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FRANKLIN ELECTRIC CO INC  
Form DEF 14A  
March 20, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  [X]

Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY  
RULE 14A-6(E) (2))

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material pursuant to Section 240.14a-11 (e) or  
Section 240.14a-12

FRANKLIN ELECTRIC CO., INC.

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required

[ ] Fee computed on table below per Exchange Act Rules  
14a-6(i) (4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction  
computed pursuant to Exchange Act Rule 0-11 (set forth the  
amount on which the filing fee is calculated and state how  
it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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FRANKLIN ELECTRIC CO., INC.

400 East Spring Street  
Bluffton, Indiana 46714

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To Be Held  
April 28, 2006 at 9:00 A.M., Eastern Time

To the Shareholders of  
Franklin Electric Co., Inc.

THE ANNUAL MEETING OF SHAREHOLDERS OF FRANKLIN ELECTRIC CO., INC. (THE "COMPANY"), AN INDIANA CORPORATION, WILL BE HELD AT THE PRINCIPAL OFFICE OF THE COMPANY, 400 EAST SPRING STREET, BLUFFTON, INDIANA, ON FRIDAY, APRIL 28, 2006, AT 9:00 A.M., EASTERN TIME. THE PURPOSES OF THE MEETING ARE TO:

1. Elect three directors for terms expiring at the 2009 Annual Meeting of Shareholders;
2. Ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2006 fiscal year; and
3. Transact any other business that may properly come before the Annual Meeting or any adjournment or postponement thereof.

Only shareholders of record at the close of business on February 24, 2006 will be entitled to notice of and to vote at the Annual Meeting.

You are urged to vote your proxy regardless of whether you plan to attend the Annual Meeting. If you do attend, you may nevertheless vote in person which will revoke any previously executed proxy.

By order of the Board of Directors.

/s/ Thomas J. Strupp

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Vice President, Chief Financial  
Officer and Secretary

Bluffton, Indiana  
March 20, 2006

FRANKLIN ELECTRIC CO., INC.  
400 East Spring Street  
Bluffton, Indiana 46714

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PROXY STATEMENT

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Annual Meeting of Shareholders  
To be Held on April 28, 2006

GENERAL INFORMATION

This Proxy Statement and the enclosed proxy are furnished to shareholders in connection with the solicitation of proxies by the Board of Directors of Franklin Electric Co., Inc. (the "Company"), 400 East Spring Street, Bluffton, Indiana, for use at the Annual Meeting of Shareholders to be held on April 28, 2006 or any adjournment or postponement thereof. This Proxy Statement, together with the Company's Annual Report to shareholders, including financial statements contained therein, is being mailed to shareholders, beginning on or about March 20, 2006.

The expenses of solicitation, including the cost of printing and mailing, will be paid by the Company. Officers and employees of the Company, without additional compensation, may solicit proxies personally, by telephone or by facsimile. Arrangements will also be made with brokerage firms and other custodians, nominees and fiduciaries to forward proxy solicitation materials to the beneficial owners of shares held of record by such persons, and the Company will reimburse such entities for reasonable out-of-pocket expenses incurred by them in connection therewith.

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VOTING INSTRUCTIONS

Shareholders may attend the Annual Meeting and vote their shares in person. Shareholders also may choose to submit their proxies by any of the following methods:

**VOTING BY MAIL:** Complete the enclosed proxy, date and sign it, and return it in the envelope provided.

**VOTING BY TELEPHONE:** Call the toll-free telephone number provided on the proxy. Telephone voting will be available through April 27, 2006, 24 hours a day. Detailed instructions will be provided during the call. The procedures are designed to authenticate votes cast by using the last 4 digits of a shareholder's social security/taxpayer I.D. number. Shareholders that vote by telephone should not return the proxy card.

**VOTING BY INTERNET:** Sign on to the website address identified on the proxy. Internet voting will be available through April 27, 2006, 24 hours a day. Detailed instructions will be provided on the website. The procedures are designed to authenticate votes cast by using the last 4 digits of a shareholder's social security/taxpayer I.D. number. Shareholders that vote by Internet should not return the proxy card.

