

FRANKLIN ELECTRIC CO INC  
Form 10-Q  
November 06, 2014

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 September 27, 2014

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	October 27, 2014
	47,539,717 shares

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

## ITEM 1. FINANCIAL STATEMENTS

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

(Unaudited)

(In thousands, except per share amounts)	Third Quarter Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	\$278,053	\$249,844	\$793,940	\$735,811
Cost of sales	188,902	162,873	527,284	480,308
Gross profit	89,151	86,971	266,656	255,503
Selling, general, and administrative expenses	55,635	48,415	167,621	151,668
Restructuring expense	1,086	828	1,517	2,235
Operating income	32,430	37,728	97,518	101,600
Interest expense	(2,744)	(2,665)	(8,038)	(7,811)
Other income, net	355	296	1,551	1,107
Foreign exchange income/(expense)	(510)	(466)	(602)	(1,178)
Income before income taxes	29,531	34,893	90,429	93,718
Income taxes	6,726	9,596	22,745	24,367
Net income	\$22,805	\$25,297	\$67,684	\$69,351
Less: Net income attributable to noncontrolling interests	(132)	(236)	(980)	(699)
Net income attributable to Franklin Electric Co., Inc.	\$22,673	\$25,061	\$66,704	\$68,652
Income per share:				
Basic	\$0.46	\$0.52	\$1.37	\$1.43
Diluted	\$0.46	\$0.51	\$1.36	\$1.41
Dividends per common share	\$0.0900	\$0.0775	\$0.2575	\$0.2275

See Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(In thousands)	Third Quarter Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net income	\$22,805	\$25,297	\$67,684	\$69,351
Other comprehensive income/(loss), before tax:				
Foreign currency translation adjustments	(22,791	) 3,484	(18,112	) (12,176
Employee benefit plan activity	740	1,043	2,230	3,126
Other comprehensive income/(loss)	\$(22,051	) \$4,527	\$(15,882	) \$(9,050
Income tax related to items of other comprehensive income	(256	) (380	) (770	) (1,140
Other comprehensive income/(loss), net of tax	\$(22,307	) \$4,147	\$(16,652	) \$(10,190
Comprehensive income	498	29,444	51,032	59,161
Comprehensive loss/(income) attributable to noncontrolling interest	199	660	(647	) 158
Comprehensive income attributable to Franklin Electric Co., Inc.	\$697	\$30,104	\$50,385	\$59,319

See Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(In thousands)

	September 27, 2014	December 28, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$77,420	\$134,553
Receivables, less allowances of \$3,379 and \$3,015, respectively	167,849	115,127
Inventories:		
Raw material	89,455	71,909
Work-in-process	21,105	17,978
Finished goods	132,665	101,674
	243,225	191,561
Deferred income taxes	8,061	10,072
Other current assets	30,155	21,041
Total current assets	526,710	472,354
Property, plant, and equipment, at cost:		
Land and buildings	129,524	121,154
Machinery and equipment	237,965	227,521
Furniture and fixtures	38,179	32,104
Other	17,440	26,844
	423,108	407,623
Less: Allowance for depreciation	(210,977)	(199,027)
	212,131	208,596
Asset held for sale	2,610	1,750
Deferred income tax	4,480	2,969
Intangible assets, net	166,561	148,663
Goodwill	211,228	207,220
Other assets	21,678	10,321
Total assets	\$1,145,398	\$1,051,873

	September 27, 2014	December 28, 2013
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$75,921	\$57,755
Deferred tax liability	1,260	1,227
Accrued expenses and other current liabilities	82,071	62,081
Income taxes	2,496	2,048
Current maturities of long-term debt and short-term borrowings	82,656	15,363
Total current liabilities	244,404	138,474
Long-term debt	144,666	174,166
Deferred income taxes	57,253	54,618
Employee benefit plans	34,164	41,685
Other long-term liabilities	22,795	39,543
Commitments and contingencies (see Note 16)	—	—
Redeemable noncontrolling interest	6,261	5,171
Shareowners' equity:		
Common stock (65,000 shares authorized, \$.10 par value) outstanding (47,562 and 47,715, respectively)	4,756	4,771
Additional capital	204,057	194,810
Retained earnings	496,000	450,855
Accumulated other comprehensive loss	(71,048	) (54,729 )
Total shareowners' equity	633,765	595,707
Noncontrolling interest	2,090	2,509
Total equity	635,855	598,216
Total liabilities and equity	\$1,145,398	\$1,051,873

See Notes to Condensed Consolidated Financial Statements.



