

**FRANKLIN FUELING SYSTEMS LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

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## **FRANKLIN FUELING SYSTEMS LIMITED**

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### **COMPANY INFORMATION**

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**DIRECTORS**

Mr J Haines  
Mr D Kenney  
Mr A Golding  
Mr A Ticci  
Mr G Sengstack  
Miss A Hughes

**REGISTERED NUMBER**

02631843

**REGISTERED OFFICE**

Olympus Close  
Ipswich  
Suffolk  
IP1 5LN

**TRADING ADDRESS**

Olympus Close  
Ipswich  
Suffolk  
IP1 5LN

**INDEPENDENT AUDITORS**

Larking Gowen  
Chartered Accountants & Statutory Auditors  
1 Claydon Business Park  
Great Blakenham  
Ipswich  
Suffolk  
IP6 0NL

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## FRANKLIN FUELING SYSTEMS LIMITED

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## FRANKLIN FUELING SYSTEMS LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

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#### PRINCIPAL ACTIVITIES

The principal activities of the company comprise support in sale of UPP polyethylene pipework and associated fittings and equipment for use in petrol filling stations and other fuel distribution centres together with the manufacture and sale of underground storage tanks and other vessels for use in the oil, chemical and process plant industries

#### BUSINESS REVIEW

During the trading period like for like sales were 30.9% less than the previous year, primarily as a result of a reduction in the recovery of intercompany recharges. This reduction was partly due to reduced operating costs and partly an adjustment to recharges in respect of the previous period. Overheads were £340,856 less than the previous period due to reduced sales and marketing activities, reduced certification costs and lower depreciation.

The company also made a provision against its investment in Petrotechnik Brazil Ltda following a reorganization of and business asset transfer to another group company. The decision was taken to eradicate duplicated costs within Brazil and to provide the business with a solid foundation on which to build growth.

The company remains cash positive for the year and without gearing, in line with 2014, despite the small operating loss and investment write off.

The company enters the new year focused on the continued development of new technologies and products to meet customer needs whilst still providing the underlying administration and sales support required by group.

#### PRINCIPAL RISKS AND UNCERTAINTIES

Franklin Fueling carries out financial transactions in three major currencies, US dollars, Euros and Sterling. To the extent that a surplus or deficit in any particular currency arises, a combination of forward and spot transactions will be used to manage the exposure.

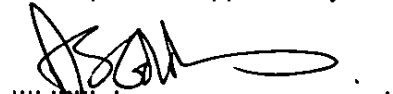
#### FINANCIAL KEY PERFORMANCE INDICATORS

The directors consider that the key financial indicators are those that communicate the financial position and strength of the company as a whole, these being gross profit and profit before tax, as shown in the Statement of Income and Retained Earnings.

#### OTHER KEY PERFORMANCE INDICATORS

Given the non-complex nature of the business the directors do not consider the analysis of any other key performance indicators necessary.

This report was approved by the board and signed on its behalf



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**Mr A Golding**  
Director

Date 17/5/2016

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## FRANKLIN FUELING SYSTEMS LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

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The directors present their report and the financial statements for the year ended 31 December 2015

#### DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £369,571 (2014 - profit £381,426)

Dividends totalling £Nil were paid during the year 2015 (2014 - £718,235)

Dividends totalling £700,000 were received during the year 2015 (2014 - £Nil)

#### DIRECTORS

The directors who served during the year were

Mr J Haines  
Mr D Kenney  
Mr A Golding  
Mr A Ticci  
Mr G Sengstack  
Miss A Hughes

#### FINANCIAL INSTRUMENTS

The company's use of financial instruments and credit risk are disclosed in note 21 to the financial statements

#### FUTURE DEVELOPMENTS

The directors do not anticipate any significant changes to the business in the coming year

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**FRANKLIN FUELING SYSTEMS LIMITED**

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**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information

**POST BALANCE SHEET EVENTS**

There have been no significant events affecting the company since the year end

**AUDITORS**

The auditors, Larking Gowen, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006

This report was approved by the board and signed on its behalf



**Mr A Golding**  
Director

Date 17/5/2016

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## **FRANKLIN FUELING SYSTEMS LIMITED**

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### **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FRANKLIN FUELING SYSTEMS LIMITED**

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We have audited the financial statements of Franklin Fueling Systems Limited for the year ended 31 December 2015, which comprise the Statement of income and retained earnings, the Statement of financial position, the Cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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**FRANKLIN FUELING SYSTEMS LIMITED**

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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FRANKLIN FUELING SYSTEMS LIMITED**

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**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Brian Pring FCA (Senior statutory auditor)

for and on behalf of

**Larking Gowen**

Chartered Accountants  
Statutory Auditors

Ipswich

25 May 2016



**FRANKLIN FUELING SYSTEMS LIMITED**

**STATEMENT OF INCOME AND RETAINED EARNINGS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 £	2014 £
Turnover		1,787,567	2,586,657
Cost of sales		(19,943)	(25,821)
<b>Gross profit</b>		<b>1,767,624</b>	<b>2,560,836</b>
Distribution costs		(975,683)	(1,202,081)
Administrative expenses		(843,420)	(957,878)
<b>Operating (loss)/profit</b>		<b>(51,479)</b>	<b>400,877</b>
Income from fixed assets investments		700,000	-
Amounts written off investments		(1,020,211)	-
Interest receivable and similar income		25,663	23,033
Interest payable and similar charges	8	(25)	(25,299)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(346,052)</b>	<b>398,611</b>
Taxation on profit/(loss) on ordinary activities	9	(23,519)	(17,185)
<b>(Loss)/profit on ordinary activities after taxation</b>		<b>(369,571)</b>	<b>381,426</b>
Retained earnings at the beginning of the year		3,652,599	3,989,408
		3,652,599	3,989,408
(Loss)/profit for the year		(369,571)	381,426
Dividends declared and paid		-	(718,235)
<b>Retained earnings at the end of the year</b>		<b>3,283,028</b>	<b>3,652,599</b>

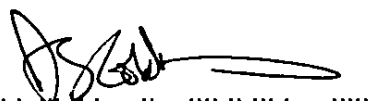
The notes on pages 9 to 23 form part of these financial statements

**FRANKLIN FUELING SYSTEMS LIMITED**  
**REGISTERED NUMBER 02631843**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**

	Note	2015 £	2014 £
<b>Fixed assets</b>			
Tangible assets	11	1,535,302	1,746,468
Investments	12	194,350	406,856
		<u>1,729,652</u>	<u>2,153,324</u>
<b>Current assets</b>			
Debtors Amounts falling due within one year	13	1,393,356	1,302,522
Cash at bank and in hand		464,493	746,934
		<u>1,857,849</u>	<u>2,049,456</u>
Creditors Amounts falling due within one year	14	(214,471)	(460,179)
<b>Net current assets</b>		<u>1,643,378</u>	<u>1,589,277</u>
<b>Net assets</b>		<u><u>3,373,030</u></u>	<u><u>3,742,601</u></u>
<b>Capital and reserves</b>			
Called up share capital	18	19,608	19,608
Share premium account		9,994	9,994
Capital redemption reserve		60,400	60,400
Profit and loss account		3,283,028	3,652,599
		<u><u>3,373,030</u></u>	<u><u>3,742,601</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by



**Mr A Golding**  
Director

Date 17/5/2016

The notes on pages 9 to 23 form part of these financial statements

**FRANKLIN FUELING SYSTEMS LIMITED**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	2015 £	2014 £
<b>Cash flows from operating activities</b>		
Profit for the financial year	(369,571)	381,426
<b>Adjustments for:</b>		
Depreciation of tangible assets	262,158	326,722
Impairments of fixed assets	1,020,211	-
Loss on disposal of tangible assets	-	(8,649)
Interest paid	25	25,299
Interest received	(725,663)	(23,033)
Taxation	23,519	17,185
Increase in debtors	8,540	34,125
Decrease in amounts owed by groups	(144,886)	(147,593)
Increase in creditors	(114,431)	(370,287)
Increase in amounts owed to groups	(23,421)	-
Corporation tax	(85,863)	-
<b>Net cash generated from operating activities</b>	<u>(149,382)</u>	<u>235,195</u>
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets	(50,992)	(224,474)
Sale of tangible fixed assets	-	8,649
Sale of unlisted and other investments	3,730	-
Purchase of fixed asset investments	(873,854)	-
Sale of fixed asset investments	62,419	-
Interest received	25,663	23,033
Dividends received	700,000	-
<b>Net cash from investing activities</b>	<u>(133,034)</u>	<u>(192,792)</u>
<b>Cash flows from financing activities</b>		
Dividends paid	-	(718,235)
Interest paid	(25)	(25,299)
<b>Net cash used in financing activities</b>	<u>(25)</u>	<u>(743,534)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<u>(282,441)</u>	<u>(701,131)</u>
Cash and cash equivalents at beginning of year	746,934	1,448,065
<b>Cash and cash equivalents at the end of year</b>	<u><u>464,493</u></u>	<u><u>746,934</u></u>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	<u><u>464,493</u></u>	<u><u>746,934</u></u>

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## **FRANKLIN FUELING SYSTEMS LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

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#### **1. COMPANY INFORMATION**

Franklin Fueling Systems Ltd is a company incorporated in England and Wales, registration number 02631843. The registered office is Olympus Close, Ipswich, Suffolk, IP1 5LN.

#### **2. ACCOUNTING POLICIES**

##### **2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared under the historical costs convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

This is the first year in which the financial statements have been prepared under FRS 102. Information on the impact first-time adoption of FRS 102 is given in note 24.

The financial statements are presented in Sterling (£).

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

Group financial statements have not been prepared as the company is exempt from the requirement to do so by section 401 of the Companies Act 2006 as it is a subsidiary undertaking of Franklin Electric Co. Inc, a company incorporated in the US, and is included in the consolidated financial statements of that company.

The following principal accounting policies have been applied consistently throughout the year.

##### **2.2 GOING CONCERN**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report.

The company has an agreement with another group company to recharge its cost base at a mark up. The company is therefore cash generative as a result of this agreement. Accordingly the directors do not foresee that additional group borrowing will be necessary for the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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## FRANKLIN FUELING SYSTEMS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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## 2. ACCOUNTING POLICIES (continued)

### 2.3 REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

#### **Sale of goods**

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer,
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- the amount of revenue can be measured reliably,
- it is probable that the company will receive the consideration due under the transaction,
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 2.4 TANGIBLE FIXED ASSETS

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

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## FRANKLIN FUELING SYSTEMS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 2. ACCOUNTING POLICIES (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives

The estimated useful lives range as follows

Freehold property	-	2%
Equipment	-	5% to 33%
Motor vehicles	-	20%
Fixtures & fittings	-	7% to 33%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'administrative expenses' in the income statement

#### 2.5 OPERATING LEASES

Rentals paid under operating leases are charged to the income statement on a straight line basis over the period of the lease

#### 2.6 VALUATION OF INVESTMENTS

Investments in subsidiaries are measured at cost less impairment

#### 2.7 DEBTORS

Short term debtors are measured at transaction price, less any impairment

#### 2.8 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value

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## FRANKLIN FUELING SYSTEMS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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## 2. ACCOUNTING POLICIES (continued)

### 2.9 FINANCIAL INSTRUMENTS

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties and loans to related parties

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other debtors and creditors, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors or creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Income statement.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 2.10 CREDITORS

Short term creditors are measured at the transaction price.

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## FRANKLIN FUELING SYSTEMS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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## 2 ACCOUNTING POLICIES (continued)

### 2.11 FOREIGN CURRENCY TRANSLATION

#### Functional currency and presentation currency

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position are presented in Sterling (£).

#### Transactions and balances

Transactions in currencies other than the functional currency are recognised at the spot rate on the dates of the transactions, or at an average rate where this rate approximates the actual rate at the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.

Exchange differences are recognised in the income statement in the period in which they arise.

### 2.12 DIVIDENDS

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting or when paid.

### 2.13 PENSIONS

#### Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payments obligations.

The contributions are recognised as an expense in the Income statement when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the company in independently administered funds.



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## **FRANKLIN FUELING SYSTEMS LIMITED**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

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#### **2. ACCOUNTING POLICIES (continued)**

##### **2.14 CURRENT AND DEFERRED TAXATION**

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Income statement, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits, and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

##### **2.15 RESEARCH AND DEVELOPMENT**

Development costs are not capitalised.

#### **3. JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgments and estimates have been made include

The Company has considered and reserved amounts for impairment of debtors in its financial statements which require management to make judgements.

#### **4. ANALYSIS OF TURNOVER**

The whole of the turnover is attributable to the principal activity of the company.

The directors consider that disclosure of the amount of turnover attributable to each of the company's geographical markets would be seriously prejudicial to the interests of the company and so this information is not included.

**FRANKLIN FUELING SYSTEMS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**5. OPERATING (LOSS)/PROFIT**

The operating (loss)/profit is stated after charging/(crediting)

	2015 £	2014 £
Operating lease rentals - other operating leases	51,000	51,000
Auditors' remuneration	4,000	4,000
Depreciation of tangible fixed assets	262,158	326,722
Exchange differences	(1,286)	41,520
Profit on disposal of fixed assets	-	(8,649)
Defined contribution pension cost	99,517	65,252
	<u>99,517</u>	<u>65,252</u>

**6. EMPLOYEES**

Staff costs, including directors' remuneration, were as follows

	2015 £	2014 £
Wages and salaries	932,098	993,480
Social security costs	140,517	136,797
Cost of defined contribution scheme	99,517	65,252
	<u>1,172,132</u>	<u>1,195,529</u>

The average monthly number of employees, including the directors, during the year was as follows

	2015 No.	2014 No.
Sales and administration	12	13
Development	4	4
	<u>16</u>	<u>17</u>

**FRANKLIN FUELING SYSTEMS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**7. DIRECTORS' REMUNERATION**

	2015 £	2014 £
Directors' emoluments	<b>282,440</b>	296,005
	<b>282,440</b>	296,005

The highest paid director received remuneration of £148,451 (2014 - £170,343)

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £23,508 (2014 - £9,182)

**8. INTEREST PAYABLE AND SIMILAR CHARGES**

	2015 £	2014 £
Bank interest payable	<b>25</b>	25,299
	<b>25</b>	25,299

**9. TAXATION**

	2015 £	2014 £
<b>Corporation tax</b>		
Current tax on profits for the year	<b>1,483</b>	109,339
Adjustments in respect of previous periods	<b>34,736</b>	(50,969)
<b>Total current tax</b>	<b>36,219</b>	58,370
<b>Deferred tax</b>		
Origination and reversal of timing differences	<b>(12,700)</b>	(41,185)
<b>Total deferred tax</b>	<b>(12,700)</b>	(41,185)
<b>Taxation on profit on ordinary activities</b>	<b>23,519</b>	17,185

**FRANKLIN FUELING SYSTEMS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**9. TAXATION (continued)**

**FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

The tax assessed for the year is higher than (2014 - *higher than*) the standard rate of corporation tax in the UK of 20% (2014 - 21%) The differences are explained below

	2015 £	2014 £
(Loss)/profit on ordinary activities before tax	<b>(346,052)</b>	398,611
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2014 - 21%)	<b>(69,210)</b>	83,708
<b>Effects of.</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	<b>205,537</b>	1,708
Adjustments to tax charge in respect of prior periods	<b>34,736</b>	(50,969)
Non-taxable income less expenses not deductible for tax purposes, other than goodwill and impairment	<b>(140,000)</b>	-
Adjustment in research and development tax credit leading to an increase (decrease) in the tax charge	<b>(10,833)</b>	(11,143)
Reduction in tax rate from 21% to 20%	<b>18</b>	2,875
Deferred tax not recognised	<b>3,271</b>	(8,994)
<b>Total tax charge for the year</b>	<b>23,519</b>	17,185

