FRANKLIN ELECTRIC CO INC
Form 10-Q
November 03, 2015

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 October 3, 2015

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.)
9255 Coverdale Road Fort Wayne, Indiana (Address of principal executive offices)	46809 (Zip Code)

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

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

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

YES x NO o

Indicate by check mark 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).

YES x NO o

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company o

1

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

YES o	NO x

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

Class of Common Stock	Outstanding at October 26, 2015
$.10 par value	46,360,031 shares

FRANKLIN ELECTRIC CO., INC.
TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Third Quarter Ended		Nine Months Ended	
(In thousands, except per share amounts)	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales	$232,485	$278,053	$705,640	$793,940
Cost of sales	155,693	188,902	477,150	527,284
Gross profit	76,792	89,151	228,490	266,656
Selling, general, and administrative expenses	47,722	55,635	159,160	167,621
Restructuring expense	1,304	1,086	2,525	1,517
Operating income	27,766	32,430	66,805	97,518
Interest expense	(2,604)	(2,744)	(7,717)	(8,038)
Other income, net	1,616	355	6,025	1,551
Foreign exchange expense	(96)	(510)	(39)	(602)
Income before income taxes	26,682	29,531	65,074	90,429
Income tax expense	5,656	6,726	7,634	22,745
Net income	$21,026	$22,805	$57,440	$67,684
Less: Net income attributable to noncontrolling interests	(201)	(132)	(656)	(980)
Net income attributable to Franklin Electric Co., Inc.	$20,825	$22,673	$56,784	$66,704
Income per share:				
Basic	$0.44	$0.46	$1.18	$1.37
Diluted	$0.43	$0.46	$1.17	$1.36
Dividends per common share	$0.0975	$0.0900	$0.2850	$0.2575

See Notes to Condensed Consolidated Financial Statements.

4

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(Unaudited)

(In thousands)	Third Quarter Ended October 3, 2015	Third Quarter Ended September 27, 2014	Nine Months Ended October 3, 2015	Nine Months Ended September 27, 2014
Net income	$21,026	$22,805	$57,440	$67,684
Other comprehensive income/(loss), before tax:				
Foreign currency translation adjustments	(26,305)	(22,791)	(54,500)	(18,112)
Employee benefit plan activity	988	740	2,963	2,230
Other comprehensive loss	$(25,317)	$(22,051)	$(51,537)	$(15,882)
Income tax expense related to items of other comprehensive income	(333)	(256)	(1,000)	(770)
Other comprehensive loss, net of tax	$(25,650)	$(22,307)	$(52,537)	$(16,652)
Comprehensive income/(loss)	$(4,624)	$498	$4,903	$51,032
Less: Comprehensive income/(loss) attributable to noncontrolling interest	(47)	(199)	7	647
Comprehensive income/(loss) attributable to Franklin Electric Co., Inc.	$(4,577)	$697	$4,896	$50,385

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands)	October 3, 2015	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$84,898	$59,141
Receivables, less allowances of $3,313 and $3,212, respectively	131,767	143,787
Inventories:		
Raw material	87,893	88,961
Work-in-process	18,481	19,148
Finished goods	102,817	112,419
Total inventories	209,191	220,528
Deferred income taxes	15,194	8,364
Other current assets	35,179	37,719
Total current assets	476,229	469,539
Property, plant, and equipment, at cost:		
Land and buildings	118,516	127,782
Machinery and equipment	232,187	234,617
Furniture and fixtures	38,894	39,001
Other	19,908	20,539
Property, plant, and equipment, gross	409,505	421,939
Less: Allowance for depreciation	(221,471)	(212,153)
Property, plant, and equipment, net	188,034	209,786
Asset held for sale	1,615	2,405
Deferred income tax	2,563	3,899
Intangible assets, net	143,920	160,314
Goodwill	201,943	208,828
Other assets	21,885	21,116
Total assets	$1,036,189	$1,075,887

