

FRANKLIN ELECTRIC CO INC  
Form 10-Q  
August 09, 2011

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended July 2, 2011

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

46714  
(Zip 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 (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.

YESx NOo

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YESx NOo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filerx Accelerated Filero Non-Accelerated Filero Smaller Reporting Companyo

Edgar Filing: FRANKLIN ELECTRIC CO INC - Form 10-Q

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.

	Outstanding at
Class of Common Stock	July 2, 2011
\$.10 par value	23,177,925 shares

1

---

FRANKLIN ELECTRIC CO., INC.  
TABLE OF CONTENTS

	Page Number	
PART I.	FINANCIAL INFORMATION	
Item 1.	<u>Financial Statements</u>	
	<u>Condensed Consolidated Statements of Income for the Second Quarter and Six Months Ended July 2, 2011 and July 3, 2010</u>	3
	<u>Condensed Consolidated Balance Sheets as of July 2, 2011 and January 1, 2011</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 2, 2011 and July 3, 2010</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 4.	<u>Controls and Procedures</u>	31
PART II.	<u>OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>	31
Item 1A.	<u>Risk Factors</u>	32
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 4.	Reserved	
Item 6.	<u>Exhibits</u>	32
	<u>Signatures</u>	33
	<u>Exhibit Index</u>	34
	Exhibits	35

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Second Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010 As Adjusted (Note 3)	July 2, 2011	July 3, 2010 As Adjusted (Note 3)
Net sales	\$224,119	\$190,418	\$409,449	\$350,411
Cost of sales	146,904	125,782	271,708	235,170
Gross profit	77,215	64,636	137,741	115,241
Selling, general, and administrative expenses	43,931	43,118	88,077	79,004
Restructuring expense	501	2,935	919	5,100
Operating income	32,783	18,583	48,745	31,137
Interest expense	(2,406)	(2,278)	(4,612)	(4,491)
Other income/(expense)	949	400	2,568	(1,829)
Foreign exchange income/(expense)	(938)	112	(1,358)	309
Income before income taxes	30,388	16,817	45,343	25,126
Income taxes	8,381	5,366	12,433	6,123
Net income	\$22,007	\$11,451	\$32,910	\$19,003
Less: Net income attributable to noncontrolling interests	(357)	(316)	(580)	(540)
Net income attributable to Franklin Electric Co., Inc.	\$21,650	\$11,135	\$32,330	\$18,463
Income per share:				
Basic	\$0.92	\$0.48	\$1.38	\$0.80
Diluted	\$0.91	\$0.47	\$1.35	\$0.79
Dividends per common share	\$0.14	\$0.13	\$0.27	\$0.26

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands)

	July 2, 2011	January 1, 2011 As Adjusted (Note 3)
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$94,173	\$140,070
Receivables, less allowances of \$3,028 and \$2,340, respectively	121,708	70,829
Inventories:		
Raw material	55,696	51,468
Work-in-process	17,146	12,461
Finished goods	91,918	76,303
	164,760	140,232
Deferred income taxes	13,524	13,182
Other current assets	16,171	14,787
Total current assets	410,336	379,100
Property, plant, and equipment, at cost:		
Land and buildings	88,572	84,724
Machinery and equipment	201,746	181,291
Furniture and fixtures	21,641	20,924
Other	9,111	6,323
	321,070	293,262
Less: Allowance for depreciation	(165,122)	(150,186)
	155,948	143,076
Asset held for sale	1,500	2,325
Intangible assets	102,845	89,011
Goodwill	175,729	165,193
Other assets	17,403	9,854
Total assets	\$863,761	\$788,559

See Notes to Condensed Consolidated Financial Statements.

	July 2, 2011	January 1, 2011 As Adjusted (Note 3)
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$57,102	\$39,084
Accrued expenses	55,001	64,714
Income taxes	11,180	4,268
Current maturities of long-term debt and short-term borrowings	11,848	1,241
Total current liabilities	135,131	109,307
Long-term debt	154,384	151,245
Deferred income taxes	21,497	17,887
Employee benefit plans	55,638	65,967
Other long-term liabilities	17,264	8,313
Commitments and contingencies	—	—
Redeemable noncontrolling interest	14,732	7,291
Shareowners equity:		
Common stock (65,000 shares authorized, \$.10 par value) outstanding (23,178 and 23,257, respectively)	2,318	2,326
Additional capital	135,798	129,705
Retained Earnings	329,144	313,905
Accumulated other comprehensive loss	(5,012	) (19,442 )
Total shareowners' equity	462,248	426,494
Noncontrolling interest	2,867	2,055
Total equity	465,115	428,549
Total liabilities and equity	\$863,761	\$788,559

