fund of the 401(k) and ESOP Trusts, and

allocated to participants' accounts to satisfy the balance of the Company's 401(k) matching contribution.

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At January 1, 2005, 550,211 shares were allocated to the accounts of participants, 31,011 shares were committed to be released and allocated to the accounts of participants for service rendered during 2004, and 85,062 shares were held by the ESOP Trust in suspense. The following table sets forth the interest expense and Company contributions to the integrated ESOP and 401(k) Plan.

(In millions)

| | 2004 | | 2003 | | 2002 | |
|--|------|-----|------|-----|------|-----|
| Interest expense incurred by the plan on ESOP debt | \$ | 0.0 | \$ | 0.1 | \$ | 0.1 |
| Company contributions to integrated plan | \$ | 0.9 | \$ | 1.0 | \$ | 1.1 |

4. ACCRUED EXPENSES

Accrued expenses consisted of:

(In millions)

| | 2004 | | 2003 | |
|---------------------------------|------|------|------|------|
| Salaries, wages and commissions | \$ | 13.9 | \$ | 11.5 |
| Product warranty costs | | 7.1 | | 5.4 |
| Insurance | | 6.6 | | 5.8 |
| Employee benefits | | 2.1 | | 2.1 |
| Other | | 3.7 | | 3.3 |
| | \$ | 33.4 | \$ | 28.1 |

5. INCOME TAXES

Income before income taxes consisted of:

| (In millions) | 2004 | | 2003 | | 2002 | |
|---------------|------|------|------|------|------|------|
| Domestic | \$ | 48.1 | \$ | 42.5 | \$ | 45.3 |
| Foreign | | 10.9 | | 8.8 | | 5.1 |
| | \$ | 59.0 | \$ | 51.3 | \$ | 50.4 |

The income tax provision consisted of:

| (In millions) | 2004 | | 2003 | | 2002 | |
|---------------|------|--|------|--|------|--|
| | | | | | | |

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| | | | | | | |
|--------------------|----|-------|----|------|----|-------|
| Currently payable: | | | | | | |
| Federal | \$ | 12.9 | \$ | 9.3 | \$ | 11.9 |
| Foreign | | 5.0 | | 3.0 | | 2.9 |
| State | | 1.8 | | 1.4 | | 2.8 |
| Deferred: | | | | | | |
| Federal | | 1.8 | | 2.1 | | 1.4 |
| Foreign | | (0.7) | | 0.7 | | (0.8) |
| State | | 0.1 | | 0.3 | | 0.1 |
| | \$ | 20.9 | \$ | 16.8 | \$ | 18.3 |

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Significant components of the Company's deferred tax assets and liabilities were as follows:

| (In millions) | | 2004 | | 2003 | |
|--|----|------|----|------|--|
| Deferred tax assets: | | | | | |
| Accrued expenses and reserves | \$ | 5.7 | \$ | 5.1 | |
| Compensation and employee benefits | | 7.6 | | 8.8 | |
| Other items | | 1.5 | | 2.1 | |
| Total deferred tax assets | | 14.8 | | 16.0 | |
| Deferred tax liabilities: | | | | | |
| Accelerated depreciation on fixed assets | | 9.0 | | 8.8 | |
| Other items | | 1.7 | | 1.9 | |
| Total deferred tax liabilities | | 10.7 | | 10.7 | |
| Net deferred tax assets | \$ | 4.1 | \$ | 5.3 | |

The portions of current and non-current deferred tax assets and liabilities were as follows:

| (In millions) | | 2004 | | | | 2003 | | | |
|---------------|----|---------------------|----|--------------------------|----|---------------------|----|--------------------------|--|
| | | Deferred Tax Assets | | Deferred Tax Liabilities | | Deferred Tax Assets | | Deferred Tax Liabilities | |
| Current | \$ | 10.6 | \$ | 0.2 | \$ | 9.7 | \$ | 0.0 | |
| Non-current | | 4.2 | | 10.5 | | 6.3 | | 10.7 | |
| | \$ | 14.8 | \$ | 10.7 | \$ | 16.0 | \$ | 10.7 | |

There was no valuation allowance for deferred tax assets required in 2004/2003 or 2003/2002.