SHAREHOLDERS WHO ARE PARTICIPANTS IN THE COMPANY'S EMPLOYEE STOCK OWNERSHIP PLAN AND/OR DIRECTED INVESTMENT SALARY PLAN WILL RECEIVE A VOTING INSTRUCTION CARD THAT COVERS THE SHARES CREDITED TO THEIR PLAN ACCOUNTS. SUCH SHAREHOLDERS MAY NOT VOTE BY TELEPHONE OR INTERNET.

If the enclosed proxy is properly voted, the shares represented thereby will be voted in the manner specified in the proxy. If a shareholder does not

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specify the manner in which the proxy shall be voted, the shares represented thereby will be voted:

\* FOR the election of the nominees for director as set forth in this Proxy Statement;

\* FOR the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2006 fiscal year; and

\* In accordance with the recommendations of management with respect to other matters that may properly come before the Annual Meeting.

A shareholder who has executed a proxy has the power to revoke it at any time before it is voted by (i) delivering written notice of such revocation to Mr. Thomas J. Strupp, Vice President, Chief Financial Officer and Secretary, 400 East Spring Street, Bluffton, Indiana 46714, (ii) executing and delivering a subsequently dated proxy by mail, or voting by telephone or through the Internet at a later date, or (iii) by attending the Annual Meeting and voting in person.

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### SHAREHOLDERS ENTITLED TO VOTE AND SHARES OUTSTANDING

The Board of Directors of the Company fixed the close of business on February 24, 2006 as the record date (the "Record Date") for determining shareholders entitled to notice of and to vote at the Annual Meeting. As of the Record Date, there were 45,000,000 shares of common stock, \$.10 par value (the "Common Stock"), authorized, of which 22,601,412 shares were outstanding. Each share of Common Stock is entitled to one vote on each matter submitted to a vote of the shareholders of the Company. Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspectors of election appointed for the Annual Meeting and will be counted as present for purposes of determining whether a quorum is present. A majority of the outstanding shares of Common Stock, present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be counted for purposes of determining the presence or absence of a quorum but will not be counted as votes cast on any matter submitted to shareholders. As a result, abstentions and broker non-votes will not have any effect on the voting results with respect to any of the matters scheduled to be submitted to shareholders at the Annual Meeting.

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table shows the persons known by the Company to be the beneficial owners of more than five percent of the Company's Common Stock as of February 24, 2006, unless otherwise noted. The nature of beneficial ownership is sole voting and investment power, unless otherwise noted.

NAME AND ADDRESS OF	AMOUNT AND NATURE OF	PERCENT
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BENEFICIAL OWNER	BENEFICIAL OWNERSHIP	OF CLASS
Select Equity Group, Inc., jointly with George S. Loening (and related entities), 380 Lafayette Street, 6th Floor New York, NY 10003	3,348,924 (1)	14.82
Patricia Schaefer 5400 Deer Run Court Muncie, IN 47304	2,000,084	8.85
Diane D. Humphrey 2279 East 250 North Road Bluffton, IN 46714	1,843,073	8.15
Wells Fargo Bank Minnesota, N.A. Midwest Plaza, West Tower Suite 700 801 Nicolette Mall Minneapolis, MN 55479-0065	1,787,494 (2)	7.91
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, MD 21202	1,585,500 (3)	7.02

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(1) According to a Schedule 13G jointly filed with the SEC on February 14, 2006, Select Equity Group, Inc., Select Offshore Advisors, LLC and George S. Loening have sole investment and voting power with respect to 3,348,924 shares, and no shared voting or investment power.

