

FRANKLIN ELECTRIC CO INC  
Form 10-Q  
August 04, 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 July 4, 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  NO

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

NO

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

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

Class of Common Stock	Outstanding at
\$.10 par value	July 27, 2015
	47,603,899 shares

FRANKLIN ELECTRIC CO., INC.  
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## PART I - FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED 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 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Net sales	\$247,427	\$284,466	\$473,155	\$515,887
Cost of sales	167,219	185,072	321,457	338,382
Gross profit	80,208	99,394	151,698	177,505
Selling, general, and administrative expenses	56,278	59,971	111,438	111,986
Restructuring expense	758	295	1,221	431
Operating income	23,172	39,128	39,039	65,088
Interest expense	(2,405)	(2,510)	(5,113)	(5,294)
Other income, net	1,390	871	4,409	1,196
Foreign exchange income/(expense)	(359)	328	57	(92)
Income before income taxes	21,798	37,817	38,392	60,898
Income tax expense	5,360	10,359	1,978	16,019
Net income	\$16,438	\$27,458	\$36,414	\$44,879
Less: Net income attributable to noncontrolling interests	(274)	(384)	(455)	(848)
Net income attributable to Franklin Electric Co., Inc.	\$16,164	\$27,074	\$35,959	\$44,031
Income per share:				
Basic	\$0.33	\$0.56	\$0.74	\$0.91
Diluted	\$0.33	\$0.55	\$0.74	\$0.90
Dividends per common share	\$0.0975	\$0.0900	\$0.1875	\$0.1675

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)	Second Quarter Ended		Six Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Net income	\$16,438	\$27,458	\$36,414	\$44,879
Other comprehensive income/(loss), before tax:				
Foreign currency translation adjustments	(313	) 2,501	(28,195	) 4,679
Employee benefit plan activity	988	745	1,975	1,490
Other comprehensive income/(loss)	\$675	\$3,246	\$(26,220	) \$6,169
Income tax related to items of other comprehensive income	(334	) (257	) (667	) (514
Other comprehensive income/(loss), net of tax	\$341	\$2,989	\$(26,887	) \$5,655
Comprehensive income	16,779	30,447	9,527	50,534
Less: Comprehensive income attributable to noncontrolling interest	224	520	54	846
Comprehensive income attributable to Franklin Electric Co., Inc.	\$16,555	\$29,927	\$9,473	\$49,688

See Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(In thousands)

	July 4, 2015	January 3, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$63,034	\$59,141
Receivables, less allowances of \$3,755 and \$3,212, respectively	154,133	143,787
Inventories:		
Raw material	94,942	88,961
Work-in-process	18,505	19,148
Finished goods	106,481	112,419
Total inventories	219,928	220,528
Deferred income taxes	15,296	8,364
Other current assets	37,068	37,719
Total current assets	489,459	469,539
Property, plant, and equipment, at cost:		
Land and buildings	122,626	127,782
Machinery and equipment	233,939	234,617
Furniture and fixtures	39,693	39,001
Other	18,731	20,539
Property, plant, and equipment, gross	414,989	421,939
Less: Allowance for depreciation	(217,816)	(212,153)
Property, plant, and equipment, net	197,173	209,786
Asset held for sale	2,056	2,405
Deferred income tax	2,335	3,899
Intangible assets, net	151,986	160,314
Goodwill	204,781	208,828
Other assets	22,075	21,116
Total assets	\$1,069,865	\$1,075,887

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	July 4, 2015	January 3, 2015
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$58,629	\$70,806
Deferred tax liability	637	637
Accrued expenses and other current liabilities	62,476	94,782
Income taxes	1,376	788
Current maturities of long-term debt and short-term borrowings	37,509	34,092
Total current liabilities	160,627	201,105
Long-term debt	187,841	143,695
Deferred income taxes	44,146	45,568
Employee benefit plans	52,088	58,709
Other long-term liabilities	20,851	21,407
Commitments and contingencies (see Note 16)	—	—
Redeemable noncontrolling interest	6,401	6,420
Shareowners' equity:		
Common stock (65,000 shares authorized, \$.10 par value) outstanding (47,634 and 47,594, respectively)	4,763	4,759
Additional capital	212,807	207,446
Retained earnings	513,190	492,548
Accumulated other comprehensive loss	(134,399)	(107,913)
Total shareowners' equity	596,361	596,840
Noncontrolling interest	1,550	2,143
Total equity	597,911	598,983
Total liabilities and equity	\$1,069,865	\$1,075,887