The differences between the statutory and effective tax rates were as follows:

| | 2004 | 2003 | 2002 |
|--|-------|-------|-------|
| U.S. Federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal benefit | 2.1 | 2.2 | 3.7 |
| Extraterritorial income exclusion | (1.8) | (4.0) | (1.9) |

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| | | | | | | |
|--------------------|--|-------|--|-------|--|-------|
| R&D tax credits | | (0.7) | | (1.2) | | (1.3) |
| Other items | | 0.9 | | 0.8 | | 0.7 |
| | | | | | | |
| Effective tax rate | | 35.5% | | 32.8% | | 36.2% |

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6. DEBT

Long-term debt consisted of:

(In millions)

| | 2004 | 2003 |
|---|---------|---------|
| Insurance Company - - 6.31%, principal payments of \$1.0 million due in annual installments, with a balloon payment of \$10.0 in 2008 (\$3.4 denominated in JPY at 1/01/05) | \$ 13.3 | \$ 14.2 |
| Capital Leases | 1.8 | 2.2 |
| | 15.1 | 16.4 |
| Less Current Maturities | (1.3) | (1.4) |
| | \$ 13.8 | \$ 15.0 |

The following debt payments are expected to be paid:

(In millions)

| | Total | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|----------------|---------|--------|--------|--------|---------|--------|
| Debt | \$ 13.3 | \$ 1.0 | \$ 1.0 | \$ 1.0 | \$ 10.3 | \$ - |
| Capital Leases | 1.8 | 0.3 | 0.3 | 0.3 | 0.3 | 0.6 |
| | \$ 15.1 | \$ 1.3 | \$ 1.3 | \$ 1.3 | 10.6 | \$ 0.6 |

On September 9, 2004, the Company entered into an unsecured, 60-month, \$80.0 million revolving credit agreement (the "Agreement"). The Agreement provides for various borrowing rate options including interest rates based on the London Interbank Offered Rates (LIBOR) plus interest spreads keyed to the Company's ratio of debt to earnings before interest, taxes, depreciation, and amortization (EBITDA). The Agreement contains certain financial covenants with respect to borrowings, interest coverage, loans or advances and investments. The Company had no outstanding borrowings under the Agreement at January 1, 2005.

The Company was in compliance with all debt covenants at all times in 2004 and 2003.

7. INTEREST RATE RISK

On September 24, 2003 the company entered into a fixed-to-variable interest rate swap to achieve a desired proportion of variable vs. fixed rate debt. The fixed-to-variable interest rate swap is accounted for as a fair value hedge, per SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", with effectiveness assessed based on changes in the fair value of the underlying debt using incremental borrowing rates currently available on loans with similar terms and maturities. The effective gain or loss on the interest rate swap and that of the underlying debt are equal and offsetting resulting in no net effect to earnings. The fair value of this hedge instrument was \$(0.1) million at January 1, 2005 and is recorded in other assets and other long-term liabilities.

The swap contract has a notional amount of \$10 million and matures on November 10, 2008. Per the terms of the swap contract the company receives interest at a fixed rate of 6.31% and pays interest at a variable rate based on the three month LIBOR rate plus a spread. The average variable rate paid by the company in 2004 was 4.1%. The differential in interest rates on the swap is recognized as an adjustment of interest expense over the term of the agreement.

8. SHAREOWNERS' EQUITY

The Company had 22,041,332 shares of common stock (45,000,000 shares authorized, \$.10 par value) outstanding at the end of 2004.

During 2004 and 2003, pursuant to a stock repurchase program authorized by the Company's Board of Directors, the Company repurchased a total of 102,800 shares for \$3.1 million and 380,294 shares for \$9.8 million, respectively. Of these shares, 300,000 were repurchased from an officer of the Company in 2003. All repurchased shares were retired.

During 2004 and 2003, under terms of a Company stock option plan, participants delivered 21,312 shares for \$0.7 million and 186,832 for \$5.0 million shares of Company common stock as consideration for stock issued upon the exercise of stock options. Of these shares, 21,312 in 2004 and 163,776 in 2003 were from officers of the Company. In 2004 and 2003, the Company recorded a \$2.4 million and a \$5.1 million, respectively, reduction in its deferred tax liability and an increase to shareowners' equity as a result of these exercises. The shares delivered to the Company were subsequently retired.

Accumulated other comprehensive gain (loss), consisting of the currency translation adjustment and the pension liability adjustment, was \$15.7 million and \$(2.2) million, respectively, at January 1, 2005, and \$8.7 million and \$(1.9) million, respectively, at January 3, 2004.

9. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

(In millions, except per share amounts)

| | 2004 | 2003 | 2002 |
|--|---------|---------|---------|
| Numerator: | | | |
| Net Income | \$ 38.1 | \$ 34.5 | \$ 32.2 |
| Denominator: | | | |
| <u>Basic</u> | | | |
| Weighted-average common shares | 22.0 | 21.6 | 21.6 |
| <u>Diluted</u> | | | |
| Effect of dilutive securities: | | | |
| Employee and director incentive stock options and awards | 1.1 | 1.0 | 1.1 |
| Adjusted weighted-average common shares | 23.1 | 22.6 | 22.7 |
| Basic earnings per share | \$ 1.73 | \$ 1.59 | \$ 1.48 |
| Diluted earnings per share | \$ 1.65 | \$ 1.52 | \$ 1.42 |

10. STOCK-BASED COMPENSATION

The Company has authorized the grant of options to purchase common stock of the Company to employees and non-employee directors of the Company and its subsidiaries under two fixed stock option plans. The plans and the original number of authorized shares available for grants are as follows:

| | Shares |
|---|-----------|
| 1990 Non-Employee Director Stock Option Plan | 240,000 |
| Franklin Electric Co., Inc. Stock Option Plan | 3,600,000 |

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During 2004, all options outstanding under the 1990 Non-Employee Director Stock Option Plan were exercised. There are no further shares reserved for future awards under this plan.

Under each of the above plans, the exercise price of each option equals the market price of the Company's common stock on the date of grant and the options expire ten years after the date of the grant. Generally, options granted to non-employee directors vest 33 percent a year and become fully vested and exercisable after three years and options granted to employees vest 20 percent a year and become fully vested and exercisable after five years. Subject to the terms of the plans, in general, the aggregate option price and any applicable tax withholdings may be satisfied in cash or its equivalent, or by the plan participant's delivery of shares of the Company's common stock owned more than six months, having a fair market value at the time of exercise equal to the aggregate option price and/or the applicable tax withholdings.

A summary of the Company's fixed stock option plans activity and related information for 2004, 2003 and 2002 follows:

| Fixed Options | 2004 | | 2003 | | 2002 | |
|----------------------------------|-----------|---------------------------------|-----------|---------------------------------|-----------|---------------------------------|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 2,533,800 | \$ 18.925 | 2,927,800 | \$ 16.060 | 3,324,600 | \$ 13.150 |
| Granted | 198,600 | 30.569 | 456,000 | 23.895 | 461,000 | 24.090 |
| Exercised | (331,200) | 13.663 | (748,000) | 10.425 | (757,000) | 7.855 |
| Forfeited | - | - | (102,000) | 21.230 | (100,800) | 18.480 |
| Outstanding at end of year | 2,401,200 | \$ 20.610 | 2,533,800 | \$ 18.925 | 2,927,800 | \$ 16.060 |

The following summarizes information about fixed stock options outstanding at January 1, 2005:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|------------------------------|----------------------------|---------------------------------|------------------------------|---------------------------------|
| | Number Outstanding at 1/1/05 | Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable at 1/1/05 | Weighted-Average Exercise Price |
| \$10.50 to 16.00 | 117,400 | 2.63 years | \$ 12.42 | 117,400 | \$ 12.42 |
| 16.01 to 21.00 | 1,264,200 | 5.60 | 17.50 | 1,005,000 | 17.42 |
| 21.01 to 32.60 | 1,019,600 | 8.11 | 25.42 | 361,000 | 24.20 |
| \$10.50 to 32.60 | 2,401,200 | 6.52 | \$ 20.61 | 1,483,400 | \$ 18.68 |

During 2000, the Franklin Electric Co., Inc. Key Employee Performance Incentive Stock Plan (Incentive Plan) was established. Under the Incentive Plan, employees may be granted restricted shares of the Company's common stock, vesting subject to the employees' performance of certain goals. On December 20, 2004, 6,300 shares were awarded to non-executive employees under the Incentive Plan. No shares were awarded in 2003. At January 1, 2005, 393,700 shares were available for future awards.

On February 1, 2005, the Company terminated the 1988 Executive Stock Purchase Plan (1988 Purchase Plan). Prior to termination, there were 2,051,200 shares available for future awards and there were no outstanding loans to Company executives.

11. SEGMENT AND GEOGRAPHIC INFORMATION

Based on the management approach established by SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information", the Company's business consists of three operating segments based on the principal end market served: the water system segment, the industrial motor segment and the fueling system segment.