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands)	Six Months Ended	
	July 2, 2011	July 3, 2010 As Adjusted (Note 3)
Cash flows from operating activities:		
Net income	\$32,910	\$19,003
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	12,729	12,718
Share-based compensation	2,216	2,578
Deferred income taxes	(909)	) 2,076
(Gain)/loss on disposals of plant and equipment	1,021	(1,181)
Asset impairment	—	2,458
Foreign exchange expense	1,358	—
Excess tax from share-based payment arrangements	(659)	) (608)
Changes in assets and liabilities:		
Receivables	(35,294)	) (30,923)
Inventories	(11,282)	) (5,035)
Accounts payable and accrued expenses	3,913	28,971
Income taxes	6,721	(750)
Employee benefit plans	(9,138)	) (6,219)
Other	2,280	(951)
Net cash flows from operating activities	5,866	22,137
Cash flows from investing activities:		
Additions to property, plant, and equipment	(8,213)	) (5,012)
Proceeds from sale of property, plant, and equipment	307	1,468
Cash paid for acquisitions, net of cash acquired	(24,869)	) —
Additional consideration for prior acquisition	(6,623)	) —
Loan to customer	(3,340)	) —
Net cash flows from investing activities	(42,738)	) (3,544)
Cash flows from financing activities:		
Repayment of long-term debt	(52)	) (336)
Proceeds from issuance of common stock	3,423	1,713
Excess tax from share-based payment arrangements	659	608
Purchases of common stock	(10,629)	) (3,516)
Dividends paid	(6,167)	) (5,918)
Net cash flows from financing activities	(12,766)	) (7,449)
Effect of exchange rate changes on cash	3,741	(5,081)
Net change in cash and equivalents	(45,897)	) 6,063
Cash and equivalents at beginning of period	140,070	86,875
Cash and equivalents at end of period	\$94,173	\$92,938
Cash paid for income taxes	\$2,744	\$2,831
Cash paid for interest	\$4,614	\$4,223
Non-cash items:		

Payable to seller of acquired entities	\$5,748	\$309
--	---------	-------

6

---



Additions to property, plant, and equipment, not yet paid	\$943	\$1,971
Stock option exercises forfeitures, or stock retirements	\$—	\$647

See Notes to Condensed Consolidated Financial Statements.

7

---

FRANKLIN ELECTRIC CO., INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated balance sheet as of January 1, 2011, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements as of July 2, 2011 and for the second quarters ended July 2, 2011 and July 3, 2010, 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. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. 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. Operating results for the second quarter ended July 2, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011. For further information, including a description of the Company's critical accounting policies, refer to the consolidated financial statements and notes thereto included in Franklin Electric Co., Inc.'s Annual Report on Form 10-K for the year ended January 1, 2011.

2. NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-4 Fair Value Measurement and Disclosure. The new guidance requires additional disclosures for Level 3 measurements including quantitative information about the significant unobservable inputs used in estimating fair value, a discussion of the sensitivity of the measurement to these inputs, and a description of the Company's valuation process. ASU 2011-4 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As the ASU addresses only disclosure requirements, adoption of ASU 2011-4 is not expected to impact the Company's financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU 2011-5 Statement of Comprehensive Income. The new statement gives companies the option of presenting net income and comprehensive income in one continuous statement of comprehensive income or in two separate but consecutive statements. Currently companies report other comprehensive income and its components in stockholders' equity. ASU 2011-5 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and will impact the financial statement presentation of the Company in first quarter 2012. As the ASU addresses only disclosure requirements, the adoption of the ASU 2011-5 is not expected to impact the Company's financial position, results of operations or cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES

During the six fiscal months ended July 2, 2011, the Company did not change any of its existing accounting policies with the exception of the following accounting principle, which was adopted and became effective with respect to the Company on January 2, 2011.