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 4, 2015	June 28, 2014
Cash flows from operating activities:		
Net income	\$36,414	\$44,879
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	18,044	18,173
Share-based compensation	3,457	5,076
Deferred income taxes	(6,111)	(790)
Loss on disposals of plant and equipment	202	40
Realized gain on share purchase liability	(2,723)	—
Foreign exchange expense/(income)	(57)	92
Excess tax from share-based payment arrangements	(811)	(1,678)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(16,655)	(53,359)
Inventory	(6,355)	(41,858)
Accounts payable and accrued expenses	(15,110)	8,307
Income taxes	3,874	1,404
Employee benefit plans	(3,137)	(3,595)
Other, net	(4,000)	(2,934)
Net cash flows from operating activities	7,032	(26,243)
Cash flows from investing activities:		
Additions to property, plant, and equipment	(9,758)	(17,947)
Proceeds from sale of property, plant, and equipment	402	1,623
Cash paid for acquisitions, net of cash acquired	(3,761)	(29,813)
Additional consideration for prior acquisition	(267)	—
Cash paid for minority equity investments	—	(6,716)
Other, net	174	(2,275)
Net cash flows from investing activities	(13,210)	(55,128)
Cash flows from financing activities:		
Proceeds from issuance of debt	181,967	68,526
Repayment of debt	(134,190)	(18,584)
Proceeds from issuance of common stock	1,240	1,184
Excess tax from share-based payment arrangements	811	1,678
Purchases of common stock	(6,218)	(6,475)
Dividends paid	(9,783)	(8,817)
Purchase of redeemable noncontrolling shares	—	(2,875)
Share purchase liability payment	(20,200)	—
Net cash flows from financing activities	13,627	34,637
Effect of exchange rate changes on cash	(3,556)	(139)
Net change in cash and equivalents	3,893	(46,873)
Cash and equivalents at beginning of period	59,141	134,553
Cash and equivalents at end of period	\$63,034	\$87,680



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	Six Months Ended	
	July 4, 2015	June 28, 2014
Cash paid for income taxes, net of refunds	\$8,074	\$15,944
Cash paid for interest	\$5,401	\$5,279
Non-cash items:		
Additions to property, plant, and equipment, not yet paid	\$569	\$372
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 July 4, 2015, and for the second quarters and six months ended July 4, 2015 and June 28, 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 second quarter and six months ended July 4, 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 July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (Topic 330). 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 for interim and annual periods beginning after December 15, 2016 and early adoption is permitted. The Company is still in the process of analyzing the effect of this new standard to determine the 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. The Company is still in the process of analyzing the effect of this new standard to determine the impact on the Company's consolidated financial position, results of operations, and related disclosures.

In April 2015, the FASB issued ASU 2015-04, 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 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 April 2015, the FASB issued ASU 2015-03, 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. The ASU will be effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. The Company

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 May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers. 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. The ASU was originally effective for annual reporting periods beginning after December 15, 2016 and early adoption was not permitted. In July 2015, the FASB approved a one-year deferral on the effective date of this ASU, which will now be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the new ASU. The Company is still in the process of analyzing the effect of this new standard 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 are 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 \$0.9 million for the six months ended July 4, 2015 and June 28, 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 \$0.1 million and \$0.2 million for the second quarter and six months ended July 4, 2015, respectively, and \$0.2 million for the second quarter and six months ended June 28, 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 July 4, 2015 and January 3, 2015, the assets measured at fair value on a recurring basis were as set forth in the table below.

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In millions)	July 4, 2015			
Cash equivalents	\$1.6	\$1.6	\$—	\$—
	January 3, 2015			
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 \$225.2 million and \$177.2 million and estimated fair values of \$232.2 million and \$191.1 million as of July 4, 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 July 4, 2015, the Company had \$2.1 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 July 4, 2015, the swap has a notional value based on 175,000 shares. For the second quarter and six months ended July 4, 2015, the swap resulted in losses of \$0.9 million and \$1.0 million, respectively. For the second quarter and six months ended June 28, 2014, the swap resulted in losses of \$0.1 million and \$0.3 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 second quarter and six months ended July 4, 2015.

## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(In millions)	July 4, 2015		January 3, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangibles:				
Patents	\$7.5	\$(6.1)	\$7.6	\$(6.1)
Supply agreements	4.4	(4.4)	4.4	(4.4)
Technology	7.5	(4.6)	7.5	(4.3)
Customer relationships	137.5	(39.5)	140.2	(36.5)
Software	2.6	(1.7)	2.9	(1.7)
Other	1.0	(1.0)	1.2	(1.2)
Total	\$160.5	\$(57.3)	\$163.8	\$(54.2)
Unamortized intangibles:				
Trade names	48.8	—	50.7	—
Total intangibles	\$209.3	\$(57.3)	\$214.5	\$(54.2)

Changes in carrying values for intangible assets are primarily attributed to the impact of foreign exchange for the six months ended July 4, 2015.