(2) Wells Fargo Bank holds these shares as Trustee under the Company's Employee Stock Ownership Plan (the "ESOP"), Directed Investment Salary Plan (the "401(k) Plan"), and defined benefit pension plans. Share information is from February 24, 2006 Trust records provided by Wells Fargo Bank. The shares held in the ESOP and 401(k) Plan will be voted pursuant to the direction of the participants to the extent these shares are allocated to participants' accounts. Unallocated shares and allocated shares for which no direction is received from participants will be voted by the Trustee in accordance with the direction of the Employee Benefits Committee of the Company. The Employee Benefits Committee is appointed by the Company's Board of Directors to oversee the Company's employee benefit plans. In the absence of any direction from the Employee Benefits Committee, such shares will be voted by the Trustee in the same proportion that the allocated shares were voted, unless inconsistent with the Trustee's fiduciary obligations. The Trustee has no investment power over allocated shares and has shared investment power over unallocated shares. The shares held in the defined benefit pension plans will be voted pursuant to the direction of the Employee Benefits Committee of the Company, which also has investment power over these shares.

(3) According to a Schedule 13G filed with the SEC on February 14, 2006, T. Rowe Price Associates, Inc. has sole investment power with respect to 1,585,500 shares, sole voting power with respect to 669,500 shares and no shared voting or investment power. These securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc. serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of

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the reporting requirements of the Securities Exchange Act of 1934, T. Rowe Price Associates, Inc. is deemed to be a beneficial owner of such securities; however, T. Rowe Price Associates, Inc. expressly disclaims that it is, in fact, the beneficial owner of such securities.

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### SECURITY OWNERSHIP OF MANAGEMENT

The following table shows the number of shares of Common Stock beneficially owned by directors, nominees, each of the executive officers named in the "Summary Compensation Table" below, and all executive officers and directors as a group, as of February 24, 2006. The nature of beneficial ownership is sole voting and investment power, unless otherwise noted.

NAME OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS	
R. Scott Trumbull	250,912 (1) (2) (3)	1.10	
Gregg C. Sengstack	245,270 (1) (2)	1.08	
Peter-Christian Maske	99,291 (1) (2)	*	
Howard B. Witt	94,685 (1)	*	
Robert J. Stone	76,399 (1) (2)		*
Jerome D. Brady	71,072 (1) (3)	*	
Daniel J. Crose	40,912 (1) (2)		*
Thomas L. Young	5,249	*	
David A. Roberts	5,116 (1) (3)	*	

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Diana S. Ferguson	4,916(1)(3)	*
David M. Wathen	2,249(3)	*
All directors and executive officers as a group	1,122,130(1)(2)(3)	4.83

\* Less than 1 percent of class

(1) Includes shares issuable pursuant to stock options exercisable within 60 days after February 24, 2006 as follows: Mr. Trumbull, 160,370; Mr. Sengstack, 127,050; Mr. Maske, 19,450; Mr. Witt, 80,000; Mr. Stone, 54,243; Mr. Brady, 68,000; Mr. Crose, 38,243; Mr. Roberts, 2,667; Ms. Ferguson, 2,667; and all directors and executive officers as a group, 643,262.

(2) Includes shares held by the ESOP Trustee as to which the individuals do not have investment power as follows: Mr. Trumbull, 561; Mr. Sengstack, 6,704; Mr. Maske, 1,921; Mr. Stone, 4,568; Mr. Crose, 986; and all directors and executive officers as a group, 37,576.

(3) Does not include 1,815 stock units credited to Mr. Trumbull, 5,088 stock units credited to Mr. Brady, 1,086 stock units credited to Mr. Roberts, 2,071 stock units credited to Ms. Ferguson and 984 stock units credited to Mr. Wathen, pursuant to the terms of the Nonemployee Directors' Deferred Compensation Plan described under "Information About the Board and its Committees".

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### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, officers and greater than 10 percent shareholders of the Company's Common Stock to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock of the Company and to furnish the Company with copies of all Section 16(a) reports they file. Based solely on a review of the copies of these reports furnished to the Company and written representations that no other reports were required to be filed, the Company believes that its directors, officers and greater than 10 percent shareholders complied with all applicable Section 16(a) filing requirements applicable to them during 2005, with the following exceptions: Mr. Roberts filed a late Form 4 to report a purchase of shares; Messrs. Wathen and Young each filed a late Form 3 to report their initial appointment to the Company's Board of Directors and a late Form 4 to report an award of Company shares.