Effective January 2, 2011, the Company elected to change its accounting method of valuing all of its inventories that used the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. Inventories valued using the LIFO and FIFO methods represented approximately 11% and 85%, respectively, of total inventories as of January 1, 2011 with the remaining inventory recorded using the average cost method. The Company believes the change is preferable because it will (1) more closely reflect current acquisition cost and improve the matching of revenue and expense, (2) conform 96% of the Company's method of inventory valuation to the FIFO method and (3) enhance comparability with industry peers. The Company applied this change in accounting principle retrospectively to all prior periods presented herein in accordance with Accounting Standards Codification ("ASC") Topic 250, Accounting Changes and

Error Corrections. As a result of the accounting change, retained earnings as of January 2, 2010 increased from \$285.5 million to \$294.1 million. As of January 2, 2011, the Company converted all LIFO inventory balances in its accounting systems to FIFO inventory which effectively eliminated its LIFO pools prospectively.

As a result of the retrospective application of this change in accounting principle, certain financial statement line items in the Company's condensed consolidated balance sheet as of January 1, 2011, its condensed consolidated statements of income for the three and six months ended July 3, 2010, and condensed consolidated statement of cash flows for the six months ended July 3, 2010 were adjusted as presented below:

8

---

Edgar Filing: FRANKLIN ELECTRIC CO INC - Form 10-Q

Condensed Consolidated Statements of Income (In thousands, except per share amounts)	Second Quarter Ended July 3, 2010		
	As Originally Reported	As Adjusted	Effect of Change
Cost of sales	\$125,950	\$125,782	\$(168 )
Operating income	18,415	18,583	168
Income taxes	5,311	5,366	55
Net income	11,338	11,451	113
Net income attributable to Franklin Electric Co., Inc.	11,022	11,135	113
Income per share:			
Basic	\$0.47	\$0.48	\$0.01
Diluted	\$0.47	\$0.47	\$—
	Six Months Ended July 3, 2010		
	As Originally Reported	As Adjusted	Effect of Change
Cost of sales	\$235,506	\$235,170	\$(336 )
Operating income	30,801	31,137	336
Income taxes	6,013	6,123	110
Net income	18,777	19,003	226
Net income attributable to Franklin Electric Co., Inc.	18,237	18,463	226
Income per share:			
Basic	\$0.79	\$0.80	\$0.01
Diluted	\$0.78	\$0.79	\$0.01
	Year Ended January 1, 2011		
	As Originally Reported	As Adjusted	Effect of Change
Inventories	\$126,007	\$140,232	\$14,225
Deferred income taxes	18,762	13,182	(5,580 )
Retained earnings	305,260	313,905	8,645
	Six Months Ended July 3, 2010		
	As Originally Reported	As Adjusted	Effect of Change
Net income	\$18,777	\$19,003	\$226
Changes in assets and liabilities:			
Inventories	(4,699 )	(5,035 )	(336 )
Income taxes	(860 )	(750 )	110

As a result of the conversion described above it is necessary to estimate the effect of the change in accounting method on the current period. The estimated impact of this accounting change on the condensed consolidated statements of income as computed under LIFO for the three and six months ended July 2, 2011 would be an increase in cost of sales of \$0.4 million and \$0.8 million, respectively; a decrease in operating income of \$0.4 million and \$0.8 million, respectively; a decrease in income taxes of \$0.1 million and \$0.2 million, respectively; a decrease in net income of \$0.3 million and \$0.6 million, respectively; a decrease in net income attributable to Franklin Electric Co., Inc. of \$0.3 million and \$0.6 million, respectively; and a decrease in both basic and diluted income per share of \$0.01 and \$0.02, respectively.

The estimated impact of this change to the condensed consolidated balance sheet as computed under LIFO as of July 2, 2011, would be a decrease in inventories of \$15.0 million, an increase in deferred income taxes of \$5.8 million, and a decrease in

9

---

retained earnings of \$9.2 million.

The estimated impact to the condensed consolidated statement of cash flows for the six months ended July 2, 2011 would be a reduction of cash provided by net income of \$0.6 million offset by a \$0.8 million source of cash from the reduction in inventory and a \$0.2 million use of cash from the reduction in income taxes. There would be no impact to net cash flows from operating activities in the six months ended July 2, 2011.