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The water system segment designs, manufactures and sells motors, pumps, electronic controls and related parts and equipment primarily for use in submersible water and other fluid system applications. The industrial motor segment designs, manufactures and sells electric motors for various industrial applications primarily water and fueling system applications. The industrial motor segment integrates and sells electronic controls produced by the water segment. The fueling system segment designs, manufactures and sells pumps, electronic controls and related parts and equipment primarily for use in submersible fueling system applications. The fueling system segment integrates and sells motors and electronic controls produced by the water system segment.

Under SFAS No. 131's aggregation criteria, the Company's operating segments have been combined into a single reportable segment. As a result, there are no significant differences between reportable segment financial information and the Company's consolidated results.

Net sales by product category, net of intercompany balances, is as follows:

| | 2004 | 2003 | 2002 |
|-----------------|----------|----------|----------|
| Water systems | \$ 333.5 | \$ 291.8 | \$ 296.2 |
| Fueling systems | 70.8 | 67.7 | 58.7 |
| Total | \$ 404.3 | \$ 359.5 | \$ 354.9 |

Geographical information

| | Net Sales | | | Long-lived assests | | |
|---------------|-----------|----------|----------|--------------------|---------|---------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| United States | \$ 254.3 | \$ 230.6 | \$ 232.3 | \$ 48.5 | \$ 43.9 | \$ 47.8 |
| Foreign | 150.0 | 128.9 | 122.6 | 47.4 | 40.0 | 28.2 |
| Total | \$ 404.3 | \$ 359.5 | \$ 354.9 | \$ 95.9 | \$ 83.9 | \$ 76.0 |

ITT Industries, Inc., and its various subsidiaries and affiliates, accounted for 19.2 percent, 18.0 percent and 18.2 percent of the Company's consolidated sales in 2004, 2003, and 2002, respectively. Pentair Corporation and its various subsidiaries and affiliates, accounted for 20.7 percent, of the Company's consolidated sales in 2004. Sta-Rite Industries, Inc., formerly a subsidiary of Wisconsin Energy Corporation, accounted for 13.6 percent and 11.5 percent of the Company's consolidated sales in 2003 and 2002, respectively. Sta-Rite Industries, Inc. was acquired by Pentair Corporation during 2004 and its sales have been included with Pentair's sales for 2004.

12. RESTRUCTURING

The Company incurred \$5.5 million of expenses during 2004 (included in "Restructuring Expense" on the income statement) related to its global manufacturing realignment program. The costs in 2004 were primarily severance, training, equipment transfers, travel, and employee relocations related to the ongoing ramp up of the Linares, Mexico facility and the consolidation of Motta di Livenza, Italy factory into other European factories and to the Fueling Systems consolidation. The Company will incur additional expenses throughout 2005 to transfer equipment and other related expenses. The operations performed in the closed facilities will be relocated to other Company facilities and consolidated. The global manufacturing realignment program is estimated to cost in total \$10.0 million and is expected to be substantially complete by the end of 2005.

The components and use of the restructuring reserve is summarized below:

(in millions)

Other

Severance
Benefits:

| | | | | |
|-------------------------|----|-------|----|-------|
| Balance January 3, 2004 | \$ | 0.0 | \$ | 0.0 |
| Restructuring Expense | | 3.4 | | 2.1 |
| Cost Incurred | | (3.1) | | (2.1) |
| Balance January 1, 2005 | \$ | 0.3 | \$ | 0.0 |

13. CONTINGENCIES AND COMMITMENTS

The Company is defending various claims and legal actions, including environmental matters, which have arisen in the ordinary course of business. In the opinion of management, based on current knowledge of the facts and after discussion with counsel, these claims and legal actions can be successfully defended or resolved without a material adverse effect on the Company's financial position, results of operation, and net cash flows.

Total rent expense charged to operations for operating leases including contingent rentals was \$3.4 million, \$3.0 million and \$2.7 million for 2004, 2003 and 2002, respectively. The future minimum rental payments for noncancellable operating leases as of January 1, 2005, are as follows: 2005, \$3.0 million; 2006, \$1.8 million; and 2007, \$1.2 million. Rental commitments subsequent to 2007 are not significant by year, but aggregated are \$4.5 million in total.