### ELECTION OF DIRECTORS

The Company's By-laws provide that the Board of Directors shall consist of three to eleven directors, with the exact number set by the Board of Directors by resolution. The Board of Directors currently consists of seven directors, divided into three classes of two or three directors each. Each year, the directors of one of the three classes are elected to serve terms of three years and until their successors have been elected and qualified. Three directors will be elected at the Annual Meeting this year. Directors are elected by the affirmative vote of a plurality of the shares voted (i.e., the three nominees who receive the most votes will be elected).

Jerome D. Brady, David M. Wathen and Diana S. Ferguson have been nominated to serve as directors of the Company for terms expiring in 2009. Messrs. Brady and Wathen and Ms. Ferguson are currently directors of the Company. The nominees have indicated their willingness to serve as a director if elected. If, however, any nominee is unwilling or unable to serve as a



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director, shares represented by the proxies will be voted for the election of another nominee proposed by the Board of Directors or the Board may reduce the number of directors to be elected at the Annual Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH NOMINEE.

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### INFORMATION CONCERNING NOMINEES AND CONTINUING DIRECTORS

The ages, principal occupations during the past five years and certain other affiliations of the director nominees and the continuing directors, and the years in which they first became directors of the Company, are set forth below:

#### NOMINEES FOR TERMS EXPIRING IN 2006

NAME AND POSITION	AGE	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Jerome D. Brady, Director of the Company Officer of C&K Components, a manufacturer of electro-	62	Retired in 2000. Formerly President and Chief Executive  mechanical switches. Director, Circor International, Inc.	1998
David M. Wathen, Director of the Company	53	President and Chief Executive Officer, Balfour Beatty, Inc. (U.S. Operations), an engineering, construction and building management services company, from 2002 to present; prior thereto, Principal Member, QUESTOR, a venture capital firm.	2005
Diana S. Ferguson, Director of the Company	42	Senior Vice President, Strategy and Corporate Development, Sara Lee Corporation, a manufacturer of consumer products, from 2005 to present; prior thereto, Senior Vice President, Corporate Development and Treasurer, Sara Lee Corporation,	2004

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from 2001 to 2005. Director,  
Peoples Energy Corporation.

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CONTINUING DIRECTORS

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DIRECTORS WHOSE TERMS EXPIRE IN 2007

NAME AND POSITION	AGE	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Thomas L Young, Director of the Company	61	President, Titus Holdings Ltd., a private investment company; formerly Executive Vice President and Chief Financial Officer, Owens-Illinois, Inc., a manufacturer of glass and plastic packaging, from 2003 until retirement in 2005; prior thereto, Co-Chief Executive Officer (from January 2004 to April 2004) and Executive Vice President, Administration and General Counsel, Owens-Illinois, Inc., from 1998 to 2004. Director, Manor Care, Inc., and Owens-Illinois, Inc.	2005
R. Scott Trumbull, Chairman of the Board and Chief Executive Officer of the Company	57	Chairman of the Board and Chief Executive Officer of the Company since 2003. Formerly Executive Vice President and Chief Financial Officer, Owens-Illinois, a manufacturer of glass and plastic packaging, from 2001 to 2002; prior thereto, Executive Vice President - International Operations and Corporate Development, Owens-Illinois, Inc., from 1998 to 2001. Director, Health Care REIT and Schneider National, Inc.	1998

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### DIRECTORS WHOSE TERMS EXPIRE IN 2008

NAME AND POSITION	AGE	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Howard B. Witt, Director of the Company	65	Retired in 2005. Formerly Chairman of the Board, President and Chief Executive Officer, Littelfuse, Inc., a manufacturer of electronic, electrical and automotive fuses, from 1990 to 2004. Director, Littelfuse, Inc. and Artisan Funds, Inc.	1994
David A. Roberts Director of the Company	58	President and Chief Executive Officer, Graco, Inc., a manufacturer of fluid-handling equipment and systems since June 2001; formerly, Group Vice President, The Marmon Group, Inc. a diversified manufacturer, from 1995 to 2001. Director, Graco, Inc.	2003