	October 3, 2015	January 3, 2015
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$59,865	$70,806
Deferred tax liability	636	637
Accrued expenses and other current liabilities	59,431	94,782
Income taxes	2,278	788
Current maturities of long-term debt and short-term borrowings	55,088	34,092
Total current liabilities	177,298	201,105
Long-term debt	188,150	143,695
Deferred income taxes	43,719	45,568
Employee benefit plans	50,363	58,709
Other long-term liabilities	16,715	21,407
Commitments and contingencies (see Note 16)	—	—
Redeemable noncontrolling interest	6,436	6,420
Shareowners' equity:		
Common stock (65,000 shares authorized, $.10 par value) outstanding (46,360 and 47,594, respectively)	4,636	4,759
Additional capital	214,785	207,446
Retained earnings	492,208	492,548
Accumulated other comprehensive loss	(159,801)	(107,913)
Total shareowners' equity	551,828	596,840
Noncontrolling interest	1,680	2,143
Total equity	553,508	598,983
Total liabilities and equity	$1,036,189	$1,075,887

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
(In thousands)	October 3, 2015	September 27, 2014
Cash flows from operating activities:		
Net income	$57,440	$67,684
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	26,804	27,791
Share-based compensation	4,579	6,314
Deferred income taxes	(5,569)	1,165
Loss on disposals of plant and equipment	202	959
Realized gain on share purchase liability	(2,723)	—
Foreign exchange expense	39	602
Excess tax from share-based payment arrangements	(819)	(1,800)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(527)	(50,070)
Inventory	(3,366)	(49,888)
Accounts payable and accrued expenses	(10,345)	12,469
Income taxes	9,561	2,276
Employee benefit plans	(4,020)	(4,326)
Other, net	(10,915)	(9,695)
Net cash flows from operating activities	60,341	3,481
Cash flows from investing activities:		
Additions to property, plant, and equipment	(15,528)	(25,094)
Proceeds from sale of property, plant, and equipment	959	1,592
Cash paid for acquisitions, net of cash acquired	(3,761)	(35,903)
Additional consideration for prior acquisition, net	(127)	—
Cash paid for minority equity investments	—	(6,716)
Other, net	99	(2,244)
Net cash flows from investing activities	(18,358)	(68,365)
Cash flows from financing activities:		
Proceeds from issuance of debt	231,615	97,047
Repayment of debt	(165,828)	(64,122)
Proceeds from issuance of common stock	1,240	1,351
Excess tax from share-based payment arrangements	819	1,800
Purchases of common stock	(43,330)	(8,642)
Dividends paid	(14,393)	(13,119)
Purchase of redeemable noncontrolling shares	—	(2,875)
Share purchase liability payment	(20,200)	—
Net cash flows from financing activities	(10,077)	11,440
Effect of exchange rate changes on cash	(6,149)	(3,689)
Net change in cash and equivalents	25,757	(57,133)
Cash and equivalents at beginning of period	59,141	134,553
Cash and equivalents at end of period	$84,898	$77,420

	Nine Months Ended	
	October 3, 2015	September 27, 2014
Cash paid for income taxes, net of refunds	$10,288	$22,680
Cash paid for interest, net of capitalized interest of $0 and $392, respectively	$8,092	$8,148
Non-cash items:		
Additions to property, plant, and equipment, not yet paid	$193	$216
Payable to seller of Bombas Leao	$24	$267

See Notes to Condensed Consolidated Financial Statements.

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

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated balance sheet as of January 3, 2015, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements as of October 3, 2015, and for the third quarter and nine months ended October 3, 2015 and September 27, 2014, 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 adjustments) considered necessary for a fair presentation of the financial position and the results of operations for the interim period have been made. Operating results for the third quarter and nine months ended October 3, 2015, are not necessarily indicative of the results that may be expected for the fiscal year ending January 2, 2016. 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 3, 2015.

2. ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, Consolidation (Topic 810), Amendments to the Consolidation Analysis. The amendments affect both the variable interest entity and voting interest entity consolidation models. The need to assess an entity under a different consolidation model may change previous consolidation conclusions. The standard is effective for both interim and annual reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company has adopted this standard with no impact on the Company's consolidated financial position, results of operations, or cash flows.