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

(In thousands)	Nine Months Ended	
	September 27, 2014	September 28, 2013
Cash flows from operating activities:		
Net income	\$67,684	\$69,351
Adjustments to reconcile net income to net cash flows from operating activities:	.	
Depreciation and amortization	27,791	22,806
Share-based compensation	6,314	4,372
Deferred income taxes	1,165	1,949
(Gain)/loss on disposals of plant and equipment	959	238
Foreign exchange expense	602	1,178
Excess tax from share-based payment arrangements	(1,800)	) (4,466)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(50,070)	) (30,723)
Inventory	(49,888)	) (15,028)
Accounts payable and accrued expenses	12,469	968
Income taxes	2,276	6,557
Employee benefit plans	(4,326)	) (4,608)
Other, net	(9,695)	) 2,417
Net cash flows from operating activities	3,481	55,011
Cash flows from investing activities:		
Additions to property, plant, and equipment	(25,094)	) (50,783)
Proceeds from sale of property, plant, and equipment	1,592	64
Cash paid for acquisitions, net of cash acquired	(35,903)	) (2,236)
Cash paid for minority equity investments	(6,716)	) —
Other, net	(2,244)	) 307
Net cash flows from investing activities	(68,365)	) (52,648)
Cash flows from financing activities:		
Proceeds from issuance of debt	97,047	66,424
Repayment of debt	(64,122)	) (40,413)
Proceeds from issuance of common stock	1,351	12,955
Excess tax from share-based payment arrangements	1,800	4,466
Purchases of common stock	(8,642)	) (12,175)
Dividends paid	(13,119)	) (11,590)
Purchase of redeemable non-controlling shares	(2,875)	) —
Payment of contingent consideration liability	—	(5,555)
Net cash flows from financing activities	11,440	14,112
Effect of exchange rate changes on cash	(3,689)	) (1,748)
Net change in cash and equivalents	(57,133)	) 14,727
Cash and equivalents at beginning of period	134,553	103,338
Cash and equivalents at end of period	\$77,420	\$118,065

	Nine Months Ended	
	September 27, 2014	September 28, 2013
Cash paid for income taxes, net of refunds	\$22,680	\$11,837
Cash paid for interest, net of capitalized interest of \$392 and \$748, respectively	\$8,148	\$7,619
Non-cash items:		
Additions to property, plant, and equipment, not yet paid	\$216	\$728
Payable to seller of Bombas Leao	\$267	\$—

See Notes to Condensed Consolidated Financial Statements.

FRANKLIN ELECTRIC CO., INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated balance sheet as of December 28, 2013, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements as of September 27, 2014, and for the third quarters and nine months ended September 27, 2014 and September 28, 2013, 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 September 27, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 3, 2015. 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/A for the year ended December 28, 2013.

Certain prior year amounts in the investing activities section on the condensed consolidated statement of cash flows were reclassified into the "Other, net" line to conform with the current year presentation. The reclassification within the investing activities section of the condensed consolidated statement of cash flows had no impact on the operating cash flows or any other financial statement.

2. ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-08 Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. ASU 2014-08 is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015, with early adoption permitted. The Company has adopted this standard with no impact on the Company's consolidated financial position, results of operations, or cash flows.

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 is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. 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, and cash flows.