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### INFORMATION ABOUT THE BOARD AND ITS COMMITTEES

Nonemployee directors are paid an annual retainer of \$35,000 plus a fee of \$1,500 for each Board and Board committee meeting attended. The Audit Committee chairman receives an additional fee of \$6,000 and the Personnel and Compensation and the Corporate Governance Committee chairmen receive an additional fee of \$3,500. Directors who are employees of the Company receive no additional compensation for serving on the Board or Board committees.

Nonemployee directors participate in the Franklin Electric Co., Inc. Stock Plan (the "Stock Plan"). In 2005, the Personnel and Compensation Committee granted awards, of 2,249 shares of the Company's common stock to each nonemployee director. The shares which vested immediately upon grant had a market value of \$80,000 on the April 29, 2005 date of grant.

Nonemployee directors may participate in the Nonemployee Directors' Deferred Compensation Plan (the "Deferred Compensation Plan"). Under the Deferred Compensation Plan, each nonemployee director may elect to receive his or her annual director's fee in Company shares or in cash. If Company shares are elected, nonemployee directors may also elect to defer issuance of the shares until service on the Board terminates, in which case the director's fee is converted into stock units. Additional credits are made to a participant's stock unit account in dollar amounts equal to the cash dividends that the participant would have received had he or she been the owner on each record date of a number of shares of common stock equal to the number of stock units in his or her stock unit account on such date. Ms. Ferguson, Mr. Schneider (who retired in October 2005) and Mr. Wathen elected to receive their fiscal 2005 director's fees in Company shares and to defer issuance of the shares. Accordingly, on April 29, 2005, Ms. Ferguson, Mr. Schneider and Mr. Wathen were credited with 984 stock units.

Under terms of the Deferred Compensation Plan, upon his retirement, Mr. Schneider elected to receive the balance of his stock unit account in common stock of the Company as of January 31, 2006. Accordingly, Mr. Schneider received 4,923 shares of the Company's Common Stock.

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The Company has a Consulting Directors' Plan for nonemployee directors who retire from Board service at age 70 or older. Under the Consulting Directors' Plan, a retiring director shall be eligible to enter into a consulting agreement with the Company under the terms of which the consulting director agrees to be available for consultation from time to time and is entitled to receive an annual fee for such services equal to the director's fee in effect at retirement. The consulting director can receive this fee up to the same number of years that were served as director. The Company froze the Consulting Directors' Plan in 2003; accordingly, eligibility for future participation in the Consulting Directors' Plan is limited to the Company's nonemployee directors first elected for service before 2003.

### DIRECTOR INDEPENDENCE

The Board of Directors of the Company has determined that each of the current directors, except for R. Scott Trumbull, Chairman of the Board and Chief Executive Officer of the Company, is an "independent director" in compliance with the independence standards set forth in the Company's Corporate Governance Guidelines and under the applicable rules adopted by The Nasdaq Stock Market ("Nasdaq").

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### MEETINGS

The Board held five (5) regularly scheduled meetings during 2005. Each director, except Mr. Schneider, attended at least 75 percent of the aggregate meetings of the Board and Board committees of which he or she was a member during the period that each served as a director. All directors, except Mr. Schneider, who were members of the Board at that time attended the 2005 Annual Meeting of Shareholders.

### COMMITTEES

The committees of the Board are: the Audit Committee, the Personnel and Compensation Committee and the Corporate Governance Committee.