Accounting Standards Issued But Not Yet Adopted

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The ASU will require an acquirer to recognize provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined rather than restating prior periods. The ASU will be effective on a prospective basis for interim and annual period beginning after December 15, 2015. The Company will adopt this new standard beginning with the 2016 fiscal year, and does not expect the adoption of this standard to have a material impact on the Company's consolidated financial position, results of operations, cash flows, and related disclosures.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The ASU will change the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 eliminates the guidance that entities consider replacement cost or net realizable value less an approximately normal profit margin in the subsequent measurement of inventory when cost is determined on a first-in, first-out or average cost basis. The ASU will be effective on a prospective basis for interim and annual periods beginning after December 15, 2016, and early adoption is permitted. The Company plans to early adopt this standard beginning with the 2016 fiscal year, but does not expect the adoption of this standard to have a material impact on the Company's consolidated financial position, results of operations, and related disclosures.

In April 2015, the FASB issued ASU 2015-05, Intangibles-Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Agreement. The ASU will require an entity's management to assess, for each annual and interim period, whether a cloud computing arrangement includes a software license. All software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. If the arrangement does not include a software license, the arrangement should be accounted for as a service contract. The ASU will be effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. Entities will have the choice of prospective or retrospective adoption of the standard. The Company does not expect the adoption of this standard beginning in the 2016 fiscal year to have a material impact on the Company's consolidated financial position, results of operations, cash flows, and related disclosures.

In April 2015, the FASB issued ASU 2015-04, Compensation - Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets, which allows an entity a practical expedient to measure defined benefit plan assets and obligations using the month end date that is closest to the entity's fiscal year end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if the entity has more than one plan. The ASU will be effective on a prospective basis for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. The Company does not currently plan on electing the practical expedient for the 2016 fiscal year.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The standard will not change the amortization of debt issuance costs, which will continue to follow the existing accounting guidance. In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which indicates the SEC staff would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. These ASU's will be effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. These new standards will be adopted by the Company beginning with the 2016 fiscal year with the required change in accounting principle disclosures. The Company does not expect the adoption of these standards to have a material impact on the Company's consolidated financial position, results of operations, cash flows, or related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendment in this update defers the effective date of ASU 2014-09 for all entities by one year to annual periods beginning after December 15, 2017. Early adoption is permitted as of the original effective date, interim and annual reporting periods after December 15, 2016. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company is still in the process of analyzing the effect of this new standard, including the transition method, to determine the impact on the Company's consolidated financial position, results of operations, cash flows, and related disclosures.

3. ACQUISITIONS

In 2012, the Company acquired a controlling interest in Pioneer Pump Holdings, Inc. ("PPH"). Pursuant to the terms of the 2012 stock purchase agreement, the remaining 29.5 percent noncontrolling interest was recorded at $22.9 million and accounted for as a share purchase liability. During the first quarter of 2015, the Company purchased the remaining 29.5 percent of outstanding shares of PPH for $20.2 million, increasing the Company's ownership in PPH to 100 percent. The purchase was considered the settlement of a financing obligation, and the resulting $2.7 million gain was recorded in the Company's condensed consolidated statements of income in the "Other income, net" line during the first quarter of 2015.

In an agreement dated June 6, 2014, the Company acquired all of the outstanding shares of Bombas Leao S.A. ("Bombas Leao").

Goodwill increased by $0.3 million and current assets decreased by $0.3 million in the second quarter ended July 4, 2015 due to working capital adjustments. In addition, the Company paid an additional $0.3 million to the sellers of Bombas Leao during the second quarter ended July 4, 2015 to satisfy amounts previously accrued per the original purchase agreement. The final purchase price assigned to the major identifiable assets and liabilities for the Bombas Leao acquisition is as follows:

(In millions)
Assets:

Cash acquired	$1.1
Current assets	13.4
Property, plant, and equipment	6.5
Intangible assets	23.5
Goodwill	3.4
Other assets	3.1
Total assets	51.0
Liabilities	(20.0)
Total consideration paid	$31.0

The fair values of the identifiable assets, property, plant, and equipment, and liabilities were final as of the second quarter ended July 4, 2015. The Company utilized management estimates and consultation with an independent third-party valuation firm to assist in the valuation.

Transaction costs for all acquisition related activity were expensed as incurred under the guidance of FASB ASC Topic 805, Business Combinations. Transaction costs included in selling, general, and administrative expenses in the Company's condensed consolidated statements of income were $0.2 million and $1.1 million for the nine months ended October 3, 2015 and September 27, 2014, respectively.