In June 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That the Performance Target Could Be Achieved After the Requisite Service Period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation - Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in the ASU are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning on or after December 15, 2015, with early adoption permitted. The Company has adopted this standard with no impact on the

Company's consolidated financial position, results of operations, or cash flows.

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### 3. ACQUISITIONS

During the third quarter ended September 27, 2014, the Company acquired controlling interests in two entities in India in separate transactions. Neither of the acquisitions was individually material, and the combined purchase price paid was approximately \$6.6 million. The results of the two businesses from their respective dates of acquisition through September 27, 2014 were not material.

In an agreement dated June 6, 2014, between the Company and Bombas Leao S.A. ("Bombas Leao"), the Company acquired rights to 100 percent of the outstanding shares of Bombas Leao for a cash purchase price of approximately BRL 69.0 million, \$30.7 million at the then current exchange rate, subject to certain terms and conditions. The Company also acquired debt and certain liabilities of Bombas Leao. The Company funded the acquisition with cash on hand and short-term borrowings from the Company's Revolver (see Note 11).

Bombas Leao, based in Monte Azul Paulista, State of Sao Paulo, Brazil, designs, manufactures, and distributes submersible groundwater pumping equipment through manufacturing and distribution facilities.

The Bombas Leao intangible assets of \$23.5 million consist primarily of customer relationships, which will be amortized utilizing the straight line method over 20 years, and trade names, which are classified as indefinite lived assets and will not be amortized. Preliminary intangible asset values decreased by \$3.0 million during the third quarter ended September 27, 2014, primarily due to purchase accounting adjustments resulting from additional information provided for the provisional valuation and working capital adjustments.

The preliminary goodwill of \$3.0 million resulting from the Bombas Leao acquisition consists primarily of broadened product offerings and expanded customer base. All of the goodwill was recorded as part of the Water Systems segment and is not expected to be deductible for tax purposes. Preliminary goodwill decreased by \$2.2 million during the third quarter ended September 27, 2014, primarily due to purchase accounting adjustments to property, plant, and equipment and intangible assets resulting from additional information provided for the provisional valuation.

The preliminary purchase price assigned to the major identifiable assets and liabilities for the acquisition is as follows: (In millions)

Assets:		
Cash acquired	\$ 1.1	
Current assets	13.8	
Property, plant, and equipment	6.5	
Intangible assets	23.5	
Goodwill	3.0	
Other assets	3.1	
Total assets	51.0	
Liabilities	(20.3	)
Total consideration paid	\$ 30.7	

The fair values of the Bombas Leao identifiable intangible assets and property, plant and equipment are provisional amounts as of September 27, 2014, pending final valuations and purchase accounting adjustments. The Company utilized management estimates and consultation with an independent third-party valuation firm to assist in the valuation process.

The results of operations of Bombas Leao were included in the Company's condensed consolidated statement of income from the acquisition date through the third quarter ended September 27, 2014. The difference between actual sales for the Company and proforma sales including Bombas Leao as if it was acquired at the beginning of each period was not material as a component of the Company's consolidated sales for the nine months ended September 27, 2014 and September 28, 2013, respectively. Due to the immaterial nature of the acquisition, the Company has not

included full year proforma statements of income for the acquisition year or previous year.

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 for the nine months ended September 27, 2014 and September 28, 2013 were \$1.1 million and \$0.3 million, respectively.

#### 4. REDEEMABLE NONCONTROLLING INTERESTS

During the third quarter ended September 27, 2014, the Company completed two acquisitions that each contained a noncontrolling interest and a redemption feature. The combination of the noncontrolling interest and the redemption feature resulted in the classification as a redeemable noncontrolling interest. The total redeemable noncontrolling interest recorded for these acquisitions during the third quarter ended September 27, 2014 was \$3.1 million, and represents the fair value estimates of the redeemable noncontrolling interests as of the respective acquisition dates. The noncontrolling interests become redeemable after the passage of time, and therefore the Company records the carrying amount of the noncontrolling interests at the greater of (1) the initial carrying amount, increased or decreased for each noncontrolling interest's share of net income or loss and its share of other comprehensive income or loss and dividends ("carrying amount") or (2) the redemption value which is determined based on the greater of the redemption floor value or the then-current specified earnings multiple. As of September 27, 2014, the redeemable noncontrolling interests related to these acquisitions were recorded at carrying value.