#### 4. ACQUISITIONS

In an agreement dated May 2, 2011, between Franklin Electric BV (a wholly owned subsidiary of the Company) and Impo Motor Pompa Sanayi ve Ticaret A.S. ("Impo"), the Company acquired 80 percent of the outstanding shares of Impo, net of debt acquired, for approximately 39.6 million Turkish lira ("TL"), \$25.8 million at the then current exchange rate, subject to certain terms and conditions. See Footnote 12 for description of the debt acquired with Impo.

Impo, located in Izmir, Turkey, is the leading supplier of groundwater pumping equipment in Turkey. The Impo acquisition, combined with the Company's current presence in the region, will provide the Company with the leading position in the rapidly growing market for groundwater pumping systems in Turkey and throughout the Middle East. It will also provide a low cost manufacturing base for supplying the entire region.

The preliminary intangible assets of \$15.4 million consist primarily of customer relationships, which will be amortized over 13 years, and trademarks. All of the goodwill was recorded as part of the Water Systems segment and is not expected to be deductible for tax purposes.

The purchase agreement for Impo includes an earn-out provision payable to the sellers if certain performance criteria are achieved in any year from 2011 to 2013. Additional payments will not exceed TL 10.0 million. As of the acquisition date, the Company recorded contingent consideration of TL 8.5 million (\$5.5 million) as determined by the income approach.

The preliminary purchase price assigned to each major identifiable asset and liability was as follows:

(In millions)

Assets:		
Cash acquired		\$0.9
Current assets		25.7
Property, plant and equipment		10.9
Intangible assets		15.4
Goodwill		7.3
Other assets		2.8
Total assets		63.0
Contingent consideration	(5.5	)
Liabilities	(31.7	)
Total purchase price		\$25.8

The fair value of the identifiable intangible assets and property, plant and equipment are provisional amounts pending final valuations and purchase accounting adjustments. The Company utilized management estimates and consultation with an independent third-party valuation firm to assist in the valuation. Acquisition-related costs, primarily included in selling, general and administrative expenses in the Company's statement of income, were \$0.2 million for the six months ended July 2, 2011.

The results of operations of Impo were included in the Company's consolidated statements of income from its acquisition date through the second quarter ended July 2, 2011. The difference between actual sales for the Company and proforma annual sales including Impo as if it were acquired at the beginning of the year was not material as a component of the Company's consolidated sales for the six months ending July 2, 2011 and July 3, 2010, respectively.

## 5. REDEEMABLE NONCONTROLLING INTEREST

In the first quarter of 2009, the Company completed the acquisition of 75 percent of Vertical S.p.A. The 25 percent noncontrolling interest was recorded at fair value as of the acquisition date. The noncontrolling interest holders have the option, which is embedded in the noncontrolling interest, to require the Company to redeem their ownership interests between November 17, 2013 and January 16, 2014. The combination of a noncontrolling interest and a redemption feature resulted in a redeemable noncontrolling interest.

In the second quarter of 2011, the Company completed the acquisition of 80 percent of Impo. The 20 percent noncontrolling interest was recorded at fair value as of the acquisition date. The noncontrolling interest holders have the option, which is embedded in the noncontrolling interest, to require the Company to redeem their ownership interests by May 2, 2014, three years after the original agreement was signed.

These noncontrolling interests are redeemable at other than fair value as the redemption value is determined based on a specified formula. The noncontrolling interests become redeemable after the passage of time, and therefore the Company records the carrying amount of the noncontrolling interests at the greater of (1) the initial carrying amount, increased or decreased for each noncontrolling interest's share of net income or loss and its share of other comprehensive income or loss and dividends ("carrying amount") or (2) the redemption value which is determined based on the greater of the redemption floor value or the then-current specified earnings multiple. As of July 2, 2011, the Vertical redeemable noncontrolling interest is recorded at the redemption value and the Impo redeemable noncontrolling interest is recorded at the carrying amount.

According to the authoritative accounting guidance for redeemable noncontrolling interests issued in the form of common securities, to the extent that the noncontrolling interest holder has a contractual right to receive an amount upon share redemption that is other than the fair value of such shares, then the noncontrolling interest holder has, in substance, received a dividend distribution that is different from other common shareholders. Therefore, adjustments to the noncontrolling interest to reflect the redemption amount should be reflected in the computation of earnings per share using the two-class method. Under the two-class method, the Company has elected to treat as a dividend only the portion of the periodic redemption value adjustment (if any) that reflects a redemption value in excess of fair value. The Company adjusted the recorded amount of the redeemable noncontrolling interests for Vertical by \$0.3 million for the six month period ended July 2, 2011. A resulting adjustment to the earnings per share computation was necessary in the second quarter 2011 (see Note 13 EARNINGS PER SHARE). There was no adjustment necessary in 2010.