4. REDEEMABLE NONCONTROLLING INTERESTS

On May 2, 2011, the Company completed the acquisition of 80 percent of Impo. In 2014, the Company redeemed 10 percent of the noncontrolling interest of Impo, increasing the Company's ownership to 90 percent. The noncontrolling interest holders have the option, which is embedded in the noncontrolling interest, to require the Company to redeem their ownership interests. The combination of a noncontrolling interest and a redemption feature resulted in a redeemable noncontrolling interest.

The Company uses the interest method to accrete changes in the anticipated redemption value of the Impo redeemable noncontrolling interest over an amortization period to the earliest projected redemption date. Accretion adjustments were $0.2 million and $0.4 million for the third quarter and nine months ended ended October 3, 2015, respectively, and $0.4 million and $0.6 million for the third quarter and nine months ended ended September 27, 2014. These adjustments were reflected in the computation of earnings per share using the two-class method.

5. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, Fair Value Measurements and Disclosures, provides guidance for defining, measuring, and disclosing fair value within an established framework and hierarchy. 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. The standard established a fair value hierarchy which requires an entity to maximize the use of observable inputs and to minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value within the hierarchy are as follows:

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.

As of October 3, 2015 and January 3, 2015, the assets measured at fair value on a recurring basis were as set forth in the table below:

(In millions)	October 3, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$3.2	$3.2	$—	$—
	January 3, 2015			

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$5.4	$5.4	$—	$—

The Company's Level 1 assets consist of cash equivalents which are generally comprised of foreign bank guaranteed certificates of deposit.

Total debt, including current maturities, have carrying amounts of $243.2 million and $177.2 million and estimated fair values of $248.0 million and $191.1 million as of October 3, 2015 and January 3, 2015, respectively. The fair value assumed short-term floating rate debt was valued at par. 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 debt, the Company uses estimates based on rates currently available to the Company for debt with similar terms and remaining maturities. Accordingly, the fair value of debt is classified as Level 2 within the valuation hierarchy.

As of October 3, 2015, the Company had $1.6 million of assets held for sale recorded at carrying value in the Water Systems segment relating to a facility in Brazil.

6. FINANCIAL INSTRUMENTS

The Company’s deferred compensation stock program is subject to variable plan accounting and, accordingly, is adjusted for changes in the Company’s stock price at the end of each reporting period. During February 2014, the Company entered into a share swap transaction agreement ("the swap") to mitigate the Company’s exposure to these fluctuations in the Company's stock price. The Company renewed the swap agreement in February 2015. The swap was not designated as a hedge for accounting purposes and is cancellable with 30 days written notice by either party. As of October 3, 2015, the swap has a notional value based on 175,000 shares. For the third quarter and nine months ended October 3, 2015, the swap resulted in losses of $0.9 million and $1.9 million, respectively. For the third quarter and nine months ended September 27, 2014, the swap resulted in losses of $0.8 million and $1.1 million, respectively. Losses resulting from the swap were primarily offset by gains on the fair value of the deferred compensation stock liability. All gains or losses and expenses related to the swap are recorded in the Company's condensed consolidated statements of income within the “Selling, general, and administrative expenses” line.

7. OTHER ASSETS

The Company has equity interests in various companies for various strategic purposes. The investments are accounted for under the equity method and are included in “Other assets” on the Company’s condensed consolidated balance sheet. The carrying amount of the investments is adjusted for the Company's proportionate share of earnings, losses, and dividends. The investments are not considered material to the Company’s financial position, neither individually nor in the aggregate. The Company’s proportionate share of earnings from its equity interests, included in the "Other income, net" line of the Company's condensed consolidated statements of income, were immaterial for the third quarter and nine months ended October 3, 2015 and September 27, 2014.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(In millions)	October 3, 2015		January 3, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangibles:				
Patents	$7.4	$(6.1)	$7.6	$(6.1)
Supply agreements	4.4	(4.4)	4.4	(4.4)
Technology	7.5	(4.7)	7.5	(4.3)
Customer relationships	133.0	(40.6)	140.2	(36.5)
Software	2.5	(1.7)	2.9	(1.7)
Other	1.0	(1.0)	1.2	(1.2)
Total	$155.8	$(58.5)	$163.8	$(54.2)
Unamortized intangibles:				
Trade names	46.6	—	50.7	—
Total intangibles	$202.4	$(58.5)	$214.5	$(54.2)

Changes in carrying values for intangible assets are primarily attributed to the impact of foreign exchange for the nine months ended October 3, 2015.