On May 2, 2011, the Company completed the acquisition of 80 percent of Impo. The original 20 percent noncontrolling interest was recorded at fair value as of the acquisition date. The noncontrolling interest holders have the option, which is embedded in the noncontrolling interest, to require the Company to redeem their ownership interests after May 2, 2014, three years after the original agreement was signed. The combination of a noncontrolling interest and a redemption feature resulted in a redeemable noncontrolling interest.

During the second quarter of 2014, the Company redeemed 10 percent of the noncontrolling interest of Impo, increasing the Company's ownership to 90 percent for approximately TRY 6.2 million, \$2.9 million at the then current exchange rate. The 10 percent redemption value was calculated using a specified formula and resulted in a carrying value adjustment of TRY 0.2 million (\$0.1 million). The redemption reduced the "Redeemable noncontrolling interest" line in the Company's condensed consolidated balance sheet. The remaining 10 percent noncontrolling interest will continue to be recorded as a redeemable noncontrolling interest on the balance sheet. Due to the immaterial nature of the redemption, the Company has not included full year proforma statements of income for the acquisition year or previous year.

The remaining redeemable noncontrolling interest in Impo is redeemable at other than fair value as the redemption value is determined based on a specified formula. The noncontrolling interest becomes redeemable after the passage of time, and therefore the Company records the carrying amount of the noncontrolling interest at the greater of (1) the initial carrying amount, increased or decreased for each noncontrolling interest's share of net income or loss and its share of other comprehensive income or loss and dividends or (2) the redemption value which is determined based on the greater of the redemption floor value or the then-current specified earnings multiple. As of September 27, 2014, the Impo redeemable noncontrolling interest was recorded at the redemption value.

According to FASB ASC Topic 810, Consolidation and Emerging Issues Task Force ("EITF") Topic No. D-98, Classification and Measurement of Redeemable Securities, if redeemable noncontrolling interests are issued in the form of common securities, to the extent that the noncontrolling interest holder has a contractual right to receive an amount upon share redemption, then the noncontrolling interest holder has, in substance, received a dividend distribution that is different from other common shareholders. Therefore, adjustments to the noncontrolling interest to reflect the redemption amount should be reflected in the computation of earnings per share using the two-class method. Under the two-class method, the Company has elected to treat as a dividend only the portion of the periodic redemption value adjustment (if any) that reflects a redemption value in excess of carrying value. Adjustments for both the redeemed and redeemable Impo noncontrolling interests were \$0.4 million and \$0.6 million for the third quarter and nine months ended September 27, 2014, respectively. Adjustments of less than \$0.1 million were necessary for the third quarter and nine months ended September 28, 2013.

#### 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 September 27, 2014 and December 28, 2013, the assets and liabilities measured at fair value on a recurring basis were as set forth in the table below.

	September 27, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Recognized Loss
(In millions)					
Cash equivalents	\$5.2	\$5.2	\$—	\$—	\$—
	December 28, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Recognized Loss
Cash equivalents	\$6.6	\$6.6	\$—	\$—	\$—

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

The Company has no assets or liabilities classified as Level 2 or Level 3.

## 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 swap was not designated as a hedge for accounting purposes and is cancellable with 30 days written notice by either party. The swap has a notional value based on 147,750 shares. For the third quarter and nine months ended September 27, 2014, the swap transaction resulted in losses of \$0.8 million and \$1.1 million, respectively, which were 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 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 are 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, was immaterial for the third quarter and nine months ended September 27, 2014.