**AUDIT COMMITTEE.** The current members of the Audit Committee are Jerome D. Brady (Chairman), Diana S. Ferguson, and Thomas L Young. The Board of Directors has determined that each member of the Audit Committee is an "independent director" in compliance with the independence standards set forth in the Company's Corporate Governance Guidelines and under the applicable Nasdaq rules. The Board of Directors has adopted an Audit Committee charter, a copy of which is available on the Company's website at [www.fele.com](http://www.fele.com) under "Corporate Governance," that sets forth the duties and responsibilities of the Audit Committee. Under its charter, the Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to shareholders and others, the system of internal control which management has established, the Company's process for monitoring compliance with laws and regulations, and the audit process. It is the general responsibility of the Audit Committee to advise and make recommendations to the Board of Directors in all matters regarding the Company's accounting methods and internal control procedures. The Audit Committee held four (4) meetings in 2005.

**PERSONNEL AND COMPENSATION COMMITTEE.** The current members of the Personnel and Compensation Committee (the "Compensation Committee") are Howard B. Witt (Chairman), David A. Roberts and David M. Wathen. The Board of Directors has determined that each member of the Compensation Committee is an "independent director" in compliance with the independence standards set forth

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in the Company's Corporate Governance Guidelines and under applicable Nasdaq rules. The Board of Directors has adopted a Compensation Committee charter, a copy of which is available on the Company's website at [www.fele.com](http://www.fele.com) under "Corporate Governance," that sets forth the duties and responsibilities of the Compensation Committee. Under its charter, the Compensation Committee determines and approves the annual salary, bonus and other benefits of the chief executive officer and the other executive officers of the Company; reviews and submits to the Board of Directors recommendations concerning stock plans; periodically reviews the Company's policies in the area of management benefits; and oversees the Company's management development and organization structure. The Compensation Committee held three (3) meetings in 2005.

**CORPORATE GOVERNANCE COMMITTEE.** The Board of Directors voted to establish the Corporate Governance Committee (the "Governance Committee") at its December 2005 Board meeting. The current members of the Governance Committee are Thomas L. Young (Chairman), David A. Roberts, David M. Wathen and Diana S. Ferguson. The Board of Directors has determined that each member of the Governance Committee is an "independent director" in compliance with the independence standards set forth in the Company's Corporate Governance Guidelines and under applicable Nasdaq rules. The Board of Directors has adopted a Governance Committee charter, a copy of which is available on the Company's website at [www.fele.com](http://www.fele.com) under "Corporate Governance," that sets

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forth the duties and responsibilities of the Governance Committee. Under its charter, the Governance Committee reviews the size of the Company's Board of Directors and committee structure and recommends appointments to the Board and the Board Committees; reviews and recommends to the Board of Directors the compensation of nonemployee directors including grants of awards to nonemployee directors under the Company's equity based and incentive compensation plans; and develops such corporate governance guidelines deemed necessary for the Company. The Governance Committee will begin holding meetings in 2006.

The Governance Committee is also responsible for identifying and recommending to the Board candidates for director. The Governance Committee seeks to identify as candidates for director persons from various backgrounds and with a variety of life experiences who have a reputation for and a record of integrity and good business judgment. The Governance Committee also considers whether a person has experience in a highly responsible position in a profession or industry relevant to the conduct of the Company's business. The Governance Committee takes into account the current composition of the Board and the extent to which a person's particular expertise, experience and ability and willingness to make an appropriate time commitment will complement the expertise and experience of other directors. Candidates for director should also be free of conflicts of interest or relationships that may interfere with the performance of their duties. Based on its evaluation and consideration, the Governance Committee submits its recommendation for director candidates to the full Board of Directors, which is then responsible for selecting the candidates to be elected by the shareholders.

The Governance Committee will consider as candidates for director persons recommended or nominated by shareholders. Shareholders may recommend candidates for directors by writing to the Secretary of the Company at the address listed below under "Other Corporate Governance Matters." Nominations of directors may be made by any shareholder entitled to vote in the election of directors, provided that written notice of intent to make a nomination is given to the Secretary of the Company not later than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting of shareholders. The notice must set forth: (i) information regarding the proposed nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, and (ii) the consent of such

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nominee to serve as a director of the Corporation if so elected.