**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

There were no factors that may affect future tax charges

**10 DIVIDENDS**

	2015 £	2014 £
Dividends paid on equity capital	-	718,235
	-	718,235

**FRANKLIN FUELING SYSTEMS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**11 TANGIBLE FIXED ASSETS**

	Freehold property £	Plant & machinery £	Total £
<b>Cost or valuation</b>			
At 1 January 2015	1,250,000	2,480,705	3,730,705
Additions	-	50,992	50,992
Disposals	-	(162,487)	(162,487)
<b>At 31 December 2015</b>	<b>1,250,000</b>	<b>2,369,210</b>	<b>3,619,210</b>
<b>Depreciation</b>			
At 1 January 2015	82,304	1,901,933	1,984,237
Charge owned for the period	7,716	254,442	262,158
Disposals	-	(162,487)	(162,487)
<b>At 31 December 2015</b>	<b>90,020</b>	<b>1,993,888</b>	<b>2,083,908</b>
<b>Net book value</b>			
<b>At 31 December 2015</b>	<b>1,159,980</b>	<b>375,322</b>	<b>1,535,302</b>
<i>At 31 December 2014</i>	<i>1,167,696</i>	<i>578,772</i>	<i>1,746,468</i>

Included in land and buildings is freehold land of £772,469 (2014 - £772,469) which is not depreciated

**12 FIXED ASSET INVESTMENTS**

	Investments in subsidiary companies £
<b>Cost or valuation</b>	
At 1 January 2015	406,856
Additions	873,854
Disposals	(62,419)
Amounts written off	(1,023,941)
<b>At 31 December 2015</b>	<b>194,350</b>
<b>Net book value</b>	
<b>At 31 December 2015</b>	<b>194,350</b>
<i>At 31 December 2014</i>	<i>406,856</i>

# FRANKLIN FUELING SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 12 FIXED ASSET INVESTMENTS (continued)

#### SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the company

Name	Country of incorporation	Class of shares	Hold-ing	Principal activity
Franklin Fueling Systems France S A R L	France	Ordinary	100 %	Agency company for UPP pipe and fittings
Cookson and Zinn (PTL) Limited	England	Ordinary	100 %	Manufacture of steel tanks in the UK
Franklin Fueling Sistemas de Combustiveis Ltda	Brazil	Ordinary	100 %	Agency company for UPP pipe and fittings
Franklin Fueling Systems Australia PTY Limited	Australia	Ordinary	100 %	Agency company for UPP pipe and fittings
Fueling Rus Limited Liability Company	Russia	Ordinary	99 %	Agency company for UPP pipe and fittings

The aggregate of the share capital and reserves as at 31 December 2015 and of the profit or loss for the year ended on that date for the subsidiary undertakings were as follows

	Aggregate of share capital and reserves £	Profit/(loss) £
Franklin Fueling Systems France S A R L	173,607	134,530
Cookson and Zinn (PTL) Limited	1,261,476	339,953
Franklin Fueling Sistemas de Combustiveis Ltda	(136,880)	(460,745)
Franklin Fueling Systems Australia PTY Limited	826,570	1,282,949
Fueling Rus Limited Liability Company	49,151	7,123
<b>Total</b>	<b>2,173,924</b>	<b>1,303,810</b>

**FRANKLIN FUELING SYSTEMS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**13 DEBTORS**

	2015 £	2014 £
<b>Due within one year</b>		
Trade debtors	12,923	6,622
Amounts owed by group undertakings	1,302,904	1,158,018
Other debtors	1,306	2,330
Prepayments and accrued income	22,338	36,155
Tax recoverable	-	58,212
Deferred taxation	53,885	41,185
	<u>1,393,356</u>	<u>1,302,522</u>

**14. CREDITORS: Amounts falling due within one year**

	2015 £	2014 £
Trade creditors	41,176	81,698
Amounts owed to group undertakings	36,274	58,212
Corporation tax	-	109,339
Taxation and social security	19,794	79,225
Other creditors	14,708	951
Accruals and deferred income	102,519	130,754
	<u>214,471</u>	<u>460,179</u>

**15. FINANCIAL INSTRUMENTS**

	2015 £	2014 £
Financial assets at amortised cost	1,857,849	2,049,456
Financial liabilities at amortised cost	(214,471)	(460,179)
	<u>1,643,378</u>	<u>1,589,277</u>

Financial assets measured at amortised cost comprise cash at bank and debtors due within one year  
Financial Liabilities measured at amortised cost comprise creditors due within one year and after one year

# FRANKLIN FUELING SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 16. DEFERRED TAXATION

	Deferred tax £
At 1 January 2015	41,185
Released during year (P&L)	12,700
<b>At 31 December 2015</b>	<b>53,885</b>

The deferred tax asset is made up as follows

	2015 £	2014 £
Accelerated capital allowances	50,855	41,185
Short term timing difference	3,030	-
	<b>53,885</b>	<b>41,185</b>

The amount of the net reversal of deferred tax expected to occur next year is (£25,400) (2014 - (£12,700)), relating to the reversal of existing timing differences on tangible fixed assets

### 17. RESERVES

#### Share premium

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

#### Capital redemption reserve

This reserve records the nominal value of shares repurchased by the company.

#### Profit & loss account

The profit and loss account includes all current and prior period retained profits and losses.

### 18. SHARE CAPITAL

	2015 £	2014 £
<b>Allotted, called up and fully paid</b>		
14,706 Ordinary shares of £1 each	14,706	14,706
4,902 'A' Ordinary shares of £1 each	4,902	4,902
	<b>19,608</b>	<b>19,608</b>



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## FRANKLIN FUELING SYSTEMS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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#### 19. PENSION COMMITMENTS

The company operates a defined contribution scheme. Contributions are charged to the profit and loss account as incurred and the charge for the year was £99,517 (2014 - £65,252). The outstanding contributions included within accruals at the balance sheet date were £Nil (2014 - £Nil).

#### 20. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2015 the company had total commitments under non-cancellable operating leases as follows:

	2015 £	2014 £
Later than 1 year and not later than 5 years	204,000	255,000
<b>Total</b>	<b>204,000</b>	<b>255,000</b>

#### 21. OTHER FINANCIAL COMMITMENTS

The company's principal financial assets are bank balances and trade debtors. The company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. The company has no significant concentration of credit risk, with exposure spread over a large number of customers.

#### 22. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption available under FRS102 not to disclose the transactions between wholly owned members of a group.

#### 23. ULTIMATE PARENT COMPANY

The immediate parent company is Franklin Electric B V.

Franklin Electric Co Inc is the smallest and largest group for which group financial statements are available and which include the company. The ultimate parent company and controlling party is Franklin Electric Co Inc. Group financial statements for this company are available on request from Franklin Electric Co Inc, 9255 Coverdale Road, Fort Wayne Indiana, 46809 USA. Franklin Electric Co Inc is incorporated in the USA.

Immediate parent company and ultimate parent company both are incorporated outside the UK.

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**FRANKLIN FUELING SYSTEMS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

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**24. FIRST TIME ADOPTION OF FRS 102**

The policies applied under the entity's previous accounting framework are not materially different to FRS 102 and have not impacted on equity or profit or loss

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

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 2, 2016

OR

☐ 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)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.10 par value  
(Title of each class)

NASDAQ Global Select Market  
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of each class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

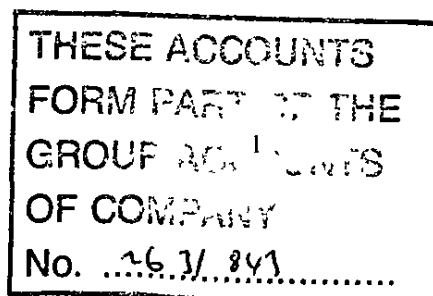
YES ☐

NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act

YES ☐

NO ☒



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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐

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 ☐

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

YES ☐

NO ☒

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant at July 2, 2015 (the last business day of the registrant's most recently completed second quarter) was \$1,514,812,143. The stock price used in this computation was the last sales price on that date, as reported by NASDAQ Global Select Market. For purposes of this calculation, the registrant has excluded shares held by executive officers and directors of the registrant, including restricted shares and except for shares owned by the executive officers through the registrant's 401(k) Plan. Determination of stock ownership by non-affiliates was made solely for the purpose of responding to this requirement and the registrant is not bound by this determination for any other purpose.

Number of shares of common stock outstanding at February 17, 2016

46,112,066 shares

#### DOCUMENTS INCORPORATED BY REFERENCE

A portion of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2016 (Part III)

**FRANKLIN ELECTRIC CO., INC.**  
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## **PART I**

### **ITEM 1. BUSINESS**

#### ***General***

Franklin Electric Co., Inc. is an Indiana corporation founded in 1944 and incorporated in 1946. Except where the context otherwise requires, "Franklin Electric" or the "Company," shall refer to Franklin Electric Co., Inc. and its consolidated subsidiaries.

The Company designs, manufactures and distributes water and fuel pumping systems, composed primarily of submersible motors, pumps, electronic controls and related parts and equipment. The Company's water pumping systems move fresh and waste water for the housing, agriculture, and other industrial end markets. Historically, water-pumping systems contributed about 80 percent of revenues. The Company is also a top supplier of submersible fueling systems at gas stations, making pumps, pipes, electronic controls, and monitoring devices. Fuel pumping systems account for the balance of the Company's revenues. The Company's business consists of two reporting segments based on the principal end market served: the Water Systems segment and the Fueling Systems segment. The Company includes unallocated corporate expenses in an "Other" segment that, together with the Water Systems and Fueling Systems segments, represent the Company.

The Company's products are sold worldwide by its employee sales force and independent manufacturing representatives. The Company offers normal and customary trade terms to its customers, no significant part of which is of an extended nature. Special inventory requirements are not necessary, and customer merchandise return rights do not extend beyond normal warranty provisions.

The market for the Company's products is highly competitive and includes diversified accounts by size and type. The Company's Water Systems and Fueling Systems products and related equipment are sold to specialty distributors and some original equipment manufacturers ("OEMs"), as well as industrial and petroleum equipment distributors and major oil and utility companies.

#### ***Business Segments and Products***

Segment and geographic information appears in Note 16, "Segment and Geographic Information" to the consolidated financial statements.

#### ***Water Systems Segment***

Water Systems is a global leader in the production and marketing of water pumping systems and is a technical leader in submersible motors, pumps, drives, electronic controls, and monitoring devices. The Water Systems segment designs, manufactures and sells motors, pumps, electronic controls and related parts and equipment primarily for use in groundwater, wastewater, and fuel transfer applications.

Water Systems motors and pumps are used principally for pumping clean water and wastewater in a variety of residential, agricultural, and industrial applications. Water Systems also manufactures electronic drives and controls for the motors which control functionality and provide protection from various hazards, such as electric surges, over-heating, or dry wells or tanks.

The Water Systems business has grown from a domestic submersible motor manufacturer to a global manufacturer of systems and components for the movement of water and automotive fuels. Founded in the 1940s, the Company made submersible motors for pumps for much of its history. About 10 years ago, it entered the pump business, and has since grown through acquisitions. Highlights of the Water Systems business transformation, from its origins to the present, are as follows:

- 1950s - Domestic submersible motor manufacturer
- 1990s - Global manufacturer of submersible motors, electronic drives and controls selling to pump OEMs
- 2004 - Began to change the business model to include pumps and sell directly to wholesale distributors
- 2006 - Added adjacent pumping systems, acquired Little Giant Pump Company, United States
- 2007 - Expanded globally, acquired Pump Brands (Pty) Limited, South Africa
- 2008 - Continued global expansion, acquired Industrias Schneider SA, Brazil
- 2009 - International acquisition, Vertical, S.p.A., Italy
- 2011 - International acquisition, Impo Motor Pompa Sanayi ve Ticaret A.Ş., Turkey
- 2012 - Acquired majority interest, 70.5%, in mobile pumping systems company, Pioneer Pump Holdings, Inc. ("PPH"), a United States company with subsidiaries in the United Kingdom and South Africa
- 2014 - International acquisitions, Bombas Leao S.A., Brazil and majority interest, 70%, of Plugra Pumps and Motors Private Limited, India

- 2015 - Acquired remaining 29.5% noncontrolling interest of PPH

Water Systems products are sold in highly competitive markets. Water-pumping systems contribute about 80 percent of revenue. Significant portions of segment revenue come from selling groundwater and surface pumps to residential and commercial buildings, a relatively stable business, as well as agricultural sales which are more seasonal and subject to commodity price changes. The Water segment generates 40 percent of its revenue in developing markets, which often lack municipal water systems. As those countries bring systems up to date, the Company views those markets as an opportunity. The Company has had 15 to 20 percent compounded annual sales growth in those regions in recent years. Water Systems competes in each of its targeted markets based on product design, quality of products and services, performance, availability, and price. The Company's principal competitors in the specialty water products industry are Grundfos Management A/S, Pentair, Inc., and Xylem, Inc.

2015 Water Systems research and development expenditures were primarily related to the following activities:

- Electronic drives and controls for submersible pumping and HVAC applications
- Submersible pumping technology, including the new Photon™ Solar Drive system
- Submersible and surface pumps for agricultural and municipal applications
- Gray water pumping equipment, including the Pit+Plus® Basin System, IGPH series high head grinder pumps, and Battery Backup Sump Pump Kits
- Submersible motor technology and motor protection
- Artificial Lift systems for gas well dewatering and oil pumping, including a new drive system and deeper set pumps

### ***Fueling Systems Segment***

Fueling Systems is a global leader in the production and marketing of fuel pumping systems, fuel containment systems, and monitoring and control systems. The Fueling Systems segment designs, manufactures and sells pumps, pipe, sumps, fittings, vapor recovery components, electronic controls, monitoring devices and related parts and equipment primarily for use in submersible fueling system applications.

Fueling Systems has expanded its product offerings through internal development and acquisitions. Highlights of the Fueling Systems history are as follows:

- 1990s - Domestic manufacturer of submersible turbine pumping systems
- 2000 - Acquired Advanced Polymer Technology, Inc., a manufacturer of underground pipe for fueling applications, and EBW, Inc., a manufacturer and distributor of fueling hardware components
- 2006 - Acquired Healy Systems, Inc., a manufacturer of fueling nozzles and vapor recovery systems
- 2010 - Acquired PetroTechnik Limited, a United Kingdom distributor that designs and sources flexible and lightweight underground pipe
- 2012 - Acquired Flexing, Inc., a manufacturer of fueling equipment including stainless steel flexible hose connectors
- 2014 - Acquired majority interest, 65%, in Wadcorpp India Private Limited, India, a distributor of fueling equipment

Fueling Systems products are sold in highly competitive markets. In Fueling Systems, rising car use is leading to more investment in gas stations which, in turn, leads to increased demand for the Company's Fueling Systems products. The Company believes there is growth opportunity in developing markets and, accordingly, acquired an investment in India in 2014. Fueling Systems competes in each of its targeted markets based on product design, quality of products and services, performance, availability, and price. The Company's principal competitors in the petroleum equipment industry are Danaher Corporation and Dover Corporation.