The Company has a loan agreement with the parent company of a customer. The current maturity is included in "Receivables" and the long-term portion is included in "Other assets, net" on the Company's condensed consolidated balance sheet. The agreement provides for interest on the loan at a variable market interest rate with the debtor to repay the loan plus interest in semi-annual installments. The Company has a long-term relationship with the customer and considers the loan fully collectible. The loan is not considered material to the Company's financial position.



## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(In millions)	September 27, 2014		December 28, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangibles:				
Patents	\$7.7	\$(6.1)	) \$7.8	\$(5.9)
Supply agreements	4.4	(4.4)	) 4.4	(4.4)
Technology	7.5	(4.1)	) 7.5	(3.8)
Customer relationships	142.8	(34.9)	) 125.1	(29.7)
Software	2.7	(0.9)	) 2.1	(0.4)
Other	1.2	(1.2)	) 1.3	(1.2)
Total	\$166.3	\$(51.6)	) \$148.2	\$(45.4)
Unamortized intangibles:				
Trade names	51.9	—	45.9	—
Total intangibles	\$218.2	\$(51.6)	) \$194.1	\$(45.4)

Amortization expense related to intangible assets for the third quarters ended September 27, 2014 and September 28, 2013 was \$2.7 million and \$1.9 million, respectively, and \$6.8 million and \$5.9 million for the nine months ended September 27, 2014 and September 28, 2013, respectively.

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

(In millions)	2014	2015	2016	2017	2018
	\$8.7	\$9.1	\$9.1	\$8.9	\$8.7

The change in the carrying amount of goodwill by reporting segment for the nine months ended September 27, 2014, is as follows:

(In millions)	Water Systems	Fueling Systems	Consolidated
Balance as of December 28, 2013	\$144.1	\$63.1	\$207.2
Acquisitions	6.4	0.7	7.1
Foreign currency translation	(3.0)	) (0.1)	) (3.1)
Balance as of September 27, 2014	\$147.5	\$63.7	\$211.2

## 9. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans - As of September 27, 2014, the Company maintained two domestic pension plans and three German pension plans. The Company used a December 28, 2013 measurement date for these plans.

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 September 27, 2014 and September 28, 2013, respectively:

(In millions)	Pension Benefits		Nine Months Ended	
	Third Quarter Ended September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Service cost	\$0.3	\$0.5	\$1.0	\$1.5
Interest cost	2.1	2.2	6.2	6.0
Expected return on assets	(2.7)	(3.0)	(7.9)	(8.0)
Amortization of prior service cost	—	—	—	—
Amortization of loss	0.7	1.0	1.9	2.7
Net periodic benefit cost	\$0.4	\$0.7	\$1.2	\$2.2
Settlement cost	0.3	—	0.7	—
Total net periodic benefit cost	\$0.7	\$0.7	\$1.9	\$2.2

In the nine months ended September 27, 2014, the Company made contributions of \$5.4 million to the funded plans. The amount of contributions to be made to the plans during the calendar year 2014 was finalized September 15, 2014, based upon the plan's year-end valuation at December 28, 2013, and the funding level required for the plan year ended December 28, 2013.

The following table sets forth the aggregated net periodic benefit cost for the postretirement benefit plan for the third quarters and nine months ended September 27, 2014 and September 28, 2013, respectively:

	Other Benefits		Nine Months Ended	
	Third Quarter Ended September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Service cost	\$—	\$—	\$0.1	\$0.1
Interest cost	0.2	0.2	0.4	0.4
Expected return on assets	—	—	—	—
Amortization of prior service cost	0.1	0.1	0.3	0.3
Amortization of loss	—	0.1	—	0.2
Net periodic benefit cost	\$0.3	\$0.4	\$0.8	\$1.0
Settlement cost	—	—	—	—
Total net periodic benefit cost	\$0.3	\$0.4	\$0.8	\$1.0

## 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 U.S. and foreign tax credits. The Company has the ability to indefinitely reinvest these foreign earnings based on the earnings and cash projections of its operations as well as cash on hand and available credit.