Amortization expense related to intangible assets for the third quarters ended October 3, 2015 and September 27, 2014 was $2.1 million and $2.7 million, respectively, and $6.5 million and $6.8 million for the nine months ended October 3, 2015 and September 27, 2014, respectively.

Amortization expense for each of the five succeeding years is projected as follows:

(In millions)	2015	2016	2017	2018	2019
	$8.5	$8.4	$8.4	$8.3	$8.2

The change in the carrying amount of goodwill by reporting segment for the nine months ended October 3, 2015, is as follows:

(In millions)

	Water Systems	Fueling Systems	Consolidated
Balance as of January 3, 2015	$145.3	$63.5	$208.8
Adjustments to prior year acquisitions	0.3	(0.2)	0.1
Foreign currency translation	(6.8)	(0.2)	(7.0)
Balance as of October 3, 2015	$138.8	$63.1	$201.9

9. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans - As of October 3, 2015, the Company maintained two domestic pension plans and three German pension plans. The Company used a January 3, 2015 measurement date for these plans. One of the Company's domestic pension plans covers two management employees, while the other domestic plan covers all other eligible employees. The two domestic and three German plans collectively comprise the 'Pension Benefits' disclosure caption.

Other Benefits - The Company's other postretirement benefit plan provides health and life insurance to domestic employees hired prior to 1992.

The following table sets forth the aggregated net periodic benefit cost for all pension plans for the third quarters and nine months ended October 3, 2015 and September 27, 2014, respectively:

(In millions)	Pension Benefits			
	Third Quarter Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Service cost	$0.2	$0.3	$0.8	$1.0
Interest cost	1.9	2.1	5.5	6.2
Expected return on assets	(2.4)	(2.7)	(7.4)	(7.9)
Amortization of prior service cost	—	—	—	—
Amortization of loss	0.8	0.7	2.4	1.9
Net periodic benefit cost	$0.5	$0.4	$1.3	$1.2
Settlement cost	0.3	0.3	0.9	0.7
Total net periodic benefit cost	$0.8	$0.7	$2.2	$1.9

In the nine months ended October 3, 2015, the Company made contributions of $3.3 million to the funded plans. The amount of contributions to be made to the plans during the calendar year 2015 were finalized by September 15, 2015, based upon the plans' year-end valuation at January 3, 2015, and the funding level required for the plans' year ended January 3, 2015.

The following table sets forth the aggregated net periodic benefit cost for the postretirement benefit plan for the third quarters and nine months ended October 3, 2015 and September 27, 2014, respectively:

	Other Benefits			
	Third Quarter Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Service cost	$—	$—	$—	$0.1
Interest cost	0.1	0.2	0.3	0.4
Expected return on assets	—	—	—	—
Amortization of prior service cost	0.1	0.1	0.3	0.3
Amortization of loss	0.1	—	0.3	—
Net periodic benefit cost	$0.3	$0.3	$0.9	$0.8
Settlement cost	—	—	—	—
Total net periodic benefit cost	$0.3	$0.3	$0.9	$0.8

10. INCOME TAXES

The effective tax rate continues to be lower than the U.S. statutory rate of 35.0 percent primarily due to the indefinite reinvestment of foreign earnings taxed at rates below the U.S. statutory rate as well as recognition of foreign tax credits. 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.

The Company’s net unrecognized tax benefits decreased $1.8 million for federal and state income tax liabilities of prior years based on the expiration of statute of limitations and foreign currency fluctuations during the third quarter ending October 3, 2015.

If recognized, the effective tax rate would be affected by the net unrecognized tax benefits of $4.4 million as of October 3, 2015.

It is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months due to the expiration of a statute of limitation by an amount up to $0.7 million.