## 6. FAIR VALUE MEASUREMENTS

FASB ASC Topic 825, Financial Instruments, provides a framework for measuring fair value under generally accepted accounting principles. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Disclosures about instruments measured at fair value were expanded and a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value was established. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices for identical assets and liabilities in active markets;

Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and



Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company designates the cash equivalents as Level 1, as they are Money Market accounts backed by Treasury Bills. As of July 2, 2011, and January 1, 2011, these assets measured at fair value on a recurring basis were as follows:

11

---

(In millions)	July 2, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$17.2	\$17.2	\$—	\$—
	January 1, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$20.0	\$20.0	\$—	\$—

The following table summarizes information regarding the Company's non-financial assets and liabilities measured at fair value on a nonrecurring basis:

(In millions)	July 2, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Recognized Loss
Asset held for sale	\$1.5	\$—	\$—	\$1.5	\$3.2
Impo contingent consideration	5.5	—	—	5.5	—
	\$7.0	\$—	\$—	\$7.0	\$3.2
	January 1, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1) <th>Significant Other Observable Inputs (Level 2)</th> <th>Significant Unobservable Inputs (Level 3)</th> <th>Recognized Loss</th>	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Recognized Loss
Asset held for sale	\$2.3	\$—	\$—	\$2.3	\$2.4

During the second quarter of 2010, the Company recorded the impairment as a restructuring expense on property, plant, and equipment relating to the Siloam Springs facility which is classified as held for sale. The fair value was based on appraised values and management estimates less costs to sell.

During the second quarter of 2011, the Company recorded \$5.5 million (TL 8.5 million) of contingent consideration relating to the second quarter 2011 acquisition of Impo. The fair value as of July 2, 2011 was based on the income approach.

## 7. OTHER ASSETS

The Company holds a 35 percent equity interest in Pioneer Pump, Inc., which is accounted for using the equity method and included in "Other assets" on the consolidated balance sheet. The carrying amount of the investment is adjusted for the Company's proportionate share of earnings, losses, and dividends. The carrying value of the investment was \$9.8 million as of July 2, 2011 and \$8.8 million as of January 1, 2011. The Company's proportionate share of Pioneer Pump, Inc. earnings, included in "Other income/(expense)" in the Company's statements of income, was \$0.6 million and \$0.2 million for the second quarter ended July 2, 2011 and July 3, 2010, respectively, and \$1.1 million and \$0.4 million for the six months ended July 2, 2011 and July 3, 2010, respectively.

During the second quarter the Company entered into a loan agreement with a parent of a customer. The current maturity is included in "Receivables" and the long term portion is included in "Other assets" on the consolidated balance sheet. The agreement provides for interest on the loan at a variable market interest rate with the customer to

repay the loan plus interest in semi-annual installments throughout the seven year term. The Company has a long term relationship with the customer and considers the loan fully collectible.

## 8. INTANGIBLE ASSETS AND GOODWILL

The carrying amounts of the Company's intangible assets are as follows:

(In millions)	July 2, 2011		January 1, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangibles:				
Patents	\$8.0	\$(5.1)	) \$7.9	\$(4.8)
Supply agreements	4.4	(4.3)	) 4.4	(3.9)
Technology	7.5	(2.4)	) 7.5	(2.2)
Customer relationships	83.1	(15.4)	) 70.7	(13.1)
Other	1.9	(1.4)	) 1.1	(1.1)
Total	\$104.9	\$(28.6)	) \$91.6	\$(25.1)
Unamortized intangibles:				
Trade names	26.5	—	) 22.5	—
Total intangibles	\$131.4	\$(28.6)	) \$114.1	\$(25.1)

Amortization expense related to intangible assets for the second quarter ended July 2, 2011 and July 3, 2010 was \$1.7 million and \$1.2 million, respectively, and for the six months ended July 2, 2011 and July 3, 2010, was \$2.9 million and \$2.5 million, respectively.