The Company's net unrecognized tax benefits decreased \$2.2 million for federal and state income tax liabilities of prior years based on the expiration of the statute of limitations and foreign currency fluctuations during the third

quarter ended September 27, 2014.

If recognized, the effective tax rate would be affected by the net unrecognized tax benefits of \$6.9 million as of September 27, 2014.

It is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months by an amount up to \$1.7 million due to the expiration of various statutes of limitation.

# 11. DEBT

Debt consisted of the following:

(In millions)	September 27, 2014	December 28, 2013
Prudential Agreement - 5.79 percent	\$150.0	\$150.0
Tax increment financing debt	23.7	24.6
Revolver	45.7	—
Capital leases	0.8	0.8
Foreign subsidiary debt	7.2	14.2
	227.4	189.6
Less current maturities	(82.7)	(15.4)
Long-term debt	\$144.7	\$174.2

Foreign subsidiary debt denoted in the table above is predominately comprised of debt at Impto and Bombas Leao.

During the third quarter ended September 27, 2014, a portion of the Revolver borrowing was used to retire \$16.5 million of third-party bank loans in Turkey and Brazil.

On June 6, 2014, the Company assumed debt relating to the acquisition of Bombas Leao (see Note 3) of BRL 12.6 million, \$5.6 million at the then current exchange rate. The debt instruments bear interest rates ranging from 2.5 percent to 19.4 percent, with due dates ranging from November 2014 to November 2017. There are no financial covenants associated with these debt instruments. The value of the debt assumed in the Bombas Leao acquisition increased by BRL 0.2 million (\$0.1 million) during the third quarter ended September 27, 2014 resulting from additional information provided for the provisional valuation and working capital adjustments.

The total estimated fair value of debt was \$241.4 million and \$203.7 million at September 27, 2014 and December 28, 2013, respectively. The fair value assumed 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 long-term 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 a Level 2 within the valuations hierarchy.

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	\$226.6	\$82.4	\$31.6	\$31.3	\$31.4	\$31.1	\$18.8
Capital leases	0.8	0.3	0.1	0.2	0.1	0.1	—
	\$227.4	\$82.7	\$31.7	\$31.5	\$31.5	\$31.2	\$18.8

# 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 allocated 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)	Third Quarter Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Numerator:				
Net income attributable to Franklin Electric Co., Inc.	\$22.7	\$25.1	\$66.7	\$68.7
Less: Undistributed earnings allocated to participating securities	0.2	0.3	0.7	0.9
Less: Undistributed earnings allocated to redeemable noncontrolling interest	0.4	—	0.6	—
	\$22.1	\$24.8	\$65.4	\$67.8
Denominator:				
Basic				
Weighted average common shares	47.6	47.6	47.7	47.4
Diluted				
Effect of dilutive securities:				
Non-participating employee and director incentive stock options and performance awards	0.5	0.6	0.5	0.7
Adjusted weighted average common shares	48.1	48.2	48.2	48.1
Basic earnings per share	\$0.46	\$0.52	\$1.37	\$1.43
Diluted earnings per share	\$0.46	\$0.51	\$1.36	\$1.41
Anti-dilutive stock options	0.1	0.1	0.1	0.1



## 13. EQUITY ROLL FORWARD

The schedule below sets forth equity changes in the nine months ended September 27, 2014:

(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 December 28, 2013	\$4,771	\$194,810	\$450,855	\$(38,707 )	\$(16,022 )	\$2,509	\$598,216	\$5,171
Net income			66,704			525	67,229	455
Adjustment to Impo redemption value			(621 )				(621 )	621
Dividends on common stock			(12,319 )				(12,319 )	
Common stock issued	8	1,343					1,351	
Common stock repurchased or received for stock options exercised	(23 )		(8,619 )				(8,642 )	
Share-based compensation	—	6,314					6,314	
Tax benefit of stock options exercised		1,590					1,590	
Noncontrolling dividend						(800 )	(800 )	
Acquisitions								3,078
Purchase of redeemable non-controlling shares								(2,875 )
Currency translation adjustment					(17,779 )	(144 )	(17,923 )	(189 )
Pension liability, net of tax				1,460			1,460	
Balance as of September 27, 2014	\$4,756	\$204,057	\$496,000	\$(37,247 )	\$(33,801 )	\$2,090	\$635,855	\$6,261