11. DEBT

Debt consisted of the following:

(In millions)	October 3, 2015	January 3, 2015
Prudential Agreement - 5.79 percent	$120.0	$150.0
Tax increment financing debt	22.8	23.7
New York Life	75.0	—
Revolver	20.5	—
Capital leases	0.1	0.6
Foreign subsidiary debt	4.9	3.5
	$243.3	177.8
Less current maturities	(55.1)	(34.1)
Long-term debt	$188.2	$143.7

On May 5, 2015, the Company executed the following amendments: Amendment No. 6 to the Second Amended and Restated Note Purchase and Private Shelf Agreement with Prudential Investment Management, Inc.; Amendment No. 3 to the Credit Agreement; and Amendment No. 1 to the Bond Purchase and Loan Agreement. Each of those amendments provides for debt repayment guarantees from certain Company subsidiaries and waived certain non-financial covenants related to subsidiary guarantees.

On May 27, 2015, the Company entered into an uncommitted and unsecured private shelf agreement with NYL Investors LLC, an affiliate of New York Life (the "New York Life Agreement") for $150.0 million maximum aggregate principal borrowing capacity and the Company authorized the issuance of $75.0 million of floating rate senior notes due May 27, 2025. These series notes have a floating interest rate of one-month USD LIBOR plus a spread of 1.35 percent with interest-only payments

15

due on a monthly basis. The New York Life Agreement contains customary affirmative and negative covenants and a cross default provision in the event the Company defaults on any obligation exceeding $10.0 million. As of October 3, 2015, there was $75.0 million remaining borrowing capacity under the New York Life Agreement.

On May 28, 2015, the Company entered into a Third Amended and Restated Note Purchase and Private Shelf Agreement with Prudential Investment Management, Inc. (the "Prudential Agreement") to increase the total borrowing capacity from $200.0 million to $250.0 million. As of October 3, 2015, $120.0 million was outstanding under the Prudential Agreement. Principal installments of $30.0 million are payable annually commencing on April 30, 2015 and continuing to and including April 30, 2019, with any unpaid balance due at maturity. As of October 3, 2015, the Company had $100.0 million borrowing capacity under the Prudential Agreement.

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	$243.2	$55.0	$31.5	$31.0	$31.2	$1.3	$93.2
Capital leases	0.1	0.1	—	—	—	—	—
	$243.3	$55.1	$31.5	$31.0	$31.2	$1.3	$93.2

12. EARNINGS PER SHARE

The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a nonforfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocated to common shares by the weighted-average number of common shares outstanding for the period, as adjusted for the potential dilutive effect of non-participating share-based awards.

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

	Third Quarter Ended		Nine Months Ended	
(In millions, except per share amounts)	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Numerator:				
Net income attributable to Franklin Electric Co., Inc.	$20.8	$22.7	$56.8	$66.7
Less: Undistributed earnings allocated to participating securities	0.2	0.2	0.5	0.7
Less: Undistributed earnings allocated to redeemable noncontrolling interest	0.2	0.4	0.4	0.6
	$20.4	$22.1	$55.9	$65.4
Denominator:				
Basic				
Weighted average common shares	46.9	47.6	47.4	47.7
Diluted				
Effect of dilutive securities:				
Non-participating employee incentive stock options and performance awards	0.4	0.5	0.4	0.5
Adjusted weighted average common shares	47.3	48.1	47.8	48.2
Basic earnings per share	$0.44	$0.46	$1.18	$1.37

Diluted earnings per share	$0.43	$0.46	$1.17	$1.36
Anti-dilutive stock options	0.5	0.1	0.3	0.1

16

13. EQUITY ROLL FORWARD

The schedule below sets forth equity changes in the nine months ended October 3, 2015:

(In thousands)	Common Stock	Additional Paid in Capital	Retained Earnings	Minimum Pension Liability	Cumulative Translation Adjustment	Noncontrolling Interest	Total Equity	Redeemable Noncontrolling Interest
Balance as of January 3, 2015	$4,759	$207,446	$492,548	$(56,124)	$(51,789)	$2,143	$598,983	$6,420
Net income			56,784			468	57,252	188
Adjustment to Impo redemption value			(369)				(369)	369
Dividends on common stock			(13,570)				(13,570)	
Common stock issued	7	1,233					1,240	
Common stock repurchased	(145)		(43,185)				(43,330)	
Share-based compensation	15	4,564					4,579	
Tax benefit of stock options exercised		1,542					1,542	
Noncontrolling dividend						(823)	(823)	
Currency translation adjustment					(53,851)	(108)	(53,959)	(541)
Pension liability, net of tax				1,963			1,963	
Balance as of October 3, 2015	$4,636	$214,785	$492,208	$(54,161)	$(105,640)	$1,680	$553,508	$6,436