2015 Fueling Systems research and development expenditures were primarily related to the following activities:

- Development of alternative fuel pumping systems
- Development of a system for monitoring substation circuit breakers
- Development of a system for routing electrical wiring to watertight fuel containment sumps
- Software enhancements to automatic tank gauges

### **Research and Development**

The Company incurred research and development expense as follows

(In millions)	2015	2014	2013
Research and development expense	\$ 18.4	\$ 19.3	\$ 16.8

Expenses incurred were for activities related to the development of new products, improvement of existing products and manufacturing methods, and other applied research and development

The Company owns a number of patents, trademarks, and licenses. In the aggregate, these patents are of material importance to the operation of the business, however, the Company believes that its operations are not dependent on any single patent or group of patents

### **Raw Materials**

The principal raw materials used in the manufacture of the Company's products are coil and bar steel, stainless steel, copper wire, and aluminum ingot. Major components are electric motors, capacitors, motor protectors, forgings, gray iron castings, plastic resins, and bearings. Most of these raw materials are available from multiple sources in the United States and world markets. Generally, the Company believes that adequate alternative sources are available for the majority of its key raw material and purchased component needs, however, the Company is dependent on a single or limited number of suppliers for certain materials or components. Availability of fuel and energy is adequate to satisfy current and projected overall operations unless interrupted by government direction or allocation.

### **Employees**

The Company employed approximately 4,900 persons at the end of 2015

### **Major Customers**

No single customer accounted for over 10 percent of net sales in 2015, 2014, or 2013. No single customer accounted for over 10 percent of gross accounts receivable in 2015 and 2014.

### **Backlog**

The dollar amount of backlog by segment was as follows

(In millions)	February 17, 2016	February 19, 2015
Water Systems	\$ 44.4	\$ 50.6
Fueling Systems	15.0	13.5
Consolidated	<u>\$ 59.4</u>	<u>\$ 64.1</u>

The backlog is composed of written orders at prices adjustable on a price-at-the-time-of-shipment basis for products, primarily standard catalog items. All backlog orders are expected to be filled in fiscal 2016. The Company's sales in the first quarter are generally less than its sales in other quarters due to generally less water well drilling and overall product sales during the winter months in the Northern hemisphere. Beyond that, there is no seasonal pattern to the backlog and the backlog has not proven to be a significant indicator of future sales.

### **Environmental Matters**

The Company believes that it is in compliance with all applicable federal, state, and local laws concerning the discharge of material into the environment, or otherwise relating to the protection of the environment. The Company has not experienced any material costs in connection with environmental compliance, and does not believe that such compliance will have any material effect upon the financial position, results of operations, cash flows, or competitive position of the Company.

### **Available Information**

The Company's website address is [www.franklin-electric.com](http://www.franklin-electric.com). The Company makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Additionally, the Company's website includes the Company's corporate governance guidelines, its



Board committee charters, and the Company's code of business conduct and ethics. Information contained on the Company's website is not part of this annual report on Form 10-K.

## ITEM 1A. RISK FACTORS

The following describes the principal risks affecting the Company and its business. Additional risks and uncertainties, not presently known to the Company, could negatively impact the Company's results of operations or financial condition in the future.

***The Company's acquisition strategy entails expense, integration risks, and other risks that could affect the Company's earnings and financial condition.*** One of the Company's continuing strategies is to increase revenues and expand market share through acquisitions that will provide complementary Water and Fueling Systems products, add to the Company's global reach, or both. The Company spends significant time and effort expanding existing businesses through identifying, pursuing, completing, and integrating acquisitions, which generate expense whether or not the acquisitions are actually completed. Competition for acquisition candidates may limit the number of opportunities and may result in higher acquisition prices. There is uncertainty related to successfully acquiring, integrating and profitably managing additional businesses without substantial costs, delays or other problems. There can also be no assurance that acquired companies will achieve revenues, profitability or cash flows that justify the investment in them. Failure to manage or mitigate these risks could adversely affect the Company's results of operations and financial condition.

***The Company's products are sold in highly competitive markets, by numerous competitors whose actions could negatively impact sales volume, pricing and profitability.*** The Company is a global leader in the production and marketing of groundwater and fuel pumping systems. End user demand, distribution relationships, industry consolidation, new product capabilities of the Company's competitors or new competitors, and many other factors contribute to a highly competitive environment. Additionally, some of the Company's competitors have substantially greater financial resources than the Company. Although the Company believes that consistency of product quality, timeliness of delivery, service, and continued product innovation, as well as price, are principal factors considered by customers in selecting suppliers, competitive factors previously described may lead to declines in sales or in the prices of the Company's products which could have an adverse impact on its results of operations and financial condition.

***The Company's products are sold to numerous distribution outlets based on market performance.*** The Company may, from time to time, change distribution outlets in certain markets based on market share and growth. These changes could adversely impact sales and operating results.

***Reduced housing starts adversely affect demand for the Company's products, thereby reducing revenues and earnings.*** Demand for certain Company products is affected by housing starts. Variation in housing starts due to economic volatility both within the United States and globally could adversely impact gross margins and operating results.

***Increases in the prices of raw materials, components, finished goods and other commodities could adversely affect operations.*** The Company purchases most of the raw materials for its products on the open market and relies on third parties for the sourcing of certain finished goods. Accordingly, the cost of its products may be affected by changes in the market price of raw materials, sourced components, or finished goods. The Company and its suppliers also use natural gas and electricity in manufacturing products and natural gas and electricity prices have historically been volatile. The Company does not generally engage in commodity hedging for raw materials and energy. Significant increases in the prices of commodities, sourced components, finished goods, energy or other commodities could cause product prices to increase, which may reduce demand for products or make the Company more susceptible to competition. Furthermore, in the event the Company is unable to pass along increases in operating costs to its customers, margins and profitability may be adversely affected.

***The Company is exposed to political, economic and other risks that arise from operating a multinational business.*** The Company has significant operations outside the United States, including Europe, South Africa, Brazil, Mexico, China, and Turkey. Further, the Company obtains raw materials and finished goods from foreign suppliers. Accordingly, the Company's business is subject to political, economic, and other risks that are inherent in operating a multinational business. These risks include, but are not limited to, the following:

- Difficulty in enforcing agreements and collecting receivables through foreign legal systems
- Trade protection measures and import or export licensing requirements
- Inability to obtain raw materials and finished goods in a timely manner from foreign suppliers
- Imposition of tariffs, exchange controls or other restrictions
- Difficulty in staffing and managing widespread operations and the application of foreign labor regulations

- Compliance with foreign laws and regulations
- Changes in general economic and political conditions in countries where the Company operates

Additionally, the Company's operations outside the United States could be negatively impacted by changes in treaties, agreements, policies, and laws implemented by the United States

If the Company does not anticipate and effectively manage these risks, these factors may have a material adverse impact on its international operations or on the business as a whole

***Transferring operations of the Company to lower cost regions may not result in the intended cost benefits.*** The Company is continuing its rationalization of manufacturing capacity between all existing manufacturing facilities and the manufacturing complexes in lower cost regions. To implement this strategy, the Company must complete the transfer of assets and intellectual property between operations. Each of these transfers involves the risk of disruption to the Company's manufacturing capability, supply chain, and, ultimately, to the Company's ability to service customers and generate revenues and profits and may include significant severance amounts.

***The Company has significant investments in foreign entities and has significant sales and purchases in foreign denominated currencies creating exposure to foreign currency exchange rate fluctuations.*** The Company has significant investments outside the United States, including Europe, South Africa, Brazil, Mexico, China, and Turkey. Further, the Company has sales and makes purchases of raw materials and finished goods in foreign denominated currencies. Accordingly, the Company has exposure to fluctuations in foreign currency exchange rates relative to the U.S. dollar. Foreign currency exchange rate risk is partially mitigated through several means: maintenance of local production facilities in the markets served, invoicing of customers in the same currency as the source of the products, prompt settlement of inter-company balances, limited use of foreign currency denominated debt, and application of derivative instruments when appropriate. To the extent that these mitigating strategies are not successful, foreign currency rate fluctuations can have a material adverse impact on the Company's international operations or on the business as a whole.

***Delays in introducing new products or the inability to achieve or maintain market acceptance with existing or new products may cause the Company's revenues to decrease.*** The industries to which the Company belongs are characterized by intense competition, changes in end-user requirements, and evolving product offerings and introductions. The Company believes future success will depend, in part, on the ability to anticipate and adapt to these factors and offer, on a timely basis, products that meet customer demands. Failure to successfully develop new and innovative products or to enhance existing products could result in the loss of existing customers to competitors or the inability to attract new business, either of which may adversely affect the Company's revenues.

***Certain Company products are subject to regulation and government performance requirements in addition to the warranties provided by the Company.*** The Company's product lines have expanded significantly and certain products are subject to government regulations and standards for manufacture, assembly, and performance in addition to the warranties provided by the Company. The Company's failure to meet all such standards or perform in accordance with warranties could result in significant warranty or repair costs, lost sales and profits, damage to the Company's reputation, fines or penalties from governmental organizations, and increased litigation exposure. The claims made by the California Air Resources Board and certain local air districts in California, described in Item 3-Legal Proceedings, are examples of the issues and litigation that can arise under these laws and regulations. Changes to these regulations or standards may require the Company to modify its business objectives and incur additional costs to comply, and any liabilities or penalties actually incurred could have a material adverse effect on the Company's earnings and operating results.

***The growth of municipal water systems and increased government restrictions on groundwater pumping could reduce demand for private water wells and the Company's products, thereby reducing revenues and earnings.*** Demand for certain Company products is affected by rural communities shifting from private and individual water well systems to city or municipal water systems. Many economic and other factors outside the Company's control, including Federal and State regulations on water quality, and tax credits and incentives, could adversely impact the demand for private and individual water wells. A decline in private and individual water well systems in the United States or other economies in the international markets the Company serves could reduce demand for the Company's products and adversely impact sales, gross margins, and operating results.

***Demand for Fueling Systems products is impacted by environmental legislation which may cause significant fluctuations in costs and revenues after meeting compliance requirements.*** Environmental legislation related to air quality and fueling containment may create demand for certain Fueling Systems products which must be supplied in a relatively short time frame to meet the governmental mandate, as occurred in California in the 2007 - 2009 time period. During periods of increased

demand the Company's revenues and profitability could increase significantly, although the Company can also be at risk of not having capacity to meet demand or cost overruns due to inefficiencies during ramp up to the higher production levels. After the Company's customers have met the compliance requirements, the Company's revenues and profitability may decrease significantly as the demand for certain products declines substantially. The risk of not reducing production costs in relation to the decreased demand and reduced revenues could have a material adverse impact on gross margins and the Company's results of operations.

***Changes in tax legislation regarding our foreign earnings could materially affect our future results.*** Since the Company operates in different countries and is subject to taxation in different jurisdictions, the Company's future effective tax rates could be impacted by changes in such countries' tax laws or their interpretations. Both domestic and international tax laws are subject to change as a result of changes in fiscal policy, legislation, evolution of regulation and court rulings. The application of these tax laws and related regulations is subject to legal and factual interpretation, judgment, and uncertainty. Changes to the U.S. international tax laws could limit U.S. deductions for expenses related to un-repatriated foreign-source income and modify the U.S. foreign tax credit and "check-the-box" rules. The Company cannot predict whether any proposed changes in U.S. tax laws will be enacted into law or what, if any, changes may be made to any such proposals prior to their being enacted into law. If the U.S. tax laws change in a manner that increases the Company's tax obligation, it could have a material adverse impact on the Company's results of operations and financial condition.

***The Company has significant goodwill and intangible assets and future impairment of the value of these assets may adversely affect operating results and financial condition.*** The Company's total assets reflect substantial intangible assets, primarily goodwill. Goodwill results from the Company's acquisitions, representing the excess of the purchase price paid over the fair value of the net assets acquired. Goodwill and indefinite-lived intangible assets are tested annually for impairment during the fourth quarter or as warranted by triggering events. If future operating performance at one or more of the Company's operating segments were to decline significantly below current levels, the Company could incur a non-cash charge to operating earnings for an impairment. Any future determination requiring the recognition of an impairment of a significant portion of the Company's goodwill or intangible assets could have a material adverse impact on the Company's results of operations and financial condition.

***The Company's business may be adversely affected by the seasonality of sales and weather conditions.*** The Company experiences seasonal demand in a number of markets within the Water Systems segment. End-user demand in primary markets follows warm weather trends and is at seasonal highs from April to August in the Northern Hemisphere. Demand for residential and agricultural water systems are also affected by weather-related disasters including heavy flooding and drought. Changes in these patterns could reduce demand for the Company's products and adversely impact sales, gross margins, and operating results.

***The Company's results may be adversely affected by global macroeconomic supply and demand conditions related to the energy and mining industries.*** The energy and mining industries are users of the Company's products, including the coal, iron ore, gold, copper, oil, and natural gas industries. Decisions to purchase the Company's products are dependent upon the performance of the industries in which our customers operate. If demand or output in these industries increases, the demand for our products will generally increase. Likewise, if demand or output in these industries declines, the demand for our products will generally decrease. The energy and mining industries' demand and output are impacted by the prices of commodities in these industries which are frequently volatile and change in response to general economic conditions, economic growth, commodity inventories, and any disruptions in production or distribution. Changes in these conditions could adversely impact sales, gross margin, and operating results.

***The Company depends on certain key suppliers, and any loss of those suppliers or their failure to meet commitments may adversely affect business and results of operations.*** The Company is dependent on a single or limited number of suppliers for some materials or components required in the manufacture of its products. If any of those suppliers fail to meet their commitments to the Company in terms of delivery or quality, the Company may experience supply shortages that could result in its inability to meet customer requirements, or could otherwise experience an interruption in operations that could negatively impact the Company's business and results of operations.

***The Company's operations are dependent on information technology infrastructure and failures could significantly affect its business.*** The Company depends on information technology infrastructure in order to achieve business objectives. If the Company experiences a problem that impairs this infrastructure, such as a computer virus, a problem with the functioning of an important IT application, or an intentional disruption of IT systems by a third party, the resulting disruptions could impede the Company's ability to record or process orders, manufacture and ship products in a timely manner, or otherwise carry on business in the ordinary course. Any such events could cause the loss of customers or revenue and could cause significant expense to be incurred to eliminate these problems and address related security concerns. The Company is also in the process

of updating its global Enterprise Resource Planning ("ERP") system that will redesign and deploy a common information system over a period of several years. The process of implementation can be costly and can divert the attention of management from the day-to-day operations of the business. As the Company implements the ERP system, the new system may not perform as expected, which could have an adverse effect on the Company's business.

**Additional Risks to the Company.** The Company is subject to various risks in the normal course of business. Exhibit 99.1 sets forth risks and other factors that may affect future results, including those identified above, and is incorporated herein by reference.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None

## ITEM 2. PROPERTIES

Franklin Electric serves customers worldwide with manufacturing and distribution facilities located in over 15 countries. The Global Headquarters is located in Fort Wayne, Indiana, United States and houses sales, marketing, and administrative offices along with a state of the art research and engineering facility. Besides the owned corporate facility, the Company considers the following to be principal properties:

Location / Segment	Purpose	Own/Lease
Santa Catarina, Brazil / Both	Manufacturing/Distribution/Sales	Own
Sao Paulo, Brazil / Both	Manufacturing/Distribution/Sales	Own
Jiangsu Province, China / Both	Manufacturing	Own
Brno, Czech Republic / Water	Manufacturing	Own
Dueville, Italy / Water	Manufacturing	Own
Nuevo Leon, Mexico / Both	Manufacturing	Own
Edenvale, South Africa / Water	Manufacturing	Own
Izmir, Turkey / Water	Manufacturing/Distribution/Sales/R&D	Own
Indiana, United States / Both	Manufacturing/Distribution/Sales/R&D	Own
Oklahoma, United States / Water	Manufacturing	Own
Wisconsin, United States / Fueling	Manufacturing/Distribution/Sales/R&D	Lease

The Company also owns and leases other small facilities which serve as manufacturing locations and distribution warehouses. The Company does not consider these facilities to be principal to the business or operations. In the Company's opinion, its facilities are suitable for their intended use, adequate for the Company's business needs, all currently utilized, and in good condition.