Amortization expense is projected as follows:

(In millions)	2011	2012	2013	2014	2015
	\$5.6	\$5.6	\$5.4	\$5.3	\$5.3

The change in the carrying amount of goodwill by reporting segment for the six months ended July 2, 2011, is as follows:

(In millions)	Water Systems	Fueling Systems	Consolidated
Balance as of January 1, 2011	\$107.0	\$58.2	\$165.2
Acquisitions	7.3	—	7.3
Adjustments to prior year acquisitions	—	0.5	0.5
Foreign currency translation	2.6	0.1	2.7
Balance as of July 2, 2011	\$116.9	\$58.8	\$175.7

The 2006 purchase agreement for Healy Systems, Inc. provides for additional payments of 5 percent of certain Healy Systems, Inc. product sales through 2011. Adjustments to prior year acquisitions primarily include those contingency commitments to the former owners of Healy Systems, Inc.

## 9. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans – As of July 2, 2011, the Company maintained three domestic pension plans and three German pension plans. The Company uses a December 31 measurement date for its plans.



The following table sets forth aggregated net periodic benefit cost and other benefit cost for the second quarter and six months ended July 2, 2011 and July 3, 2010, respectively:

(In millions)	Pension Benefits			
	Second Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Service cost	\$0.9	\$0.7	\$1.9	\$1.4
Interest cost	2.6	2.1	5.2	4.4
Expected return on assets	(3.2	) (2.6	) (6.5	) (5.2
Loss	1.0	0.5	1.9	1.0
Prior service cost	—	—	0.1	0.1
Curtailment cost	—	—	—	0.9
Settlement cost	—	—	—	0.4
Total net periodic benefit cost	\$1.3	\$0.7	\$2.6	\$3.0

(In millions)	Other Benefits			
	Second Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Interest cost	\$0.1	\$0.2	\$0.3	\$0.3
Obligation	—	—	0.1	0.1
Curtailment	—	—	—	0.2
Total net periodic benefit cost	\$0.1	\$0.2	\$0.4	\$0.6

In the six months ended July 2, 2011, the Company made contributions to the plans of \$11.2 million. The amount of contributions to be made to the Plans during calendar year 2011 will be finalized by September 15, 2011 based upon the desired funding level to be achieved as of the January 1, 2011 valuation.

## 10. INCOME TAXES

The effective tax rate on income before income taxes in 2011 and 2010 varies from the United States statutory rate of 35 percent primarily due to the indefinite reinvestment of foreign earnings and reduced taxes on foreign and repatriated earnings after the restructuring of certain foreign entities. The Company has the ability to indefinitely reinvest these foreign earnings based on the earnings and cash projections of its other operations as well as cash on hand and available credit.

## 11. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

As of the beginning of fiscal year 2011, the Company had gross unrecognized tax benefits of \$3.6 million, excluding accrued interest and penalties. The unrecognized tax benefits recorded for state income tax liabilities increased \$0.2 million and for federal tax liabilities increased \$2.3 million based on evaluations during the first half of 2011, primarily related to acquisitions. The Company had gross unrecognized tax benefits, excluding accrued interest and penalties, of \$6.1 million as of July 2, 2011. Of the unrecognized tax benefits, \$3.3 million are related to acquisitions occurring in 2011 and prior to 2011 for which indemnification was provided for in the respective purchase agreements. The impact of all unrecognized benefits on the effective tax rate, if recognized, would be the net unrecognized tax benefit of \$2.5 million, which is net of the federal benefit for state tax of \$0.3 million and net of interest and penalty.

The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense. The Company's reserve for interest and penalties as of July 2, 2011 and as of January 1, 2011 was approximately \$0.4 million and \$0.4 million, respectively. Interest and penalties recorded through the first half of 2011 were not considered significant.

The Company is subject to periodic audits by domestic and foreign tax authorities. Currently, the Company is undergoing routine periodic audits in both domestic and foreign tax jurisdictions. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next 12 months as a result of the audits.

For the majority of tax jurisdictions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2007.

## 12. DEBT

Debt consisted of the following:

(In millions)

	July 2, 2011	January 1, 2011
Prudential Agreement - 5.79 percent	\$ 150.0	\$ 150.0
Capital leases	0.2	0.7
Foreign subsidiary debt	16.0	1.8
	166.2	152.5
Less current maturities	(11.8	) (1.3
Long-term debt	\$ 154.4	\$ 151.2

During the second quarter, with the acquisition of the 80 percent interest in Impo, the Company acquired \$14.1 million of debt. Impo has credit facilities with domestic and international banks, transacting in TL, euro, and U.S. dollar currencies. Under the credit facilities there was the equivalent of approximately \$24.0 million of credit available to Impo. Of this \$24.0 million, at quarter end Impo had debt outstanding of approximately \$14.1 million with interest rates ranging from 3 percent to 12 percent and maturity dates ranging from third quarter 2011 to February 2018.