17

14. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

Changes in accumulated other comprehensive income/(loss) by component for the nine months ended October 3, 2015 and September 27, 2014, are summarized below:

(In millions)

For the nine months ended October 3, 2015:	Foreign Currency Translation Adjustments	Pension and Post-Retirement Plan Benefit Adjustments	Total
Balance as of January 3, 2015	$(51.8)	$(56.1)	$(107.9)
Other comprehensive loss before reclassifications:			
Pre-tax loss	(54.4)	—	(54.4)
Income tax expense	—	—	—
Other comprehensive loss before reclassifications, net of income taxes	(54.4)	—	(54.4)
Amounts reclassified from accumulated other comprehensive income/(loss):			
Pre-tax income	—	2.9 (1)	2.9
Income tax expense	—	(1.0)	(1.0)
Amounts reclassified from accumulated other comprehensive income, net of income taxes	—	1.9	1.9
Net current period other comprehensive income/(loss), net of income taxes	(54.4)	1.9	(52.5)
Other comprehensive loss attributable to noncontrolling interest	(0.6)	—	(0.6)
Balance as of October 3, 2015	$(105.6)	$(54.2)	$(159.8)
For the nine months ended September 27, 2014:			
Balance as of December 28, 2013	$(16.0)	$(38.7)	$(54.7)
Other comprehensive loss before reclassifications:			
Pre-tax loss	(18.2)	—	(18.2)
Income tax expense	—	—	—
Other comprehensive loss before reclassifications, net of income taxes	(18.2)	—	(18.2)
Amounts reclassified from accumulated other comprehensive income/(loss):			
Pre-tax income	—	2.2 (1)	2.2
Income tax expense	—	(0.7)	(0.7)
Amounts reclassified from accumulated other comprehensive income, net of income taxes	—	1.5	1.5
Net current period other comprehensive income/(loss), net of income taxes	(18.2)	1.5	(16.7)
Other comprehensive loss attributable to noncontrolling interest	(0.4)	—	(0.4)
Balance as of September 27, 2014	$(33.8)	$(37.2)	$(71.0)

(1) This accumulated other comprehensive income/(loss) component is included in the computation of net periodic pension cost (refer to Note 9 for additional details) and is included in the "Selling, general, and administrative expenses" line of the Company's condensed consolidated statements of income.

15. SEGMENT INFORMATION

Financial information by reportable business segment is included in the following summary:

	Third Quarter Ended		Nine Months Ended	
(In millions)	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
	Net sales to external customers			
Water Systems	$173.5	$216.6	$544.3	$627.8
Fueling Systems	59.0	61.5	161.3	166.1
Other	—	—	—	—
Consolidated	$232.5	$278.1	$705.6	$793.9

	Third Quarter Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
	Operating income/(loss)			
Water Systems	$23.1	$28.3	$66.8	$99.3
Fueling Systems	15.4	15.4	37.4	37.9
Other	(10.7)	(11.3)	(37.4)	(39.7)
Consolidated	$27.8	$32.4	$66.8	$97.5

	October 3, 2015	January 3, 2015
	Total assets	
Water Systems	$701.6	$757.5
Fueling Systems	249.6	252.7
Other	85.0	65.7
Consolidated	$1,036.2	$1,075.9

Property, plant, and equipment is the major asset group in "Other" of total assets as of October 3, 2015 and January 3, 2015.