## ITEM 3. LEGAL PROCEEDINGS

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. The complaints were consolidated into one case (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. On September 29, 2015, the Court of Appeals heard oral arguments on the case. On December 8, 2015, the Court of Appeals affirmed the lower court's decision. Although CARB had the opportunity to petition for cert to the California Supreme Court, the time for filing such petition has passed and thus this case has concluded.

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

#### ITEM 4. MINE SAFETY DISCLOSURES

None

#### EXECUTIVE OFFICERS OF THE REGISTRANT

Current executive officers of the Company, their ages, current position, and business experience during at least the past five years as of January 2, 2016, are as follows

Name	Age	Position Held	Period Holding Position
Gregg C Sengstack	57	Chairman and Chief Executive Officer	2015 - present
		President and Chief Executive Officer	2014 - 2015
		President and Chief Operating Officer	2011 - 2014
Robert J Stone	51	Senior Vice President and President, International Water Systems	2012 - present
		Senior Vice President and President, Americas Water Systems Group	2007 - 2012
Daniel J Crose	68	Vice President, Global Water Product Supply	2011 - present
DeLancey W Davis	50	Vice President and President, North America Water Systems	2012 - present
		Vice President and President, US/Canada Business Unit	2011 - 2012
Donald P Kenney	55	Vice President and President, Energy Systems	2014 - present
		President, Energy Systems	2013 - 2014
		President, Fueling Systems	1991 - 2013
John J Haines	52	Vice President, Chief Financial Officer, and Secretary	2008 - present
Julie S Freigang	48	Vice President, Global Information Systems	2015 - present
		Chief Information Officer	2014 - 2015
		Vice President, Information Technologies-Eaton Corporation	2011 - 2014
Steven W Aikman	56	Vice President, Global Water Systems Engineering	2010 - present
Thomas J Strupp	62	Vice President, Global Human Resources	2010 - present

All executive officers are elected annually by the Board of Directors at the Board meeting held in conjunction with the annual meeting of shareowners All executive officers hold office until their successors are duly elected or until their death, resignation, or removal by the Board

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The number of shareowners of record as of February 17, 2016 was 781. The Company's stock is traded on the NASDAQ Global Select Market under the symbol FELE.

Dividends paid and the price range per common share as quoted by the NASDAQ Global Select Market for 2015 and 2014 were as follows:

	Dividends per Share		Price per Share			
	2015	2014	2015		2014	
			Low	High	Low	High
1st Quarter	\$ 0900	\$ 0775	\$ 33 45	\$ 39 12	\$ 37 76	\$ 45 42
2nd Quarter	0975	0900	32 13	39 56	37 20	43 58
3rd Quarter	0975	0900	26 75	31 67	35 17	40 91
4th Quarter	0975	0900	26 91	35 11	33 93	39 95

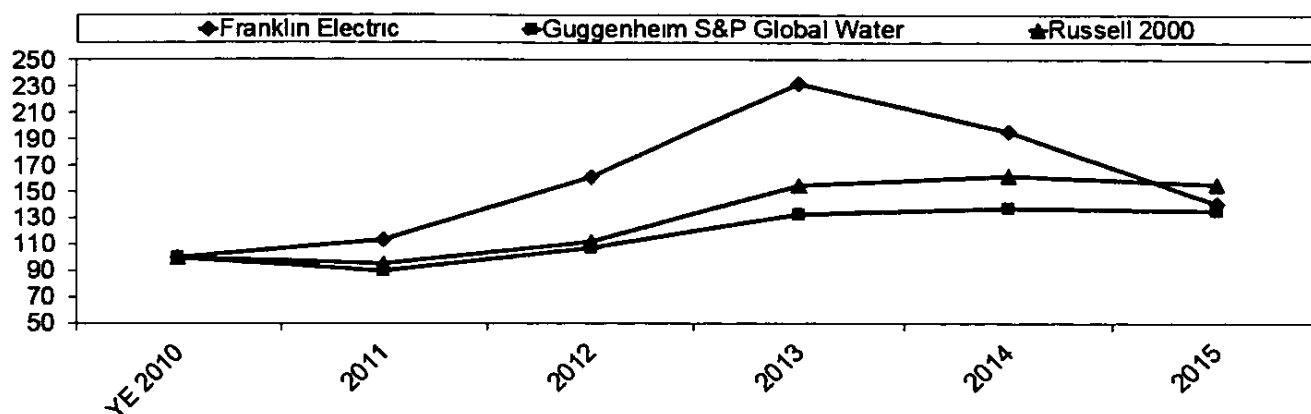
#### *Issuer Purchases of Equity Securities*

In April 2007, the Company's Board of Directors unanimously approved a plan to increase the number of shares remaining for repurchase from 628,692 to 2,300,000 shares. There is no expiration date for this plan. On August 3, 2015, the Company's Board of Directors approved a plan to increase the number of shares remaining for repurchase by an additional 3,000,000 shares. The authorization was in addition to the 535,107 shares that remained available for repurchase as of July 31, 2015. The Company repurchased 169,985 shares for approximately \$4.9 million under this plan during the fourth quarter of 2015. The maximum number of shares that may still be purchased under this plan as of January 2, 2016 is 2,300,962.

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that may yet be Repurchased
October 4 - November 7	—	\$ —	—	2,470,947
November 8 - December 5	—	—	—	2,470,947
December 6 - January 2	169,985	29 10	169,985	2,300,962
Total	169,985	\$ 29 10	169,985	2,300,962

### Stock Performance Graph

The following graph compares the Company's cumulative total shareholder return (Common Stock price appreciation plus dividends, on a reinvested basis) over the last five fiscal years with the Guggenheim S&P Global Water Index and the Russell 2000 Index



Hypothetical \$100 invested on January 1, 2011 (fiscal year-end 2010) in Franklin Electric common stock (FELE), Guggenheim S&P Global Water Index, and Russell 2000 Index, assuming reinvestment of dividends

	YE 2010	2011	2012	2013	2014	2015
FELE	\$ 100	\$ 113	\$ 161	\$ 232	\$ 195	\$ 141
Guggenheim S&P Global Water	100	90	107	133	137	135
Russell 2000	100	96	111	155	162	155

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with the Company's consolidated financial statements. The information set forth below is not necessarily indicative of future operations.

### Five Year Financial Summary

(In thousands, except per share amounts and ratios)

	2015	2014	2013	2012	2011
		(b)		(c)	(d)
<b>Operations</b>					
Net sales	\$ 924,923	\$ 1,047,777	\$ 965,462	\$ 891,345	\$ 821,077
Gross profit	297,608	344,410	331,514	301,664	272,305
Interest expense	10,039	10,735	10,597	10,208	10,502
Income tax expense	12,625	18,851	28,851	32,250	23,412
Net income attributable to Franklin Electric Co., Inc.	72,945	69,806	81,958	82,864	63,099
Depreciation and amortization	35,476	37,210	31,356	28,335	25,295
Capital expenditures	25,933	42,396	67,206	42,062	21,144
<b>Balance sheet</b>					
Working capital (a)(e)	\$ 293,463	\$ 268,434	\$ 333,880	\$ 283,278	\$ 276,386
Property, plant, and equipment, net	190,039	209,786	208,596	171,975	146,409
Total assets	996,408	1,075,887	1,051,873	976,379	829,530
Long-term debt	188,103	143,695	174,166	150,729	150,000
Shareowners' equity	557,700	596,840	595,707	514,406	448,135
<b>Other data</b>					
Net income attributable to Franklin Electric Co., Inc., to sales	7.9%	6.7%	8.5%	9.3%	7.7%
Net income attributable to Franklin Electric Co., Inc., to average total assets	7.0%	6.6%	8.1%	9.2%	7.8%
Current ratio (a)(f)	3.0	2.3	3.4	2.9	3.2
Number of common shares outstanding	46,219	47,594	47,715	47,132	46,677
<b>Per share</b>					
<b>Market price range</b>					
High	\$ 39.56	\$ 45.42	\$ 45.62	\$ 30.98	\$ 26.09
Low	\$ 26.75	\$ 33.93	\$ 29.95	\$ 22.77	\$ 16.41
Net income attributable to Franklin Electric Co., Inc., per weighted average common share	\$ 1.52	\$ 1.43	\$ 1.70	\$ 1.76	\$ 1.36
Net income attributable to Franklin Electric Co., Inc., per weighted average common share, assuming dilution	\$ 1.50	\$ 1.41	\$ 1.68	\$ 1.73	\$ 1.33
Book value (g)	\$ 11.73	\$ 12.38	\$ 12.38	\$ 10.78	\$ 9.45
Dividends per common share	\$ 0.3825	\$ 0.3475	\$ 0.3050	\$ 0.2850	\$ 0.2675

- (a) Balances as of year-end 2014, 2013, 2012, and 2011 were not retrospectively adjusted for the adoption of ASU 2015-17, which related to the presentation of deferred taxes.
- (b) Includes the results of operations of the Company's 100% wholly owned subsidiary, Bombas Leao S.A., since its acquisition in the second quarter of 2014, and 90% of the Company's owned subsidiary, Impo Motor Pompa Sanayi ve Ticaret A.Ş., since the Company's acquisition of an additional 10% in the second quarter of 2014.
- (c) Includes the results of operations of the Company's 70.5% owned subsidiary, Pioneer Pump Holdings, Inc., since the Company's acquisition of an additional 39.5% in the first quarter of 2012, 100% of the wholly owned subsidiary, Cerus Industrial Corporation, since its acquisition in the third quarter of 2012, and 100% of the wholly owned subsidiary, Flexing, Incorporated, since the Company's acquisition in the fourth quarter of 2012.



- (d) Includes the results of operations of the Company's 80% owned subsidiary, Impo Motor Pompa Sanayi ve Ticaret A S , since its acquisition in the second quarter of 2011, and 100% of the wholly owned subsidiary, Vertical S p A , since the Company's acquisition of the remaining 25% in the fourth quarter of 2011
- (e) Working capital = Current assets minus current liabilities
- (f) Current ratio = Current assets divided by current liabilities
- (g) Book value = Shareowners' equity divided by weighted average common shares, assuming full dilution

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

### 2015 vs. 2014

#### OVERVIEW

Sales in 2015 decreased from the prior year. Net sales in 2015 were \$924.9 million, a decrease of about 12 percent compared to 2014 sales of \$1,047.8 million. The sales decrease was primarily the impact of foreign currency translation as the US dollar strengthened against certain foreign currencies and lower sales volume, partially offset by price increases, as well as the Company's acquisitions. The Company's consolidated gross profit was \$297.6 million for 2015, a decrease of \$46.8 million or about 14 percent from 2014. The gross profit as a percent of net sales decreased 70 basis points to 32.2 percent in 2015 from 32.9 percent in 2014. The gross profit margin change was due primarily to lost leverage on fixed cost due to lower sales. For 2015, diluted earnings per share were \$1.50, an increase of 6 percent compared to 2014 diluted earnings per share of \$1.41. Adjusted earnings per share were \$1.47, a decrease of 16 percent versus the \$1.76 adjusted earnings per share in 2014 (see the table below for a reconciliation of the GAAP EPS to the adjusted EPS).

#### RESULTS OF OPERATIONS

##### Net Sales

Net sales in 2015 were \$924.9 million, a decrease of \$122.9 million or about 12 percent compared to 2014 sales of \$1,047.8 million. The incremental impact of sales from acquired businesses was \$21.3 million or about 2 percent. Sales revenue decreased by \$89.3 million or about 9 percent in 2015 due to foreign currency translation. The sales change in 2015, excluding acquisitions and foreign currency translation, was a decrease of \$54.9 million or about 5 percent.

(In millions)	Net Sales		
	2015	2014	2015 v 2014
Water Systems	\$ 707.6	\$ 824.6	\$ (117.0)
Fueling Systems	217.3	223.2	(5.9)
Consolidated	<u>\$ 924.9</u>	<u>\$ 1,047.8</u>	<u>\$ (122.9)</u>

##### Net Sales-Water Systems

Water Systems sales were \$707.6 million in 2015, a decrease of \$117.0 million or 14 percent versus 2014. The incremental impact of sales from acquired businesses was \$20.8 million or about 2 percent. Foreign currency translation rate changes decreased sales \$78.3 million, or about 9 percent, compared to sales in 2014. The sales change in 2015, excluding acquisitions and foreign currency translation, was a decrease of \$59.5 million or about 7 percent.

Water Systems sales in the U.S. and Canada were 36 percent of consolidated sales and declined by about 20 percent in 2015 compared to the prior year. Sales revenue decreased by \$5.9 million or about 1 percent in 2015 due to foreign currency translation. In 2015, U.S. and Canada sales of Pioneer branded mobile dewatering equipment declined by about 55 percent. The decline in mobile dewatering equipment is primarily attributed to reduced demand in the oil and gas end markets. Sales of groundwater pumping equipment declined by about 14 percent, and sales of surface water pumping equipment declined by about 6 percent versus 2014. The decline in groundwater equipment sales is attributable primarily to weaker demand in the agriculture sector as a result of less favorable weather and to a lesser extent, distributor changes the Company made in its primary groundwater distribution channel. Sales of surface water pumping equipment also declined due to lower condensate pump sales as cooler temperatures delayed the start to the HVAC season.

Water Systems sales in Latin America were about 14 percent of consolidated sales for 2015 and declined by about 9 percent compared to the prior year. Acquisition related sales during 2015 were \$10.4 million or about 7 percent. Foreign currency translation rate changes decreased sales \$34.7 million, or about 24 percent, compared to sales in 2014. Excluding acquisition and foreign currency translation, sales in Latin America grew by about 8 percent during 2015. The growth in sales was led by increased sales in Mexico and Brazil, in local currency. This sales growth is a result of increasing demand for Franklin submersible pumps and motors, customer acceptance of the many product line upgrades that have been implemented over the past two years, and general market conditions.

Water Systems sales in the Middle East and Africa were about 11 percent of consolidated sales and decreased by about 10 percent compared to 2014. Water Systems sales in the Middle East and Africa were reduced by \$16.5 million or about 14 percent in the year due to foreign currency translation. Excluding the impact of foreign currency translation, sales were up

about 4 percent compared to 2014. The growth was driven by strong sales of groundwater pumping equipment in Turkey.

Water Systems sales in the Asia Pacific region were 8 percent of consolidated sales and grew by about 7 percent compared to the prior year. Acquisition related sales during 2015 increased sales by about 9 percent in Asia Pacific. Foreign currency translation rate changes decreased sales in 2015 in the Asia Pacific region by about 5 percent. Excluding acquisitions and foreign currency translation sales grew by about 3 percent during 2015. The Asia Pacific region experienced strong year over year growth in Southeast Asia and Korea. These sales increases were partially offset by smaller declines in sales in Australia, Japan and China.

Water Systems sales in Europe were about 7 percent of consolidated sales and decreased by about 20 percent compared to the prior year. Foreign currency translation rate changes decreased sales by about 21 percent compared to sales in 2014. Excluding foreign currency translation, European sales grew by about 1 percent during 2015.

#### ***Net Sales-Fueling Systems***

Fueling Systems sales which represented 23 percent of consolidated sales were \$217.3 million in 2015, a decrease of \$5.9 million or about 3 percent versus 2014. The incremental impact of sales from acquired businesses was \$0.5 million. Foreign currency translation rate changes decreased sales \$11.0 million or about 5 percent compared to sales in 2014. The sales change in 2015, excluding acquisitions and foreign currency translation, was an increase of \$4.6 million or about 2 percent.

Fueling Systems sales in the U.S. and Canada grew by about 6 percent in 2015 compared to the prior year with sales growth coming from most product lines, especially in piping. Fueling Systems revenues declined in India and China due to the timing of tender awards made in India and the ongoing reduction in State owned oil company procurements in China. Sales also declined in Europe principally due to a 42 percent decline in the sale of storage tanks that support North Sea oil production.