Below is a table that shows the activity in the warranty accrual accounts:

(In millions)

| | 2004 | | 2003 | |
|--|------|-----|------|-----|
| Beginning Balance | \$ | 5.4 | \$ | 5.3 |
| Accruals related to product warranties | | 4.9 | | 4.4 |
| Reductions for payments made | | 3.2 | | 4.3 |
| Ending Balance | \$ | 7.1 | \$ | 5.4 |

14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited quarterly financial information for 2004 and 2003 is as follows:

(In millions, except per share amounts)

| | Net Sales | Gross Profit | Net Income | Basic Earnings Per Share | Diluted Earnings Per Share |
|-------------|-----------|--------------|------------|--------------------------|----------------------------|
| 2004 | | | | | |
| 1st Quarter | \$ 80.2 | \$ 23.6 | \$ 5.1 | \$ 0.23 | \$ 0.22 |
| 2nd Quarter | 106.2 | 34.5 | 10.9 | 0.50 | 0.48 |
| 3rd Quarter | 110.3 | 36.1 | 11.1 | 0.51 | 0.48 |
| 4th Quarter | 107.6 | 36.0 | 11.0 | 0.50 | 0.47 |
| | \$ 404.3 | \$ 130.2 | \$ 38.1 | \$ 1.73 | 1.65 |
| 2003 | | | | | |
| 1st Quarter | \$ 69.8 | \$ 19.8 | \$ 4.0 | \$.18 | \$.18 |
| 2nd Quarter | 93.8 | 29.0 | 9.4 | .44 | .42 |
| 3rd Quarter | 99.7 | 30.8 | 10.5 | .49 | .46 |
| 4th Quarter | 96.2 | 31.4 | 10.6 | .48 | .46 |
| | \$ 359.5 | \$ 111.0 | \$ 34.5 | \$ 1.59 | \$ 1.52 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and Directors, Franklin Electric Co., Inc.:

We have audited the accompanying consolidated balance sheets of Franklin Electric Co., Inc. (the “Company”) as of January 1, 2005 and January 3, 2004 and the related consolidated statements of income, shareowners’ equity and cash flows for each of the three years in the period ended January 1, 2005. Our audits also included the financial statement schedule listed in the index at Item 15. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, such consolidated financial statements present fairly, in all material respects, the financial position of Franklin Electric Co., Inc. as of January 1, 2005 and January 3, 2004, and the results of its operations and its cash flows for each of the three years in the period ended January 1, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of January 1, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2005 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Chicago, Illinois
February 10, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and Directors, Franklin Electric Co., Inc.:

We have audited management's assessment, included in the accompanying Statement of Management's Responsibility for Financial Reporting and Management's Report on Internal Control over Financial Reporting, that Franklin Electric Co., Inc. and consolidated subsidiaries (the "Company") maintained effective internal control over financial reporting as of January 1, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of January 1, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 1, 2005 and our report dated February 10, 2005 expressed an unqualified opinion on those financial statements and the

financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Chicago, Illinois
February 10, 2005

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|-------------------------|---------------------------------|
| | Franklin Electric Co., Inc. |
| | |
| | /s/ R. SCOTT TRUMBULL |
| | R. Scott Trumbull |
| | Chairman of the Board and Chief |
| Date: February 16, 2005 | Executive Officer |

Pursuant to the requirements of the Securities Exchange Act of 1934, this amended report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 16, 2005.

| | | |
|---------------------------|--|--|
| /s/ R. SCOTT TRUMBULL | | Chairman of the Board and Chief |
| R. Scott Trumbull | | Executive Officer (Principal Executive Officer) |
| /s/ GREGG C. SENGSTACK | | Senior Vice President, Chief |
| Gregg C. Sengstack | | Financial Officer and Secretary (Principal Financial and Accounting Officer) |
| /s/ JEROME D. BRADY | | |
| Jerome D. Brady | | Director |
| /s/ DIANA S. FERGUSON | | |
| Diana S. Ferguson | | Director |
| /s/ ROBERT H. LITTLE | | |
| Robert H. Little | | Director |
| /s/ DAVID A. ROBERTS | | |
| David A. Roberts | | Director |
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|----------------------------|--|----------|
| /s/ DONALD J. SCHNEIDER | | |
| Donald J. Schneider | | Director |
| | | |
| | | |
| /s/ HOWARD B. WITT | | |
| Howard B. Witt | | Director |

FRANKLIN ELECTRIC CO., INC.
EXHIBIT INDEX TO THE ANNUAL REPORT ON FORM 10-K/A (Amendment No. 1)
FOR THE FISCAL YEAR ENDED JANUARY 1, 2005

| Exhibit Number | Description |
|-------------------|-------------|
|-------------------|-------------|

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002