16. COMMITMENTS AND CONTINGENCIES

In August 2010, the California Air Resources Board (“CARB”) and South Coast Air Quality Management District (“SCAQMD”) filed civil complaints in the Los Angeles Superior Court against the Company and Franklin Fueling Systems, Inc. The complaints related to a third-party-supplied component part of the Company's Healy 900 Series nozzle, which is part of the Company's Enhanced Vapor Recovery (“EVR”) Systems installed in California gasoline filling stations. This part, a diaphragm, was the subject of a retrofit during the first half of 2008. As the Company previously reported, in October 2008 CARB issued a Notice of Violation to the Company alleging that the circumstances leading to the retrofit program violated California statutes and regulations.

The claims in the complaints mirrored those that CARB presented to the Company in the Notice of Violation, and included claims that the Company negligently and intentionally sold nozzles with a modified diaphragm without required CARB certification. Those complaints were consolidated into one case in the Superior Court of California, County of Los Angeles (People of the State of California vs. Franklin Fueling Systems, Inc. et al.) which was tried in the later part of December 2012 and early part of January 2013 (“CARB Case”).

On July 25, 2013, the Court issued a Final Statement of Decision (“Decision”) in the CARB Case. In its Decision, the Court found on behalf of the Company and issued a complete defense verdict. Judgment was entered on August 27, 2013. An Amended Judgment awarding the Company $0.1 million in costs was entered by the Court on January 22, 2014. On July 16, 2014, CARB appealed and filed its brief in support of the appeal. The Company filed its response brief on December 23, 2014 and CARB filed its Reply brief on February 2, 2015. On September 29, 2015, both sides made oral arguments in front of the California Court of Appeals. The Appellate Court has ninety days to issue a ruling.

Neither of these suits has had any effect on CARB's certification of the Company's EVR System or any other products of the Company or its subsidiaries, and did not interfere with continuing sales. CARB has never decertified the Company's EVR System and has never proposed to do so.

The Company is defending various other 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 effect on the Company's financial position, results of operations, and net cash flows.

At October 3, 2015, the Company had $12.4 million of commitments primarily for capital expenditures and purchase of raw materials to be used in production.

The Company provides warranties on most of its products. The warranty terms vary but are generally 2 years from date of manufacture or 1 year from date of installation. In 2007, the Company began offering an extended warranty program to certain Water Systems customers which provides warranty coverage up to 5 years from date of manufacture. Provisions for estimated expenses related to product warranty are made at the time products are sold or when specific warranty issues are identified. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. The Company actively studies trends of warranty claims and takes actions to improve product quality and minimize warranty claims. The Company believes that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve.

The changes in the carrying amount of the warranty accrual, as recorded in the "Accrued expenses and other current liabilities" line of the Company's condensed consolidated balance sheet for the nine months ended October 3, 2015, are as follows:

(In millions)		
Balance as of January 3, 2015	$9.4	
Accruals related to product warranties	5.5	
Reductions for payments made	(5.8	)
Balance as of October 3, 2015	$9.1	

17. SHARE-BASED COMPENSATION

The Company maintains the Franklin Electric Co., Inc. 2012 Stock Plan (the "2012 Stock Plan"), which is a stock-based compensation plan that provides for discretionary grants of stock options, stock awards, and stock unit awards to key employees and non-employee directors.

The 2012 Stock Plan authorized 2,400,000 shares for issuance as follows:

2012 Stock Plan	Authorized Shares
Stock Options	1,680,000
Stock/Stock Unit Awards	720,000

The Company also maintains the Amended and Restated Franklin Electric Co., Inc. Stock Plan (the "2009 Stock Plan") which, as amended in 2009, provided for discretionary grants of stock options and stock awards. The 2009 Stock Plan authorized 4,400,000 shares for issuance as follows:

2009 Stock Plan	Authorized Shares
Stock Options	3,200,000
Stock Awards	1,200,000

All options in the 2009 Stock Plan have been awarded.

The Company currently issues new shares from its common stock balance to satisfy option exercises and the settlement of stock awards and stock unit awards made under the 2009 Stock Plan and/or the 2012 Stock Plan.

Stock Options:
The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model with a single approach and amortized using a straight-line attribution method over the option's vesting period.

The assumptions used for the Black-Scholes model to determine the fair value of options granted during the nine months ended October 3, 2015 and September 27, 2014, are as follows:

	October 3, 2015		September 27, 2014	
Risk-free interest rate	1.59	%	1.68	%
Dividend yield	0.95	%		