### OTHER CORPORATE GOVERNANCE MATTERS

The Board of Directors has adopted Corporate Governance Guidelines, a copy of which is available on the Company's website at [www.fele.com](http://www.fele.com) under "Corporate Governance," that provide, among other things, that the Company's independent directors will meet in executive session, outside the presence of the non-independent directors and management, at least twice a year. In 2005, the independent directors met in executive session five (5) times.

Shareholders may contact the Board of Directors, any Board committee, any independent director or any other director by writing to the Secretary of the Company as follows:

Franklin Electric Co., Inc.  
Attention: [Board of Directors]  
[Board Committee] [Board Member]  
c/o Corporate Secretary  
Franklin Electric Co., Inc.  
400 E. Spring Street  
Bluffton, IN 46714

The independent directors of the Board have approved a process for collecting, organizing and responding to written shareholder communications addressed to the Board, Board committees or individual directors. Copies of the Company's corporate governance documents, including the Board Committee charters and the Corporate Governance Guidelines are available upon written request to the Secretary of the Company at the address listed above.

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### AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors, which is composed solely of independent directors, is responsible, under guidelines established in the Audit Committee Charter (a copy of which is available on the Company's website at [www.fele.com](http://www.fele.com) under "Corporate Governance"), for overseeing the accounting and financial reporting processes of the Company and the audits of the financial statements by reviewing (i) the quality and integrity of the consolidated financial statements prepared by management; (ii) the performance of the internal audit function; and (iii) the qualifications, independence and performance of the Company's independent registered public accounting firm.

In accordance with SEC rules the Audit Committee of the Company states that:

\* The Audit Committee has reviewed and discussed with management the Company's audited financial statements for the fiscal year ended December 31, 2005.

\* The Audit Committee has reviewed and discussed with Deloitte & Touche LLP, the Company's independent registered public accounting firm, the matters required to be discussed by the Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU Section 380), as modified or supplemented ("Communication with Audit Committees").

\* The Audit Committee has received the written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1, as modified or supplemented ("Independence Discussions with Audit Committees"), and has discussed with Deloitte & Touche LLP the

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independent registered public accounting firm's independence.

Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 for filing with the SEC.

This report is submitted on behalf of the members of the Audit Committee:

Jerome D. Brady (Chairman)  
Diana S. Ferguson  
Thomas L. Young

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### PERSONNEL AND COMPENSATION COMMITTEE REPORT

It is the philosophy of the Personnel and Compensation Committee (the "Committee") to maintain a compensation program to attract and retain executive officers who can successfully build the Company's long-term shareholder value. The Committee has retained a compensation consulting firm to provide information on compensation packages of companies of similar size and in similar industries to aid in the design of its package for the Company's executive officers. The Committee encourages superior performance through the use of annual performance targets for the purpose of determining cash bonuses as well as stock incentive vehicles designed to closely align the executive's reward to that of the shareholders.

For the executive officers, including the named executive officers in the Summary Compensation Table, the current compensation package includes a base salary, an annual incentive cash bonus and grants of stock options and/or awards of restricted stock. The Committee believes the combined value of base salary plus incentive cash bonus is competitive with the salary and bonus provided to similarly situated executives as reflected in published market surveys. The Committee believes that a significant portion of executive officer compensation, including the Chief Executive Officer, should be dependent upon corporate performance.

Base Salary ranges are established using salary and trend data for companies of similar size and in similar industries, using a variety of independent third-party executive compensation surveys. The target for base salary ranges is the median of this marketplace. Executive positions are individually benchmarked against these survey sources annually and multiple surveys are used to establish a competitive salary range for each position.

The actual base salary of each executive officer relative to the target

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established above is determined by the executive's performance, which is evaluated annually by the Chief Executive Officer and reviewed and approved by the Committee. Other factors that may influence the level of individual executive base pay include current position in salary range, internal pay relationships, and retention considerations.