The estimated fair value of long term debt was \$160.0 million and \$162.0 million at July 2, 2011 and January 1, 2011, respectively. In the absence of quoted prices in active markets considerable judgment is required in developing estimates of fair value. Estimates are not necessarily indicative of the amounts the Company could realize in a current market transaction. In determining the fair value of its long term debt the Company uses estimates based on rates currently available to the Company for debt with similar terms and remaining maturities.

The following debt payments are expected to be paid in accordance with the following schedule:

(In millions)	Total	Year 1	Year 2	Year 3	Year 4	Year 5	More than 5 years
Debt	\$ 166.0	\$ 11.6	\$ 1.2	\$ 1.0	\$ 0.8	\$ 30.6	\$ 120.8
Capital leases	0.2	0.2	—	—	—	—	—
	\$ 166.2	\$ 11.8	\$ 1.2	\$ 1.0	\$ 0.8	\$ 30.6	\$ 120.8



## 13. EARNINGS PER SHARE

Following is the computation of basic and diluted earnings per share:

(In millions, except per share amounts)	Second Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010 As Adjusted (Note 3)	July 2, 2011	July 3, 2010 As Adjusted (Note 3)
Numerator:				
Net income attributable to Franklin Electric Co., Inc.	\$21.7	\$11.1	\$32.3	\$18.5
Less: Undistributed earnings allocated to redeemable non-controlling interest	0.2	—	0.3	—
	\$21.5	\$11.1	\$32.0	\$18.5
Denominator:				
Basic				
Weighted average common shares	23.2	23.3	23.2	23.2
Diluted				
Effect of dilutive securities:				
Employee and director incentive stock options and awards	0.5	0.3	0.5	0.3
Adjusted weighted average common shares	23.7	23.6	23.7	23.5
Basic earnings per share	\$0.92	\$0.48	\$1.38	\$0.80
Diluted earnings per share	\$0.91	\$0.47	\$1.35	\$0.79
Anti-dilutive stock options	0.3	0.9	0.3	0.9
Anti-dilutive stock options price range – low	\$43.43	\$28.82	\$43.43	\$28.82
Anti-dilutive stock options price range – high	\$48.87	\$48.87	\$48.87	\$48.87

## 14. EQUITY ROLL FORWARD

The schedule below sets forth equity changes in the six months ended July 2, 2011:

(In thousands)

Description	Common	Additional Paid in Capital	Retained Earnings	Minimum Pension Liability	Cumulative Translation Adjustment	Non-controlling Interest	Total Equity	Redeemable Non-controlling Interest
Balance as of January 1, 2011	\$2,326	\$129,705	\$313,905	\$(38,485 )	\$19,043	\$ 2,055	\$428,549	\$ 7,291
As Adjusted (Note 3)								
Net Income			32,330			306	32,636	274
Noncontrolling interest accretion			(292 )				(292 )	292
Dividends on common stock			(6,167 )				(6,167 )	
Common stock issued	12	3,411					3,423	
Common stock repurchased or received for stock options exercised	(25 )		(10,604 )				(10,629 )	
Share-based compensation	5	2,211					2,216	
Tax benefit of stock options exercised		471					471	
Impo acquisition								6,521
Currency translation adjustment			(28 )		13,325	506	13,803	354
Pension liability, net of taxes				1,105			1,105	
Balance as of July 2, 2011	\$2,318	\$135,798	\$329,144	\$(37,380 )	\$32,368	\$ 2,867	\$465,115	\$ 14,732

## 15. OTHER COMPREHENSIVE INCOME

Comprehensive income is as follows:

(In millions)	Second Quarter Ended		Six Months Ended	
	July 2, 2011	July 3, 2010 As Adjusted (Note 3)	July 2, 2011	July 3, 2010 As Adjusted (Note 3)
Net income	\$22.0	\$11.5	\$32.9	\$19.0
Other comprehensive income, net of tax:				

Foreign currency translation adjustments	3.7	(11.8)
--	-----	--------