#### ***Cost of Sales***

Cost of sales as a percent of net sales for 2015 and 2014 was 67.8 percent and 67.1 percent, respectively. Correspondingly, the gross profit margin decreased to 32.2 percent from 32.9 percent, a 70 basis point decline. The gross profit margin decrease was primarily due to fixed costs deleverage on lower sales and higher raw material costs. Direct materials as a percentage of sales was 46.9 percent up 50 basis points compared to 46.4 percent last year. This increase in direct materials was partially offset by lower labor and burden costs. The Company's consolidated gross profit was \$297.6 million for 2015, down \$46.8 million or 14 percent from 2014.

#### ***Selling, General and Administrative ("SG&A")***

Selling, general, and administrative (SG&A) expenses were \$204.3 million in 2015 and decreased by \$23.4 million or about 10 percent in 2015 compared to last year. In 2015, increases in SG&A attributable to acquisitions were about \$6 million or about 3 percent. Additional year over year changes in SG&A costs were decreases in the year primarily due to lower marketing and selling related expenses, as well as lower costs for incentive compensation. Approximately half of the lower SG&A expenses was related to foreign exchange.

#### ***Restructuring Expenses***

Restructuring expenses for 2015 were \$3.0 million and reduced diluted earnings per share by approximately \$0.04. Restructuring expenses in 2015 included severance and pension costs, equipment relocation expenses, asset write-downs and primarily related to the closure of the Wittlich, Germany facility and other manufacturing realignment activities in Europe and Brazil. There were \$16.6 million of restructuring expenses in 2014 and reduced diluted earnings per share by approximately \$0.24. Restructuring expenses in 2014 included severance costs, equipment relocation expenses, and asset write-downs primarily related to the closure of the Wittlich, Germany facility and other European manufacturing realignment activities.

#### ***Operating Income***

Operating income was \$90.4 million in 2015, down \$9.7 million from \$100.1 million in 2014.

(In millions)	Operating income (loss)		
	2015	2014	2015 v 2014
Water Systems	\$ 86.7	\$ 103.9	\$ (17.2)
Fueling Systems	51.5	49.7	1.8
Other	(47.8)	(53.5)	5.7
Consolidated	<u>\$ 90.4</u>	<u>\$ 100.1</u>	<u>\$ (9.7)</u>

There were specific items in 2015 and 2014 that impacted operating income that were not operational in nature

In 2015 they were as follows

- There were \$3.0 million of restructuring charges. Restructuring expenses in 2015 were \$0.6 million in severance cost, \$0.6 million in pension cost, \$0.6 million expenses related to equipment transfers and freight costs, \$0.1 million in asset write-offs and \$1.1 million in other relocation costs primarily related to the closure of the Wittlich, Germany facility and other manufacturing realignment activities in Europe and Brazil.
- \$1.2 million related to executive transition
- \$0.7 million related to business realignment cost, primarily severance, in targeted fixed cost reduction actions
- \$0.2 million in other miscellaneous costs related to closed acquisitions

In 2014 they were as follows

- There were \$16.6 million of restructuring charges. Restructuring expenses in 2014 were \$14.7 million in severance cost, \$1.7 million expenses related to equipment transfers, freight and other relocation costs and \$0.2 million in asset write-offs primarily related to the transfer of production activities from Germany to the Czech Republic and other continued manufacturing realignments.
- \$3.2 million in other miscellaneous costs related to closed and pending acquisitions and \$0.2 million in legal fees incurred by Franklin Fueling Systems
- \$2.5 million related to executive transition
- \$1.8 million of software write-offs

The Company refers to these items as “non-GAAP adjustments” for purposes of presenting the non-GAAP financial measures of operating income after non-GAAP adjustments and percent operating income to net sales after non-GAAP adjustments to net sales (operating income margin after non-GAAP adjustments). The Company believes this information helps investors and management understand underlying trends in the Company's business more easily and by presenting these matters in this way, gives our investors and management a more accurate picture of the actual operational performance of the Company. The non-GAAP adjustments are for restructuring expenses, reported separately on the income statement, as well as certain legal matters and acquisition related items which are included in SG&A on the income statement. The differences between these non-GAAP financial measures and the most comparable GAAP measures are reconciled in the following tables

**Operating Income and Margins**  
**Before and After Non-GAAP Adjustments**  
(in millions)

For the Full Year of 2015				
	<u>Water</u>	<u>Fueling</u>	<u>Other</u>	<u>Consolidated</u>
Reported Operating Income	\$ 86.7	\$ 51.5	\$ (47.8)	\$ 90.4
% Operating Income To Net Sales	12.3%	23.7%		9.8%
Non-GAAP Adjustments				
Restructuring	\$ 2.7	\$ 0.3	\$ —	\$ 3.0
Non-GAAP Expenses	\$ 0.7	\$ 0.2	\$ 1.2	\$ 2.1
Operating Income after Non-GAAP Adjustments	\$ 90.1	\$ 52.0	\$ (46.6)	\$ 95.5
% Operating Income to Net Sales after Non-GAAP adjustments (Operating Income Margin after Non-GAAP Adjustments)	12.7%	23.9%		10.3%

For the Full Year of 2014				
	<u>Water</u>	<u>Fueling</u>	<u>Other</u>	<u>Consolidated</u>
Reported Operating Income	\$ 103.9	\$ 49.7	\$ (53.5)	\$ 100.1
% Operating Income To Net Sales	12.6%	22.3%		9.6%
Non-GAAP Adjustments				
Restructuring	\$ 16.1	\$ 0.5	\$ —	\$ 16.6
Non-GAAP Expenses	\$ 3.7	\$ 1.5	\$ 2.5	\$ 7.7
Operating Income after Non-GAAP Adjustments	\$ 123.7	\$ 51.7	\$ (51.0)	\$ 124.4
% Operating Income to Net Sales after Non-GAAP adjustments (Operating Income Margin after Non-GAAP Adjustments)	15.0%	23.2%		11.9%

**Operating Income-Water Systems**

Water Systems operating income, after non-GAAP adjustments, was \$90.1 million in 2015, a decrease of 27 percent versus 2014. The 2015 operating income margin after non-GAAP adjustments was 12.7 percent and decreased by 230 basis points compared to the 15.0 percent of net sales in 2014. Operating income margin after non-GAAP adjustments decreased in Water Systems primarily due to loss of operating leverage.

**Operating Income-Fueling Systems**

Fueling Systems operating income after non-GAAP adjustments was \$52.0 million in 2015 compared to \$51.7 million after non-GAAP adjustments in 2014. The 2015 operating income margin after non-GAAP adjustments was 23.9 percent and increased by 70 basis points compared to the 23.2 percent of net sales in 2014. This increased profitability was primarily due to lower fixed costs.

**Operating Income-Other**

Operating income-other is composed primarily of unallocated general and administrative expenses. General and administrative expenses after non-GAAP adjustments were down about 9 percent compared to last year primarily due to lower incentive compensation due to lower overall operating results.

**Interest Expense**

Interest expense for 2015 and 2014 was \$10.0 million and \$10.7 million, respectively.

**Other Income or Expense**

Other income or expense was a gain of \$6.9 million in 2015. Included in other income or expense in 2015 was minority income of \$2.8 million and interest income of \$1.3 million, primarily derived from the investment of cash balances in short-term securities. The Company also realized a gain on the settlement of the redeemable non-controlling interest liability in the first quarter of this year of about \$2.7 million. Other income or expense was a gain of \$1.3 million in 2014 and included in other income or expense in 2014 was interest income of \$2.0 million, primarily derived from the investment of cash balances in short-term securities.

### Foreign Exchange

Foreign currency-based transactions produced a loss for 2015 of \$0.9 million, primarily due to the South African rand, Colombian Peso and Australian dollar relative to the U.S. dollar, none of which individually were significant. Foreign currency-based transactions produced a loss for 2014 of \$1.0 million, primarily due to the Canadian dollar, Australian dollar, Turkish lira, and South African rand relative to the U.S. dollar, none of which individually were significant.

### Income Taxes

The provision for income taxes in 2015 and 2014 was \$12.6 million and \$18.9 million, respectively. The tax rate for 2015 was 14.6 percent and 2014 was 21.0 percent. Discrete adjustments during 2015 were the reversal of a deferred tax liability created in 2012 when the Company acquired the controlling interest in the Pioneer subsidiary and realized a gain on the then equity investment in Pioneer. This tax benefit of about \$4.8 million was treated as a non-GAAP adjustment. Because in 2012, the gain was treated as a non-GAAP adjustment, the Company is now consistently treating the reversal of the tax liability related to that gain as a non-GAAP adjustment and reducing reported Earnings per Share in 2015 by \$0.10 cents. The Company also realized a gain on the redeemable non-controlling interest liability in the year of about \$2.7 million which is included in 'Other income'. This purchase transaction also resulted in other tax benefits of about \$2.5 million, which were expensed through the Company's earnings in prior years as well as a current year benefit of about \$1.0 million related to the 2015 gain. The effective tax rate for 2015 was about 27 percent and 2014 was about 26 percent before discrete adjustments. The projected tax rate is lower than the statutory rate of 35 percent primarily due to the indefinite reinvestment of foreign earnings and reduced taxes on foreign and repatriated earnings after the restructuring of certain foreign entities. The Company has the ability to indefinitely reinvest these foreign earnings based on the earnings and cash projections of its other operations, current cash on hand and available credit.

### Net Income

Net income for 2015 was \$73.7 million compared to 2014 net income of \$70.9 million. Net income attributable to Franklin Electric Co., Inc. for 2015 was \$72.9 million, or \$1.50 per diluted share, compared to 2014 net income attributable to Franklin Electric Co., Inc. of \$69.8 million or \$1.41 per diluted share. Net income attributable to Franklin Electric Co., Inc. after Non-GAAP adjustments for 2015 was \$69.7 million, or \$1.47 per diluted share, compared to 2014 net income attributable to Franklin Electric Co., Inc. after Non-GAAP adjustments of \$84.3 million or \$1.76 per diluted share.

There were specific items in 2015 and 2014 that impacted net income attributable to Franklin Electric Co., Inc. that were not operational in nature. The Company refers to these items as "non-GAAP adjustments" for purposes of presenting the non-GAAP financial measures of net income attributable to Franklin Electric Co., Inc. and adjusted EPS. The Company believes this information helps investors understand underlying trends in the Company's business more easily. The differences between these non-GAAP financial measures and the most comparable GAAP measures are reconciled in the following tables.

Earnings Before and After Non-GAAP Adjustments (in millions)	For the Full Year		
	2015	2014	Change
Net Income attributable to Franklin Electric Co., Inc. Reported	\$ 72.9	\$ 69.8	4 %
Allocated Undistributed Earnings	\$ (1.5)	\$ (1.6)	
Adjusted Earnings for EPS Calculations	\$ 71.4	\$ 68.2	5 %
<u>Non-GAAP adjustments (before tax)</u>			
Restructuring	\$ 3.0	\$ 16.6	
Non-GAAP items	\$ 2.1	\$ 7.7	
Pioneer tax benefits on equity gain	\$ (4.8)	\$ —	
<u>Non-GAAP adjustments, net of tax</u>			
Restructuring	\$ 1.8	\$ 11.4	
Non-GAAP items	\$ 1.3	\$ 4.7	
Pioneer tax benefits on equity gain	\$ (4.8)	\$ —	
Net Income attributable to Franklin Electric Co., Inc. after Non-GAAP Adjustments (Adjusted Net Income)	\$ 69.7	\$ 84.3	(17)%

Earnings Per Share Before and After Non-GAAP Adjustments (in millions except per-share data)	For the Full Year		
	2015	2014	Change
Average Fully Diluted Shares Outstanding	\$ 47.6	\$ 48.2	(1)%
Fully Diluted Earnings Per Share ("EPS") Reported	\$ 1.50	\$ 1.41	6 %
Restructuring Per Share, net of tax	\$ 0.04	\$ 0.24	
Non-GAAP items, net of tax	\$ 0.03	\$ 0.11	
Pioneer tax benefits on equity gain	\$ (0.10)	\$ —	
Fully Diluted EPS after Non-GAAP Adjustments (Adjusted EPS)	\$ 1.47	\$ 1.76	(16)%

## 2014 vs. 2013

### OVERVIEW

Sales in 2014 increased from the prior year. Net sales in 2014 were \$1,047.8 million, an increase of about 9 percent compared to 2013 sales of \$965.5 million. The sales increase was primarily from sales volume and price increases, as well as the Company's acquisitions. Sales increases were partially offset by the impact of foreign currency translation as the US dollar strengthened against certain foreign currencies. The Company's consolidated gross profit was \$344.4 million for 2014, an increase of \$12.9 million or about 4 percent from 2013. The gross profit as a percent of net sales decreased 140 basis points to 32.9 percent in 2014 from 34.3 percent in 2013. The gross profit margin change was due primarily to a sales revenue mix shift in the Water Systems. For 2014, diluted earnings per share were \$1.41, a decrease of 16 percent compared to 2013 diluted earnings per share of \$1.68. Adjusted earnings per share were \$1.76, an increase of 2 percent versus the \$1.72 adjusted earnings per share in 2013 (see the table below for a reconciliation of the GAAP EPS to the adjusted EPS).

### RESULTS OF OPERATIONS

#### Net Sales

Net sales in 2014 were \$1,047.8 million, an increase of \$82.3 million or about 9 percent compared to 2013 sales of \$965.5 million. The incremental impact of sales from acquired businesses was \$23.5 million or about 2 percent. Sales revenue decreased by \$24.1 million or about 2 percent in 2014 due to foreign currency translation. The sales change in 2014, excluding acquisitions and foreign currency translation, was an increase of \$82.9 million or about 9 percent.

(In millions)	Net Sales		
	2014	2013	2014 v 2013
Water Systems	\$ 824.6	\$ 766.4	\$ 58.2
Fueling Systems	223.2	199.1	24.1
Consolidated	\$ 1,047.8	\$ 965.5	\$ 82.3

#### Net Sales-Water Systems

Water Systems sales were \$824.6 million in 2014, an increase of \$58.2 million or 8 percent versus 2013. The incremental impact of sales from acquired businesses was \$23.4 million or about 3 percent. Foreign currency translation rate changes decreased sales \$24.8 million, or about 3 percent, compared to sales in 2013. The sales change in 2014, excluding acquisitions and foreign currency translation, was an increase of \$59.6 million or about 8 percent.

Water Systems sales in the U.S. and Canada were 39 percent of consolidated sales and grew by about 5 percent compared to 2013. Foreign currency translation rate changes decreased sales by about 1 percent compared to sales in 2013. The sales change in 2014, excluding acquisitions and foreign currency translation, was an increase of \$23 million or about 6 percent. Leading the Company's growth in the U.S. and Canada were sales of Pioneer branded mobile pumping equipment which increased by about 70 percent in 2014 compared to the prior year. Sales of surface water pumping equipment grew by 8 percent in the year. These

sales increases in the U S and Canada were partially offset by lower sales of groundwater pumping equipment which declined about 10 percent in 2014 due, in part, to weaker demand in the agriculture sector as a result of less favorable weather and to a lesser extent, distributor changes the Company made in its primary groundwater distribution channel

Water Systems sales in Latin America were about 14 percent of consolidated sales for 2014 and grew by about 18 percent compared to the prior year. Acquisition related sales during 2014 were about \$17 million or about 14 percent. Foreign currency translation rate changes decreased sales \$8 million, or about 7 percent, compared to sales in 2013. Excluding acquisition and foreign currency translation, sales in Latin America grew by about 10 percent during 2014. The 2014 year-on-year sales increase in Brazil, in local currency, was 15 percent. The sales growth in Brazil is a result of increasing demand for Franklin submersible pumps and motors, customer acceptance of the many product line upgrades that have been implemented over the past two years, and general market conditions. New distribution outlets in Chile and Colombia contributed to significantly increased sales in these markets compared to 2013. These sales increases were partially offset with lower sales in Argentina.