## 14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) by component for the nine months ended September 27, 2014 and September 28, 2013, are summarized below:

(In millions)

For the nine months ended September 27, 2014:	Foreign Currency Translation Adjustments	Pension and Post-Retirement Plan Benefit Adjustments	Total
Balance as of December 28, 2013	\$ (16.0	) \$ (38.7	) \$ (54.7
Other comprehensive income/(loss) before reclassifications:			
Pre-tax income/(loss)	(18.2	) —	(18.2
Income tax expense	—	—	—
Other comprehensive income/(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/(loss), 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 (income)/loss attributable to noncontrolling interest	0.4	—	0.4
Balance as of September 27, 2014	\$ (33.8	) \$ (37.2	) \$ (71.0
For the nine months ended September 28, 2013:			
Balance as of December 29, 2012	\$ (0.3	) \$ (56.8	) \$ (57.1
Other comprehensive income/(loss) before reclassifications:			
Pre-tax income/(loss)	(12.2	) —	(12.2
Income tax expense	—	—	—
Other comprehensive income/(loss) before reclassifications, net of income taxes	(12.2	) —	(12.2
Amounts reclassified from accumulated other comprehensive income/(loss):			
Pre-tax income	—	3.1	(1) 3.1
Income tax expense	—	(1.1	) (1.1
Amounts reclassified from accumulated other comprehensive income/(loss), net of income taxes	—	2.0	2.0
Net current period other comprehensive income/(loss), net of income taxes	(12.2	) 2.0	(10.2
Other comprehensive (income)/loss attributable to noncontrolling interest	0.1	—	0.1
Balance as of September 28, 2013	\$ (12.4	) \$ (54.8	) \$ (67.2

(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 condensed consolidated statements of income.



## 15. SEGMENT INFORMATION

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

(In millions)	Third Quarter Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales to external customers				
Water Systems	\$216.6	\$197.9	\$627.8	\$588.1
Fueling Systems	61.5	51.9	166.1	147.7
Other	—	—	—	—
Consolidated	\$278.1	\$249.8	\$793.9	\$735.8
	Third Quarter Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Operating income (loss)				
Water Systems	\$28.3	\$36.0	\$99.3	\$107.3
Fueling Systems	15.4	14.0	37.9	31.1
Other	(11.3)	(12.3)	(39.7)	(36.8)
Consolidated	\$32.4	\$37.7	\$97.5	\$101.6
	September 27, 2014	December 28, 2013		
	Total assets			
Water Systems	\$811.9	\$714.7		
Fueling Systems	259.5	247.9		
Other	74.0	89.3		
Consolidated	\$1,145.4	\$1,051.9		

Property, plant, and equipment is the major asset group in "Other" of total assets at September 27, 2014. Cash is the major asset group in "Other" of total assets at December 28, 2013.

## 16. CONTINGENCIES AND COMMITMENTS

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 has until December 12, 2014 to file its response brief. If a hearing is held on the appeal it will likely occur sometime late in the second quarter of 2015.

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 September 27, 2014, the Company had \$8.7 million of commitments primarily for the 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 September 27, 2014, are as follows:

(In millions)

Balance as of December 28, 2013	\$9.5	
Accruals related to product warranties	6.3	
Reductions for payments made	(6.9	)
Balance as of September 27, 2014	\$8.9	

#### 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. Shares and per share data below have been adjusted for all periods presented to reflect the two-for-one stock split effective March 18, 2013.

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 September 27, 2014 and September 28, 2013, are as follows:

	September 27, 2014	September 28, 2013
Risk-free interest rate	1.68	% 1.03