Amortization expense related to intangible assets for the second quarters ended July 4, 2015 and June 28, 2014 was \$2.2 million and \$2.1 million, respectively, and \$4.4 million and \$4.1 million for the six months ended July 4, 2015 and June 28, 2014, respectively.

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

(In millions)	2015	2016	2017	2018	2019
	\$8.7	\$8.7	\$8.6	\$8.6	\$8.5

The change in the carrying amount of goodwill by reporting segment for the six months ended July 4, 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	—	0.3
Foreign currency translation	(4.2	) (0.1	) (4.3
Balance as of July 4, 2015	\$141.4	\$63.4	\$204.8

## 9. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans - As of July 4, 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 second quarters and six months ended July 4, 2015 and June 28, 2014, respectively:

(In millions)	Pension Benefits			
	Second Quarter Ended		Six Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Service cost	\$0.3	\$0.4	\$0.6	\$0.7
Interest cost	1.8	2.1	3.6	4.1
Expected return on assets	(2.5	) (2.6	) (5.0	) (5.2
Amortization of prior service cost	—	—	—	—
Amortization of loss	0.8	0.6	1.6	1.2
Net periodic benefit cost	\$0.4	\$0.5	\$0.8	\$0.8
Settlement cost	0.3	0.2	0.6	0.4
Total net periodic benefit cost	\$0.7	\$0.7	\$1.4	\$1.2

In the six months ended July 4, 2015, the Company made contributions of \$1.3 million to the funded plans. The amount of contributions to be made to the plans during the calendar year 2015 will be finalized by September 15, 2015, based upon the plan's year-end valuation at January 3, 2015, and the funding level required for the plan year ended January 3, 2015.

The following table sets forth the aggregated net periodic benefit cost for the postretirement benefit plan for the second quarters and six months ended July 4, 2015 and June 28, 2014, respectively:

	Other Benefits			
	Second Quarter Ended		Six Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Service cost	\$—	\$0.1	\$—	\$0.1
Interest cost	0.1	0.1	0.2	0.2
Expected return on assets	—	—	—	—
Amortization of prior service cost	0.1	0.1	0.2	0.2
Amortization of loss	0.1	—	0.2	—
Net periodic benefit cost	\$0.3	\$0.3	\$0.6	\$0.5
Settlement cost	—	—	—	—
Total net periodic benefit cost	\$0.3	\$0.3	\$0.6	\$0.5



## 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.

## 11. DEBT

Debt consisted of the following:

(In millions)	July 4, 2015	January 3, 2015
Prudential Agreement - 5.79 percent	\$120.0	\$150.0
Tax increment financing debt	23.2	23.7
New York Life	75.0	—
Revolver	4.0	—
Capital leases	0.1	0.6
Foreign subsidiary debt	3.0	3.5
	\$225.3	177.8
Less current maturities	(37.5	) (34.1
Long-term debt	\$187.8	\$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 with interest-only payments 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 July 4, 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 July 4, 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 July 4, 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	\$225.2	\$37.4	\$31.5	\$31.0	\$31.0	\$1.1	\$93.2
Capital leases	0.1	0.1	—	—	—	—	—
	\$225.3	\$37.5	\$31.5	\$31.0	\$31.0	\$1.1	\$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.

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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:

(In millions, except per share amounts)	Second Quarter Ended		Six Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
Numerator:				
Net income attributable to Franklin Electric Co., Inc.	\$16.2	\$27.1	\$36.0	\$44.0
Less: Undistributed earnings allocated to participating securities	0.1	0.3	0.3	0.5
Less: Undistributed earnings allocated to redeemable noncontrolling interest	0.1	0.2	0.2	0.2
	\$16.0	\$26.6	\$35.5	\$43.3
Denominator:				
Basic				
Weighted average common shares	47.6	47.6	47.6	47.7
Diluted				
Effect of dilutive securities:				
Non-participating employee incentive stock options and performance awards	0.5	0.6	0.5	0.6
Adjusted weighted average common shares	48.1	48.2	48.1	48.3
Basic earnings per share	\$0.33	\$0.56	\$0.74	\$0.91
Diluted earnings per share	\$0.33	\$0.55	\$0.74	\$0.90
Anti-dilutive stock options	0.3	0.1	0.3	0.1