Water Systems sales in the Middle East and Africa were about 11 percent of consolidated sales and increased by about 2 percent compared to 2013. Water Systems sales in the Middle East and Africa were reduced by \$11.3 million or about 10 percent in the year due to foreign currency translation. Excluding acquisitions and the impact of foreign currency translation, sales were up about 11 percent compared to 2013. The growth was driven by strong sales of groundwater pumping equipment in Turkey.

Water Systems sales in Europe were about 8 percent of consolidated sales and grew by about 11 percent compared to the prior year. Acquisition related sales during 2014 were about 2 percent in Europe. Foreign currency translation rate changes decreased sales by about 1 percent compared to sales in 2013. Excluding acquisitions and foreign currency translation, European sales grew by about 10 percent during 2014. Sales improvements in Europe included growth in both groundwater pumping equipment and Pioneer products.

Water Systems sales in the Asia Pacific region were 7 percent of consolidated sales and grew by about 11 percent compared to the prior year. Acquisition related sales during 2014 increased sales by about 7 percent in Asia Pacific. Foreign currency translation rate changes decreased sales in 2014 in the Asia Pacific region by about 2 percent. Excluding acquisitions and foreign currency translation sales grew by about 7 percent during 2014. Sales in Australia grew by about 28 percent led by improved Pioneer product sales in the region and aided in part by the launch of the new solar powered water well pumping system. Sales in Taiwan and Southeast Asia grew by about 5 percent compared to the prior year, as the Company continues to benefit from the improved customer service levels attributable to a new distribution center in Singapore. These sales increases were partially offset by smaller declines in sales in Japan and China.

#### ***Net Sales-Fueling Systems***

Fueling Systems sales which represented 21 percent of consolidated sales were \$223.2 million in 2014, an increase of \$24.1 million or about 12 percent versus 2013. The incremental impact of sales from acquired businesses was \$0.1 million. Foreign currency translation rate changes increased sales \$0.7 million compared to sales in 2013. The sales change in 2014, excluding acquisitions and foreign currency translation, was an increase of \$23.3 million or about 12 percent.

This growth was led by sales increases in developing markets, which grew by 15 percent compared to the prior year, as customers outside North America continue to invest in the Company's pressure pumping systems for transferring gasoline from underground tanks. As well, adoption of the Company's electronic fuel management products is increasing among international customers. Fueling Systems sales in more developed markets, like the U S , Canada and Europe grew by about 11 percent compared to prior year.

#### ***Cost of Sales***

Cost of sales as a percent of net sales for 2014 and 2013 was 67.1 percent and 65.7 percent, respectively. Correspondingly, the gross profit margin decreased to 32.9 percent from 34.3 percent, a 140 basis point decline. The gross profit margin change was due primarily to a sales revenue mix shift in the Water Systems segment, as groundwater pumping system sales have declined and surface pumping equipment system sales have increased, contributing significantly to lower gross profit margins in 2014. Direct materials as a percentage of sales was 46.4 percent up 200 basis points compared to 44.4 percent last year. This increase in direct materials was partially offset by lower labor and burden costs. The Company's consolidated gross profit was \$344.4 million for 2014, up \$12.9 million or 4 percent from 2013.

#### ***Selling, General and Administrative ("SG&A")***

Selling, general, and administrative (SG&A) expenses were \$227.7 million in 2014 and increased by \$23.7 million or about 12 percent in 2014 compared to last year. In 2014, increases in SG&A attributable to acquisitions were about \$6 million or about 3 percent. Additional year over year changes in SG&A costs were increases in marketing and selling-related expenses attributable



to sales volume and higher research, development, and engineering expenses

### **Restructuring Expenses**

Restructuring expenses for 2014 were \$16.6 million and reduced diluted earnings per share by approximately \$0.24. Restructuring expenses in 2014 included severance costs, equipment relocation expenses, asset write-downs and primarily related to the closure of the Wittlich, Germany facility and other European manufacturing realignment activities. There were \$3.7 million of restructuring expenses in 2013.

### **Operating Income**

Operating income was \$100.1 million in 2014, down \$23.7 million from \$123.8 million in 2013.

(In millions)	Operating income (loss)		
	2014	2013	2014 v 2013
Water Systems	\$ 103.9	\$ 131.3	\$ (27.4)
Fueling Systems	49.7	42.6	7.1
Other	(53.5)	(50.1)	(3.4)
Consolidated	<u>\$ 100.1</u>	<u>\$ 123.8</u>	<u>\$ (23.7)</u>

There were specific items in 2014 and 2013 that impacted operating income that were not operational in nature.

In 2014 they were as follows:

- There were \$16.6 million of restructuring charges. Restructuring expenses in 2014 were \$14.7 million in severance cost, \$1.7 million expenses related to equipment transfers, freight and other relocation costs and \$0.2 million in asset write-offs primarily related to the transfer of production activities from Germany to the Czech Republic and other continued manufacturing realignments.
- \$3.2 million in other miscellaneous costs related to closed and pending acquisitions and \$0.2 million in legal fees incurred by Franklin Fueling Systems.
- \$2.5 million related to executive transitions.
- \$1.8 million of software write-offs.

In 2013 they were as follows:

- There were \$3.7 million of restructuring charges. Restructuring expenses were \$1.5 million in other miscellaneous manufacturing realignment activities, severance expenses of \$1.1 million, and \$1.1 million related to relocation to the new corporate headquarters and engineering center in Fort Wayne, Indiana.
- A net \$1.0 million of benefit from the \$1.6 million reversal of a reserve for legal claims established in prior years that was favorably resolved in the third quarter of 2013, offset by \$0.6 million of legal fees incurred by Franklin Fueling Systems.
- \$0.9 million in other miscellaneous costs related to pending acquisitions.

The Company refers to these items as “non-GAAP adjustments” for purposes of presenting the non-GAAP financial measures of operating income after non-GAAP adjustments and percent operating income to net sales after non-GAAP adjustments to net sales (operating income margin after non-GAAP adjustments). The Company believes this information helps investors and management understand underlying trends in the Company's business more easily. The Company believes presenting these matters in this way gives our investors and management a more accurate picture of the actual operational performance of the Company. The non-GAAP adjustments are for restructuring expenses, reported separately on the income statement, as well as certain legal matters and acquisition related items which are included in SGA on the income statement. The differences between these non-GAAP financial measures and the most comparable GAAP measures are reconciled in the following tables:

Operating Income and Margins  
Before and After Non-GAAP Adjustments  
(in millions)

	For the Full Year of 2014			
	Water	Fueling	Other	Consolidated
Reported Operating Income	\$ 103.9	\$ 49.7	\$ (53.5)	\$ 100.1
% Operating Income To Net Sales	12.6%	22.3%		9.6%
Non-GAAP Adjustments				
Restructuring	\$ 16.1	\$ 0.5	\$ —	\$ 16.6
Non-GAAP Expenses	\$ 3.7	\$ 1.5	\$ 2.5	\$ 7.7
Operating Income after Non-GAAP Adjustments	\$ 123.7	\$ 51.7	\$ (51.0)	\$ 124.4
% Operating Income to Net Sales after Non-GAAP Adjustments (Operating Income Margin after Non-GAAP Adjustments)	15.0%	23.2%		11.9%

	For the Full Year of 2013			
	Water	Fueling	Other	Consolidated
Reported Operating Income	\$ 131.3	\$ 42.6	\$ (50.1)	\$ 123.8
% Operating Income To Net Sales	17.1%	21.4%		12.8%
Non-GAAP Adjustments				
Restructuring	\$ 3.2	\$ 0.5	\$ —	\$ 3.7
Non-GAAP Expenses	\$ 0.7	\$ (0.8)	\$ —	\$ (0.1)
Operating Income after Non-GAAP Adjustments	\$ 135.2	\$ 42.3	\$ (50.1)	\$ 127.4
% Operating Income to Net Sales after Non-GAAP Adjustments (Operating Income Margin after Non-GAAP Adjustments)	17.6%	21.2%		13.2%

**Operating Income-Water Systems**

Water Systems operating income, after non-GAAP adjustments, was \$123.7 million in 2014, a decrease of 9 percent versus 2013. The 2014 operating income margin after non-GAAP adjustments was 15.0 percent and decreased by 260 basis points compared to the 17.6 percent of net sales in 2013. The change in profitability was primarily the result of higher global raw material costs, higher marketing and selling costs in the U.S. and Canada commercial business, and the continued sales mix shift to surface pumping equipment away from groundwater pumping equipment. Contributing to both the sales mix shift to surface pumping equipment and the higher material costs, Pioneer branded mobile pumping equipment sales have had a surge in demand during the year and the Company has temporarily outsourced certain operations to meet the increased demand.

**Operating Income-Fueling Systems**

Fueling Systems operating income after non-GAAP adjustments was \$51.7 million in 2014 compared to \$42.3 million after non-GAAP adjustments in 2013, an increase of 22 percent. The 2014 operating income margin after non-GAAP adjustments was 23.2 percent and increased by 200 basis points compared to the 21.2 percent of net sales in 2013. This increased profitability was primarily due to fixed costs leverage on higher sales.

**Operating Income-Other**

Operating income-other is composed primarily of unallocated general and administrative expenses. General and administrative expenses were higher due to \$2.5 million of cost included in non-GAAP adjustments related to executive transition.

**Interest Expense**

Interest expense for 2014 and 2013 was \$10.7 million and \$10.6 million, respectively.

**Other Income or Expense**

Other income or expense was a gain of \$1.3 million in 2014. Included in other income or expense in 2014 was interest income of \$2.0 million, primarily derived from the investment of cash balances in short-term securities. Other income or expense was a gain of \$1.7 million in 2013. Included in other income or expense in 2013 was interest income of \$1.8 million, primarily

derived from the investment of cash balances in short-term securities

### **Foreign Exchange**

Foreign currency-based transactions produced a loss for 2014 of \$1.0 million, primarily due to the Canadian dollar, Australian dollar, Turkish lira, and South African rand relative to the U.S. dollar, none of which individually were significant. Foreign currency-based transactions produced a loss for 2013 of \$3.3 million, primarily due to the Turkish lira, the euro, South African rand, Brazilian real and Canadian dollar relative to the U.S. dollar, none of which individually were significant.

### **Income Taxes**

The provision for income taxes in 2014 and 2013 was \$18.9 million and \$28.9 million, respectively. The tax rate for 2014 was 21.0 percent and 2013 was 25.9 percent. The tax rate declined in 2014 from the tax rate for 2013 primarily due to a reversal of deferred tax liabilities associated with earnings of certain foreign subsidiaries which have been realigned within the Company's organization. The realignment of certain foreign entities results in their unremitted earnings being indefinitely reinvested. The effective tax rate differs from the statutory rate 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.

### **Net Income**

Net income for 2014 was \$70.9 million compared to 2013 net income of \$82.7 million. Net income attributable to Franklin Electric Co., Inc. for 2014 was \$69.8 million, or \$1.41 per diluted share, compared to 2013 net income attributable to Franklin Electric Co., Inc. of \$82.0 million or \$1.68 per diluted share. Net income attributable to Franklin Electric Co., Inc. after Non-GAAP adjustments for 2014 was \$84.3 million, or \$1.76 per diluted share, compared to 2013 net income attributable to Franklin Electric Co., Inc. after Non-GAAP adjustments of \$82.9 million or \$1.72 per diluted share.

There were specific items in 2014 and 2013 that impacted net income attributable to Franklin Electric Co., Inc. that were not operational in nature. The Company refers to these items as "non-GAAP adjustments" for purposes of presenting the non-GAAP financial measures of net income attributable to Franklin Electric Co., Inc. and adjusted EPS. The Company believes this information helps investors understand underlying trends in the Company's business more easily. The differences between these non-GAAP financial measures and the most comparable GAAP measures are reconciled in the following tables.

Earnings Before and After Non-GAAP Adjustments (in millions)	For the Full Year		
	2014	2013	Change
Net Income attributable to Franklin Electric Co., Inc. Reported	\$ 69.8	\$ 82.0	(15)%
Allocated Undistributed Earnings	\$ (1.6)	\$ (1.2)	
Adjusted Earnings for EPS Calculations	\$ 68.2	\$ 80.8	(16)%
<u>Non-GAAP adjustments (before tax):</u>			
Restructuring	\$ 16.6	\$ 3.7	
Non-GAAP items	\$ 7.7	\$ (0.1)	
<u>Non-GAAP adjustments, net of tax</u>			
Restructuring	\$ 11.4	\$ 2.2	
Non-GAAP items	\$ 4.7	\$ (0.1)	
Net Income attributable to Franklin Electric Co., Inc. after Non-GAAP Adjustments (Adjusted Net Income)	\$ 84.3	\$ 82.9	2 %

Earnings Per Share Before and After Non-GAAP Adjustments (in millions except per-share data)	For the Full Year		
	2014	2013	Change
Average Fully Diluted Shares Outstanding	\$ 48.2	\$ 48.1	— %
Fully Diluted Earnings Per Share ("EPS") Reported	\$ 1.41	\$ 1.68	(16)%
Restructuring Per Share, net of tax	\$ 0.24	\$ 0.05	
Non-GAAP items, net of tax	\$ 0.11	\$ (0.01)	
Fully Diluted EPS after Non-GAAP Adjustments (Adjusted EPS)	\$ 1.76	\$ 1.72	2 %

## CAPITAL RESOURCES AND LIQUIDITY

### Overview

The Company's primary sources of liquidity are cash on hand, cash flows from operations, revolving credit agreement, and long-term debt funds available.

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 senior notes have a floating interest rate of one-month USD LIBOR plus a spread of 1.35 percent with interest-only payments due on a monthly basis. As of January 2, 2016, there was \$75.0 million remaining borrowing capacity under the New York Life Agreement.

On December 31, 2012, the Company, Allen County, Indiana and certain institutional investors entered into a Bond Purchase and Loan Agreement. Under the agreement, Allen County, Indiana issued a series of Project Bonds entitled "Taxable Economic Development Bonds, Series 2012 (Franklin Electric Co., Inc. Project)". The aggregate principal amount of the Project Bonds that were issued, authenticated, and are now outstanding thereunder was limited to \$25.0 million. The Company then borrowed the proceeds under the Project Bonds through the issuance of Project Notes to finance the cost of acquisition, construction, installation and equipping of the new Global Corporate Headquarters and Engineering Center. These Project Notes (tax increment financing debt) bear interest at 3.6 percent per annum. Interest and principal balance of the Project Notes are due and payable by the Company directly to the institutional investors in aggregate semi-annual installments commencing on July 10, 2013, and concluding on January 10, 2033. On May 5, 2015, the Company entered into Amendment No. 1 to the Bond Purchase and Loan Agreement. This amendment provided for debt repayment guarantees from certain Company subsidiaries and waived certain non-financial covenants related to subsidiary guarantees.