The executive officers of the Company are eligible to participate in the Executive Officer Annual Incentive Cash Bonus Program. Under the plan the Committee approves an annual incentive cash bonus calculation for the executive officers taking into account certain financial performance targets and the individual's strategic task accomplishments. The Company's financial performance targets in 2005 were pre-tax return on net assets, earnings per share and individual business unit financial results. The maximum bonus possible as a percent of base salary was established at above median market levels (75% of salary for executive officers other than the Chief Executive Officer and 100% for the Chief Executive Officer). In 2005, the Company exceeded the return on net asset and earnings per share goals, and each executive met their business unit and individual goals at a level such that, combined with the corporate performance defined above, maximum payouts were made to all executive officers.

In 2005, the Committee made grants of stock options and restricted stock to certain executive officers, including the Chief Executive Officer, under the Company's shareholder-approved stock plans. The purpose of these plans is to encourage stock ownership, offer long-term performance incentive and to more closely align the executive's compensation with the return received by the Company's shareholders. Using information on incentive compensation programs provided by an outside consultant, the Committee reviews annually the

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financial incentives to officers and determines the number of stock option grants and/or restricted stock awards given to each executive officer using competitive data for companies of similar size and in similar industries, as reflected in independent third party long term incentive surveys. In 2005, the Committee made stock option grants, ranging from 4,500 shares to 30,200 shares, to the 10 executive officers of the Company, including the named executive officers in the Summary Compensation Table, and awarded restricted stock, of 5,000 shares and 10,000 shares respectively, to 2 executive officers, including 1 named executive officer in the Summary Compensation Table.

Section 162(m) of the Internal Revenue Code limits the deductibility for federal income tax purposes of executive compensation paid to the Chief Executive Officer and the four other most highly compensated officers of a public company to \$1,000,000 per year, but contains an exception for certain performance-based compensation. Base salary does not by its nature qualify as performance-based compensation under Section 162(m) and the Company's annual incentive cash bonus payments and restricted stock awards do not qualify as performance-based compensation under Section 162(m). The Company's grants of stock options under its stock plans qualify as performance-based compensation under Section 162(m). The Company in 2005 did not pay any executive officer salary, bonus and restricted stock compensation in excess of the Section 162(m) limit.

### COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

On an annual basis, the Committee is responsible for reviewing the individual performance of the Chief Executive Officer, and determining appropriate adjustments in base pay and award opportunities under the Executive Officer Annual Incentive Cash Bonus Program.

In 2005, Mr. Trumbull served as Chairman and Chief Executive Officer of



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the Company. The Committee, after reviewing salary survey data of companies of similar size and in similar industries, as published in independent third party executive compensation surveys, established Mr. Trumbull's base salary at \$504,700 per year. Mr. Trumbull's earned base salary in 2005 was \$501,035.

Mr. Trumbull earned the maximum bonus award available of \$501,035 which is equal to 100% of base pay earned in 2005. The 2005 bonus award was based upon the achievement of specified levels of return on net assets and earnings per share targets of the Company. Return on net assets for 2005 of 38.9% exceeded the target which led to the maximum payout attributable to return on net assets, which was 70% of the total payout. Earnings per share for 2005 of \$1.98 exceeded the target which led to the maximum payout attributable to earnings per share, which was 30% of the total payout.

Review of the 2005 performance of the Chief Executive Officer was conducted by the Committee. Based on this review and using salary survey data for manufacturing companies of comparable sales volume and financial performance, the Committee increased Mr. Trumbull's based salary from \$504,700 to \$555,000, effective February 1, 2006. For 2006 Mr. Trumbull will participate in the Executive Officer Annual Incentive Cash Bonus Program, with a maximum payout of 100% of base pay earned, based on achievement relative to performance targets specified by the Committee.

Howard B. Witt (Chairman)  
David A. Roberts  
David M. Wathen

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SUMMARY COMPENSATION TABLE

The following table sets forth compensation information for the years 2003 through 2005 for the Company's Chief Executive Officer and the Company's other four most highly compensated executive officers who served as executive officers of the Company during 2005.

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
		SALARY	BONUS (PERFORMANCE BASED INCENTIVE)	RESTRICTED STOCK AWARD (S) (\$)	SECURITIES UNDERLYING OPTIONS

ALL