### 13. EQUITY ROLL FORWARD

The schedule below sets forth equity changes in the six months ended July 4, 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			35,959			348	36,307	107
Adjustment to Imposition redemption value			(157)				(157)	157
Dividends on common stock			(8,960)				(8,960)	
Common stock issued	7	1,233					1,240	
Common stock repurchased	(18)		(6,200)				(6,218)	
Share-based compensation	15	3,442					3,457	
Tax benefit of stock options exercised		686					686	

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Noncontrolling dividend					(823	)	(823	)		
Currency translation adjustment				(27,794	)	(118	)	(27,912	) (283	)
Pension liability, net of tax			1,308				1,308			
Balance as of July 4, 2015	\$4,763	\$212,807	\$513,190	\$(54,816)	\$(79,583	)	\$1,550	\$597,911	\$6,401	

## 14. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

Changes in accumulated other comprehensive income/(loss) by component for the six months ended July 4, 2015 and June 28, 2014, are summarized below:

(In millions)

For the six months ended July 4, 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 income/(loss) before reclassifications:			
Pre-tax income/(loss)	(28.2	) —	(28.2
Income tax expense	—	—	—
Other comprehensive income/(loss) before reclassifications, net of income taxes	(28.2	) —	(28.2
Amounts reclassified from accumulated other comprehensive income/(loss):			
Pre-tax income	—	2.0	(1) 2.0
Income tax expense	—	(0.7	) (0.7
Amounts reclassified from accumulated other comprehensive income/(loss), net of income taxes	—	1.3	1.3
Net current period other comprehensive income/(loss), net of income taxes	(28.2	) 1.3	(26.9
Other comprehensive income/(loss) attributable to noncontrolling interest	(0.4	) —	(0.4
Balance as of July 4, 2015	\$(79.6	) \$(54.8	) \$(134.4
For the six months ended June 28, 2014:			
Balance as of December 28, 2013	\$(16.0	) \$(38.7	) \$(54.7
Other comprehensive income/(loss) before reclassifications:			
Pre-tax income/(loss)	4.7	—	4.7
Income tax expense	—	—	—
Other comprehensive income/(loss) before reclassifications, net of income taxes	4.7	—	4.7
Amounts reclassified from accumulated other comprehensive income/(loss):			
Pre-tax income	—	1.5	(1) 1.5
Income tax expense	—	(0.5	) (0.5
Amounts reclassified from accumulated other comprehensive income/(loss), net of income taxes	—	1.0	1.0
Net current period other comprehensive income/(loss), net of income taxes	4.7	1.0	5.7
Other comprehensive income/(loss) attributable to noncontrolling interest	0.1	—	0.1
Balance as of June 28, 2014	\$(11.4	) \$(37.7	) \$(49.1

(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:

(In millions)	Second Quarter Ended		Six Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
	Net sales to external customers			
Water Systems	\$191.6	\$226.7	\$370.9	\$411.3
Fueling Systems	55.8	57.8	102.3	104.6
Other	—	—	\$—	\$—
Consolidated	\$247.4	\$284.5	\$473.2	\$515.9
	Second Quarter Ended		Six Months Ended	
	July 4, 2015	June 28, 2014	July 4, 2015	June 28, 2014
	Operating income (loss)			
Water Systems	\$24.3	\$41.7	\$43.7	\$71.0
Fueling Systems	12.4	13.5	22.0	22.5
Other	(13.5)	(16.1)	(26.7)	(28.4)
Consolidated	\$23.2	\$39.1	\$39.0	\$65.1
	July 4, 2015	January 3, 2015		
	Total assets			
Water Systems	\$754.0	\$757.5		
Fueling Systems	250.2	252.7		
Other	65.7	65.7		
Consolidated	\$1,069.9	\$1,075.9		

Property, plant, and equipment is the major asset group in "Other" of total assets as of July 4, 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 July 29, 2015, the Court of Appeals issued a Calendar Notice for oral argument scheduled for August 25, 2015. Both the Company and CARB have ten days to either confirm or waive the oral argument.



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 adverse effect on the Company's financial position, results of operations, and net cash flows.

At July 4, 2015, the Company had \$11.2 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 six months ended July 4, 2015, are as follows:

(In millions)		
Balance as of January 3, 2015		\$9.4
Accruals related to product warranties		3.7
Reductions for payments made		(3.8)
Balance as of July 4, 2015		\$9.3

#### 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
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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 six months ended July 4, 2015 and June 28, 2014, are as follows:

	July 4, 2015	June 28, 2014	
Risk-free interest rate	1.59	% 1.68	%
Dividend yield	0.95	% 0.70	%
Volatility factor	0.379	0.387	
Expected term	5.5 years	5.6 years	
Forfeiture rate	3.67	% 3.81	%

There were no stock options granted during the second quarter ended July 4, 2015. There were 22,050