On April 9, 2007, the Company entered into the Amended and Restated Note Purchase and Private Shelf Agreement (the "Prudential Agreement") in the amount of \$175.0 million. Under the Prudential Agreement, the Company issued notes in an aggregate principal amount of \$110.0 million on April 30, 2007 (the "B-1 Notes") and \$40.0 million on September 7, 2007 (the "B-2 Notes"). The B-1 Notes and B-2 Notes bear a coupon of 5.79 percent and had at issuance an average life of 10 years with a final maturity in 2019. On July 22, 2010, the Company entered into Amendment No. 3 to the Prudential Agreement to increase its borrowing capacity by \$25.0 million. On December 14, 2011, the Company entered into Amendment No. 4 to the Second Amended and Restated Note Purchase and Private Shelf Agreement to redefine the debt to EBITDA ratio covenant in order to be equivalent to that under the Agreement. On December 31, 2012, the Company and Prudential Insurance Company of America entered into an amendment to the Second Amended and Restated Note Purchase and Private Shelf Agreement to extend the effective date to December 31, 2015. On May 5, 2015, the Company entered into Amendment No. 6 to the Second Amended and Restated Note Purchase and Private Shelf Agreement. This amendment provided for debt repayment guarantees from certain Company subsidiaries and waived certain non-financial covenants related to subsidiary guarantees. On May 28, 2015, the Company entered into a Third Amended and Restated Note Purchase and Private Shelf Agreement with Prudential to increase the total borrowing capacity from \$200.0 million to \$250.0 million. As of January 2, 2016, the Company has \$100.0 million borrowing capacity available 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.

On December 14, 2006, the Company entered into an amended and restated unsecured, 60-month \$120.0 million revolving credit agreement (the "Credit Agreement"). The Credit Agreement provides for various borrowing rate options including interest rates based on the London Interbank Offered Rates (LIBOR) plus interest spreads keyed to the Company's ratio of debt to earnings before interest, taxes, depreciation, and amortization ("EBITDA"). On December 14, 2011, the Company executed the Second Amended and Restated Credit Agreement, which extended the maturity of the Agreement to December 14, 2016, and increased the commitment amount to \$150.0 million. On May 5, 2015, the Company entered into Amendment No. 3 to the Credit Agreement. This amendment provided for debt repayment guarantees from certain Company subsidiaries and waived certain non-financial covenants related to subsidiary guarantees. As of January 2, 2016, the Company had \$144.8 million borrowing capacity under the Credit Agreement as \$5.2 million in letters of commercial and standby letters of credit were outstanding and undrawn. There were no other outstanding borrowings as of January 2, 2016 on the Credit Agreement.

The New York Life Agreement, the Project Bonds, the Prudential Agreement, and the Credit Agreement contain customary affirmative and negative covenants. The affirmative covenants relate to financial statements, notices of material events, conduct of business, inspection of property, maintenance of insurance, compliance with laws, and most favored lender obligations. The negative covenants include limitations on loans, advances and investments, and the granting of liens by the Company or its subsidiaries, as well as prohibitions on certain consolidations, mergers, sales, and transfers of assets. The covenants also include financial requirements including a maximum leverage ratio of 3.50 to 1.00 and a minimum interest coverage ratio of 3.00 to 1.00. Cross default is applicable with the New York Life Agreement, the Project Bonds, the Prudential Agreement, and the Credit Agreement, but only if the Company is defaulting on an obligation exceeding \$10.0 million. As of January 2, 2016, the Company was in compliance with all financial covenants. The Company expects that ongoing requirements for operations, capital expenditures, pension obligations, dividends, and debt service will be adequately funded from cash on hand, operations, and existing credit agreements.

At January 2, 2016, the Company had \$81.6 million of cash on hand at various locations worldwide. Approximately 21 percent of the cash on hand was in the U.S. and readily accessible. Approximately 38 percent was in Europe, and the remaining 41 percent was in Mexico, Asia Pacific, and other locations combined. On a regular basis the Company reviews international cash balances and, if appropriate based on forecasted expenditures and considerations for the post-tax economic efficiency, will reposition cash among its global entities. Global cash balances are invested according to a written policy, and are generally in bank demand accounts and bank time deposits with the preservation of principal as the highest priority.

#### ***Operating Activities***

Net cash provided by operating activities was \$99.6 million for 2015 compared to \$47.3 million for 2014 and \$98.3 million in 2013. The increase in cash provided from operations in 2015 compared to 2014 was primarily due to lower uses of cash for trade receivables and inventory in conjunction with reduced sales in 2015. This increase in cash provided from operations was partially offset by a reduction in outstanding accounts payable balances at year-end 2015 compared to 2014. This reduction was also primarily due to lower year-end inventory levels. The reduction in cash provided from operations in 2014 compared to 2013 was primarily due to an increased use of cash for inventory and receivables compared to 2013. Outstanding inventory balances were elevated at 2014 year-end, primarily due to anticipated demand increases for products, various new product launches, and higher than normal seasonal inventory build. Receivable balances were elevated at 2014 year-end due to higher sales, especially in some emerging markets, along with extended credit terms in certain markets. Operationally, the Company generally experiences a higher working capital investment in the second and third quarters of each year as a result of stronger seasonal activity in the building, agricultural, and other industries in the Northern Hemisphere. To the extent the Company potentially grows further in the Southern Hemisphere, this historical pattern may moderate.

#### ***Investing Activities***

Net cash used in investing activities was \$29.6 million in 2015 compared to \$77.7 million in 2014 and \$76.5 million in 2013. During 2015, the Company used less cash for acquisitions and equity investment purchases compared to 2014. In addition, cash used for capital expenditures during 2015 was less than previous years as 2014 saw the completion of a new manufacturing facility in Brazil and 2013 saw the completion of the new Global Corporate Headquarters and Engineering Center. During 2014, the Company completed the acquisitions of Bombas Leao S.A. ("Bombas Leao"), with cash on hand and short-term borrowings repaid within the year, and two entities in India, with cash on hand. Capital spending in 2014 was down approximately \$32.0 million from 2013. Additions to property, plant, and equipment in 2013 were primarily attributed to the new 110,000 square foot Global Corporate Headquarters and Engineering Center and the new manufacturing facility in Brazil. The Company's rationale and strategy for potential future acquisitions that impact cash flows from investing activities includes an emphasis on increasing global distribution and complementary product lines that can be effectively marketed through existing global distribution.

#### ***Financing Activities***

Net cash flows from financing activities were uses of cash of \$41.1 million in 2015 compared to \$44.3 million in 2014 and cash provided of \$11.1 million in 2013. During 2015, the Company made a payment of \$20.2 million for the PPH mandatory share.

purchase liability. In addition, the Company used cash of \$46.3 million to complete the repurchase of about 1.6 million shares of the Company's common stock pursuant to the Company's stock repurchase program. Dividends in the amount of \$18.9 million were paid to shareholders. The Company also had increased debt borrowings and repayments during 2015 primarily due to the issuance of \$75.0 million of debt under the New York Life Agreement, first scheduled Prudential Agreement payment of \$30.0 million, and increased Revolver borrowing and repayments. During 2014, the Company had increased debt repayments compared to 2013, primarily related to the Project Bonds and Revolver borrowings. In addition, stock option exercises were down in 2014, which resulted in the receipt of \$2.9 million of cash for the payment of exercise price compared to \$14.1 million in 2013. During 2014, the Company completed the repurchase of about 0.2 million shares of the Company's common stock for \$9.0 million pursuant to the Company's stock repurchase program. Dividends in the amount of \$17.4 million were paid to shareholders. At least annually the dividend policy is reviewed, and the Company attempts to purchase shares annually to offset dilution of equity awards, but market conditions may prompt a perceived more efficient alternate use of cash. The Company in recent history has not looked to the public capital markets for financing, and under current circumstances the Company does not foresee a need to do so in the near future.

#### AGGREGATE CONTRACTUAL OBLIGATIONS

The majority of the Company's contractual obligations to third parties relate to debt obligations. In addition, the Company has certain contractual obligations for future lease payments, and purchase obligations. The payment schedule for these contractual obligations is as follows:

(In millions)	Total	2016	2017-2018	2019-2020	More than 5 years
Debt	\$ 220.9	\$ 32.8	\$ 62.3	\$ 32.6	\$ 93.2
Debt interest	35.1	8.5	11.2	5.0	10.4
Capital leases	0.1	0.1	—	—	—
Operating leases	22.6	7.7	8.6	4.4	1.9
Purchase obligations	8.3	6.8	1.5	—	—
	<u>\$ 287.0</u>	<u>\$ 55.9</u>	<u>\$ 83.6</u>	<u>\$ 42.0</u>	<u>\$ 105.5</u>

The calculated interest was based on the fixed rate of 5.79 percent for the Company's \$120.0 million Prudential Agreement debt, a fixed rate of 3.60 percent for the Company's \$22.8 million Project Bonds, a floating interest rate of one-month USD LIBOR as of January 2, 2016 plus a spread of 1.35 percent for the Company's \$75.0 million New York Life Agreement, and other various loans of \$3.1 million with interest rates ranging from 0.5% to 12.5% with maturity dates ranging from 2016 to 2027.

Purchase obligations include commitments primarily for capital expenditures and the purchase of raw materials to be used in production.

The Company has pension and other post-retirement benefit obligations not included in the table above which will result in estimated future payments of approximately \$7 million in 2016. The Company also has unrecognized tax benefits, none of which are included in the table above. The unrecognized tax benefits of approximately \$2.4 million have been recorded as liabilities and the Company is uncertain as to if or when such amounts may be settled. Related to the unrecognized tax benefits, the Company has also recorded a liability for potential penalties and interest of \$2.3 million.

#### ACCOUNTING PRONOUNCEMENTS

##### *Adoption of New Accounting Standards*

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, *Balance Sheet Classification of Deferred Taxes*. This ASU requires an entity to classify deferred tax assets and liabilities as noncurrent within a classified balance sheet. The ASU is effective for interim and annual periods beginning after December 15, 2016, and early adoption is permitted. Entities can elect either prospective or retrospective adoption of the standard. The Company early adopted the new standard on a prospective basis as of the fiscal year-ended January 2, 2016. Accordingly, classification of prior period deferred tax amounts were not retrospectively adjusted.

In February 2015, the 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, cash flows, or related disclosures.

#### ***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 periods 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, or 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, or 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, or 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 on a retrospective basis 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, or related disclosures.

#### CRITICAL ACCOUNTING ESTIMATES

Management's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Management evaluates its estimates on an ongoing basis. Estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There were no material changes to estimates or methodologies used to develop those estimates in 2015.

The Company's critical accounting estimates are identified below.

##### *Allowance for Uncollectible Accounts*

Accounts receivable is comprised of balances due from customers net of estimated allowances for uncollectible accounts. In determining allowances, historical collection experience, current trends, aging of accounts receivable, and periodic credit evaluations of customers' financial condition are analyzed to arrive at appropriate allowances. Allowance levels change as customer-specific circumstances and the other analysis areas previously noted change. Based on current knowledge, the Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to determine the allowance.

##### *Inventory Valuation*

The Company uses certain estimates and judgments to value inventory. Inventory is recorded at the lower of cost or market. The Company reviews its inventories for excess or obsolete products or components. Based on an analysis of historical usage, management's evaluation of estimated future demand, market conditions, and alternative uses for possible excess or obsolete parts, carrying values are adjusted. The carrying value is reduced regularly to reflect the age and current anticipated product demand. If actual demand differs from the estimates, additional reductions would be necessary in the period such determination is made. Excess and obsolete inventory is periodically disposed of through sale to third parties, scrapping, or other means.

##### *Business Combinations*

The Company follows the guidance under FASB ASC Topic 805, *Business Combinations*. The acquisition purchase price is allocated to the assets acquired and liabilities assumed based upon their respective fair values. The Company shall report in its financial statements provisional amounts for the items for which accounting is incomplete. Goodwill is adjusted for any changes to provisional amounts made within the measurement period. The Company utilizes management estimates and an independent third-party valuation firm to assist in determining the fair values of assets acquired and liabilities assumed. Such estimates and valuations require the Company to make significant assumptions, including projections of future events and operating performance.

##### *Redeemable Noncontrolling Interest*

The Company held three redeemable noncontrolling interests during 2015. The noncontrolling interests were recorded at fair value as of the acquisition date. The noncontrolling interest holders have the option to require the Company to redeem their ownership interests in the future with cash. The redemption value will be derived using a specified formula based on an earnings multiple adjusted by the net debt position, subject to a redemption floor value at the time of redemption. An assessment to compare redemption value to carrying value is performed on a quarterly basis. In 2015, the redemption value for one of the redeemable noncontrolling interests exceeded the carrying value, therefore, \$0.8 million of redemption value adjustments were made. In 2014 and 2013, \$0.9 million and \$0.2 million of redemption value adjustments were made, respectively. As a result, an adjustment to the earnings per share computation was necessary in 2015, 2014, and 2013.

##### *Trade Names and Goodwill*

According to FASB ASC Topic 350, *Intangibles – Goodwill and Other*, intangible assets with indefinite lives must be tested for impairment at least annually or more frequently as warranted by triggering events that indicate potential impairment. The Company uses a variety of methodologies in conducting impairment assessments including income and market approaches that utilize discounted cash flow models, which the Company believes are consistent with hypothetical market data. For indefinite-lived assets apart from goodwill, primarily trade names for the Company, if the fair value is less than the carrying amount, an



impairment charge is recognized in an amount equal to that excess. The Company has not made any material changes to the method of evaluating impairments during the last three years.

In compliance with FASB ASC Topic 350, goodwill is not amortized. Goodwill is tested at the reporting unit level for impairment annually or more frequently as warranted by triggering events that indicate potential impairment. Reporting units are operating segments or one level below, known as components, which can be aggregated for testing purposes. The Company's goodwill is allocated to the North America Water Systems, International Water, and Fueling Systems units, as components within the North America Water Systems and International Water reporting units can be aggregated. As the Company's business model evolves, management will continue to evaluate its reporting units and review the aggregation criteria.

In assessing the recoverability of goodwill, the Company determines the fair value of its reporting units by utilizing a combination of both the market value and income approaches. The market value approach compares the reporting units' current and projected financial results to entities of similar size and industry to determine the market value of the reporting unit. The income approach utilizes assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. These cash flows consider factors regarding expected future operating income and historical trends, as well as the effects of demand and competition. The Company may be required to record an impairment if these assumptions and estimates change whereby the fair value of the reporting units is below their associated carrying values. Goodwill included on the balance sheet as of the fiscal year ended 2015 was \$199.8 million.

During the fourth quarter of 2015, the Company completed its annual impairment test of intangibles and determined the fair value of all intangibles were substantially in excess of the respective carrying values. Significant judgment is required to determine if an indication of impairment has taken place. Factors to be considered include the following: adverse changes in operating results, decline in strategic business plans, significantly lower future cash flows, and sustainable declines in market data such as market capitalization. A 10 percent decrease in the fair value estimates used in the impairment test would not have changed this determination. The sensitivity analysis required the use of numerous subjective assumptions, which, if actual experience varies, could result in material differences in the requirements for impairment charges. Further, an extended downturn in the economy may impact certain components of the operating segments more significantly and could result in changes to the aggregation assumptions and impairment determination.

#### *Income Taxes*

Under the requirements of FASB ASC Topic 740, *Income Taxes*, the Company records deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company analyzes the deferred tax assets and liabilities for their future realization based on the estimated existence of sufficient taxable income. This analysis considers the following sources of taxable income: prior year taxable income, future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and tax planning strategies that would generate taxable income in the relevant period. If sufficient taxable income is not projected then the Company will record a valuation allowance against the relevant deferred tax assets. The Company operates in multiple tax jurisdictions with different tax rates, and determines the allocation of income to each of these jurisdictions based upon various estimates and assumptions. In the normal course of business, the Company will undergo tax audits by various tax jurisdictions. Such audits often require an extended period of time to complete and may result in income tax adjustments if changes to the allocation are required between jurisdictions with different tax rates. Although the Company has recorded all probable income tax uncertainties in accordance with FASB ASC Topic 740, these accruals represent estimates that are subject to the inherent uncertainties associated with the tax audit process, and therefore include uncertainties. Management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities, which, if actual experience varies, could result in material adjustments to deferred tax assets and liabilities. The Company's operations involve dealing with uncertainties and judgments in the application of complex tax regulations in multiple jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits.

#### *Pension and Employee Benefit Obligations*

With the assistance of the Company's actuaries, the discount rates used to determine pension and post-retirement plan liabilities are calculated using a yield-curve approach. The yield-curve approach discounts each expected cash flow of the liability stream at an interest rate based on high quality corporate bonds. The present value of the discounted cash flows is summed and an equivalent weighted-average discount rate is calculated. Market conditions have caused the weighted-average discount rate to move from 3.95 percent last year to 4.37 percent this year for the domestic pension plans and from 3.75 percent last year to 4.09 percent this year for the postretirement health and life insurance plan. A change in the discount rate selected by the

Company of 25 basis points would result in no change to employee benefit expense and a change of about \$4.5 million of liability. The Company consults with actuaries and investment advisors in making its determination of the expected long-term rate of return on plan assets. Using input from these consultations such as long-term investment sector expected returns, the correlations and standard deviations thereof, and the plan asset allocation, the Company has assumed an expected long-term rate of return on plan assets of 6.50 percent as of the fiscal year ended 2015. A change in the long-term rate of return selected by the Company of 25 basis points would result in a change of about \$0.3 million of employee benefit expense. According to FASB ASC 715, *Compensation - Retirement Benefits*, settlement accounting is triggered when lump sum payouts from a defined benefit plan exceed the sum of service cost and interest cost for the year. During 2015, one of the Company's domestic pension plans required settlement accounting as a payout to a participant exceeded these criteria. For the fiscal year ended January 2, 2016, the Company used the RP-2014 aggregate table projected using Scale MP-2015 released by the Society of Actuaries during 2015 to estimate future mortality rates based upon current data.

#### *Share-Based Compensation*

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. Options granted to retirement eligible employees are immediately expensed. Restricted awards and units granted to retirement eligible employees are expensed over the vesting period as the employee will receive a pro-rata number of shares upon their retirement. The Company uses historical data to estimate the expected volatility of its stock, the weighted average expected life, the period of time options granted are expected to be outstanding, and its dividend yield. The risk-free rates for periods within the contractual life of the option are based on the U.S. Treasury yield curve in effect at the time of the grant.

#### **FACTORS THAT MAY AFFECT FUTURE RESULTS**

This annual report on Form 10-K contains certain forward-looking information, such as statements about the Company's financial goals, acquisition strategies, financial expectations including anticipated revenue or expense levels, business prospects, market positioning, product development, manufacturing re-alignment, capital expenditures, tax benefits and expenses, and the effect of contingencies or changes in accounting policies. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intend," "estimate," "may increase," "may fluctuate," "plan," "goal," "target," "strategy," and similar expressions or future or conditional verbs such as "may," "will," "should," "would," and "could." While the Company believes that the assumptions underlying such forward-looking statements are reasonable based on present conditions, forward-looking statements made by the Company involve risks and uncertainties and are not guarantees of future performance. Actual results may differ materially from those forward-looking statements as a result of various factors, including general economic and currency conditions, various conditions specific to the Company's business and industry, new housing starts, weather conditions, market demand, competitive factors, changes in distribution channels, supply constraints, effect of price increases, raw material costs, technology factors, integration of acquisitions, litigation, government and regulatory actions, the Company's accounting policies, and other risks, all as described in Item 1A and Exhibit 99.1 of this Form 10-K. Any forward-looking statements included in this Form 10-K are based upon information presently available. The Company does not assume any obligation to update any forward-looking information, except as required by law.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is subject to market risk associated with changes in foreign currency exchange rates, interest rates, and commodity prices. Foreign currency exchange rate risk is mitigated through several means including maintenance of local production facilities in the markets served, invoicing of customers in the currency which the Company is billed for production inputs, prompt settlement of third party and inter-company balances, limited use of foreign currency denominated debt, maintaining minimal foreign currency denominated cash balances, and application of derivative instruments when appropriate. Based on the 2015 mix of foreign currencies, the Company estimates that a hypothetical strengthening of the US Dollar by about 10 percent would have reduced the Company's 2015 sales by about 5 percent.

The results of operations are exposed to changes in interest rates primarily with respect to borrowings under the Company's revolving credit agreement (the "Credit Agreement") and the New York Life Agreement, where interest rates are tied to the prime rate or London Interbank Offered Rates (LIBOR). The Company had no borrowings at year-end 2015 under the Credit Agreement and had \$75.0 million outstanding under the New York Life Agreement. The Company estimates that a hypothetical increase of 100 basis points in LIBOR rates would have increased interest expense by \$1.1 million during 2015. The Company also has exposure to changes in interest rates in the form of the fair value of outstanding fixed rate debt fluctuating in response to changing interest rates. The Company does not, as a matter of policy, enter into derivative contracts for speculative purposes.

Portions of the Company's business are exposed to volatility in the prices of certain commodities, such as copper, nickel and aluminum, among others. The primary exposure to this volatility resides with the use of these materials in purchased component parts. We generally maintain long-term fixed price contracts on raw materials and component parts, however, the Company is prone to exposure as these contracts expire. Based on the 2015 use of commodities, the Company estimates that a hypothetical 10 percent adverse movement in prices for raw metal commodities would result in about a 100 basis point decrease of gross margin as a percent of sales.

# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

(In thousands, except per share amounts)

	2015	2014	2013
Net sales	\$ 924,923	\$ 1,047,777	\$ 965,462
Cost of sales	627,315	703,367	633,948
Gross profit	297,608	344,410	331,514
Selling, general, and administrative expenses	204,250	227,711	204,014
Restructuring expense	2,997	16,611	3,719
Operating income	90,361	100,088	123,781
Interest expense	(10,039)	(10,735)	(10,597)
Other income, net	6,863	1,349	1,696
Foreign exchange expense	(869)	(999)	(3,331)
Income before income taxes	86,316	89,703	111,549
Income tax expense	12,625	18,851	28,851
Net income	\$ 73,691	\$ 70,852	\$ 82,698
Less Net income attributable to noncontrolling interests	(746)	(1,046)	(740)
Net income attributable to Franklin Electric Co., Inc.	\$ 72,945	\$ 69,806	\$ 81,958
Income per share			
Basic	\$ 1.52	\$ 1.43	\$ 1.70
Diluted	\$ 1.50	\$ 1.41	\$ 1.68
Dividends per common share	\$ 0.3825	\$ 0.3475	\$ 0.3050

See Notes to Consolidated Financial Statements

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

(In thousands)	2015	2014	2013
Net income	\$ 73,691	\$ 70,852	\$ 82,698
Other comprehensive income/(loss), before tax			
Foreign currency translation adjustments	(58,886)	(36,243)	(15,987)
Employee benefit plan activity			
Net gain/(loss) arising during period	1,278	(30,395)	25,624
Amortization arising during period	5,759	4,385	4,568
Other comprehensive income/(loss)	(51,849)	(62,253)	14,205
Income tax (expense)/benefit related to items of other comprehensive income/(loss)	(2,471)	8,593	(12,113)
Other comprehensive income/(loss), net of tax	(54,320)	(53,660)	2,092
Comprehensive income	19,371	17,192	84,790
Less Comprehensive income attributable to noncontrolling interest	121	570	415
Comprehensive income attributable to Franklin Electric Co , Inc	\$ 19,250	\$ 16,622	\$ 84,375

See Notes to Consolidated Financial Statements

FRANKLIN ELECTRIC CO , INC AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(In thousands)	2015	2014
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 81,561	\$ 59,141
Receivables, less allowances of \$3,801 and \$3,212, respectively	127,251	143,787
Inventories		
Raw material	82,223	88,961
Work-in-process	18,384	19,148
Finished goods	93,987	112,419
Total inventories	194,594	220,528
Deferred income taxes	—	8,364
Other current assets	34,728	37,719
Total current assets	438,134	469,539
Property, plant and equipment, at cost		
Land and buildings	117,753	127,782
Machinery and equipment	233,834	234,617
Furniture and fixtures	39,639	39,001
Other	19,845	20,539
Property, plant, and equipment, gross	411,071	421,939
Less Allowance for depreciation	(221,032)	(212,153)
Property, plant, and equipment, net	190,039	209,786
Asset held for sale	1,613	2,405
Deferred income taxes	3,461	3,899
Intangible assets, net	141,357	160,314
Goodwill	199,847	208,828
Other assets	21,957	21,116
Total assets	<u>\$ 996,408</u>	<u>\$ 1,075,887</u>

	2015	2014
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 57,822	\$ 70,806
Deferred tax liability	—	637
Accrued expenses and other current liabilities	52,109	94,782
Income taxes	1,794	788
Current maturities of long-term debt and short-term borrowings	32,946	34,092
Total current liabilities	144,671	201,105
Long-term debt	188,103	143,695
Deferred income taxes	33,404	45,568
Employee benefit plans	47,398	58,709
Other long-term liabilities	16,511	21,407
Commitments and contingencies (see Note 17)	—	—
Redeemable noncontrolling interest	6,856	6,420
<b>Shareowners' equity</b>		
Common stock (65,000 shares authorized, \$ 10 par value) outstanding (46,219 and 47,594, respectively)	4,622	4,759
Additional capital	216,472	207,446
Retained earnings	498,214	492,548
Accumulated other comprehensive loss	(161,608)	(107,913)
Total shareowners' equity	557,700	596,840
Noncontrolling interest	1,765	2,143
Total equity	559,465	598,983
Total liabilities and equity	\$ 996,408	\$ 1,075,887

See Notes to Consolidated Financial Statements

FRANKLIN ELECTRIC CO , INC AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	2015	2014	2013
Cash flows from operating activities			
Net income	\$ 73,691	\$ 70,852	\$ 82,698
Adjustments to reconcile net income to net cash flows from operating activities			
Depreciation and amortization	35,476	37,210	31,356
Share-based compensation	5,626	7,471	4,875
Deferred income taxes	(6,802)	(2,415)	1,707
Loss on disposals of plant and equipment	1,542	1,351	288
Realized gain on share purchase liability	(2,723)	—	—
Asset impairment	—	—	1,251
Foreign exchange expense	869	999	3,331
Excess tax from share-based payment arrangements	(932)	(2,463)	(5,153)
Changes in assets and liabilities, net of acquisitions			
Receivables	3,444	(29,064)	(16,729)
Inventory	9,350	(32,782)	(7,612)
Accounts payable and accrued expenses	(19,744)	22,852	2,126
Income taxes	5,575	(14,135)	7,009
Employee benefit plans	(2,455)	(6,834)	(7,586)
Other, net	(3,314)	(5,693)	713
Net cash flows from operating activities	99,603	47,349	98,274
Cash flows from investing activities			
Additions to property, plant, and equipment	(26,171)	(35,525)	(67,557)
Proceeds from sale of property, plant, and equipment	202	1,608	138
Cash paid for acquisitions, net of cash acquired	(3,761)	(35,599)	(3,513)
Additional consideration for prior acquisition	(127)	—	—
Cash paid for minority equity investments	—	(6,716)	(5,700)
Other, net	274	(1,490)	180
Net cash flows from investing activities	(29,583)	(77,722)	(76,452)
Cash flows from financing activities			
Proceeds from issuance of debt	233,486	98,394	70,299
Repayment of debt	(189,910)	(117,217)	(45,254)
Proceeds from issuance of common stock	2,050	2,929	14,068
Excess tax from share-based payment arrangements	932	2,463	5,153
Purchases of common stock	(48,579)	(10,610)	(12,364)
Dividends paid	(18,926)	(17,421)	(15,294)
Purchase of redeemable noncontrolling shares	—	(2,875)	—
Share purchase liability payment	(20,200)	—	—
Payment of contingent consideration liability	—	—	(5,555)
Net cash flows from financing activities	(41,147)	(44,337)	11,053
Effect of exchange rate changes on cash	(6,453)	(702)	(1,660)
Net change in cash and equivalents	22,420	(75,412)	31,215
Cash and equivalents at beginning of period	59,141	134,553	103,338



(In thousands)	2015	2014	2013
Cash and equivalents at end of period	<u>\$ 81,561</u>	<u>\$ 59,141</u>	<u>\$ 134,553</u>
Cash paid for income taxes, net of refunds	\$ 14,264	\$ 29,066	\$ 19,062
Cash paid for interest, net of capitalized interest of \$0, \$392, and \$748, respectively	\$ 10,211	\$ 10,850	\$ 10,159
Non-cash items			
Payable to seller of Bombas Leao, S A	\$ 24	\$ 267	\$ —
Additions to property, plant, and equipment, not yet paid	\$ 960	\$ 1,030	\$ 1,112

See Notes to Consolidated Financial Statements

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY

(In thousands)	Common Shares Outstanding	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interest	Redeemable Noncontrolling Interest
Balance as of year end 2012	47,132	\$ 4,712	\$ 170,890	\$ 395,950	\$ (57,146)	\$ 2,580	\$ 5,263
Net income				81,958		656	84
Currency translation adjustment					(15,662)	49	(374)
Minimum pension liability adjustment, net of tax expense of \$12,113					18,079		
Adjustments to Impo redemption value				(198)			198
Dividends on common stock (\$0.3050/share)				(14,518)			
Noncontrolling dividend						(776)	
Common stock issued	880	88	13,989	(9)			
Share-based compensation	65	7	4,868				
Common stock repurchased	(362)	(36)		(12,328)			
Tax benefit of stock options exercised			5,063				
Balance as of year end 2013	47,715	\$ 4,771	\$ 194,810	\$ 450,855	\$ (54,729)	\$ 2,509	\$ 5,171
Net income				69,806		654	392
Currency translation adjustment					(35,767)	(220)	(256)
Minimum pension liability adjustment, net of tax benefit of \$8,593					(17,417)		
Adjustments to Impo redemption value				(910)			910
Dividends on common stock (\$0.3475/share)				(16,621)			
Noncontrolling dividend						(800)	
Acquisitions							3,078
Common stock issued	172	17	2,912				
Purchase of redeemable noncontrolling shares							(2,875)
Share-based compensation	(9)	(1)	7,472				
Common stock repurchased	(284)	(28)		(10,582)			
Tax benefit of stock options exercised			2,252				
Balance as of year end 2014	47,594	\$ 4,759	\$ 207,446	\$ 492,548	\$ (107,913)	\$ 2,143	\$ 6,420
Net income				72,945		591	155
Currency translation adjustment					(58,261)	(146)	(479)
Minimum pension liability adjustment, net of tax expense of \$2,471					4,566		
Adjustments to Impo redemption value				(760)			760

(In thousands)	Common Shares Outstanding	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interest	Redeemable Noncontrolling Interest
Dividends on common stock (\$0.3825/share)				(18,103)			
Noncontrolling dividend						(823)	
Common stock issued	108	11	2,039				
Share-based compensation	151	15	5,611				
Common stock repurchased	(1,634)	(163)		(48,416)			
Tax benefit of stock options exercised			1,376				
Balance as of year end 2015	<u>46,219</u>	<u>\$ 4,622</u>	<u>\$ 216,472</u>	<u>\$ 498,214</u>	<u>\$ (161,608)</u>	<u>\$ 1,765</u>	<u>\$ 6,856</u>

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

See Notes to Consolidated Financial Statements

FRANKLIN ELECTRIC CO , INC AND CONSOLIDATED SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Company--**"Franklin Electric" or the "Company" shall refer to Franklin Electric Co , Inc and its consolidated subsidiaries

**Fiscal Year--**The Company's fiscal year ends on the Saturday nearest December 31 The financial statements and accompanying notes are as of and for the years ended January 2, 2016 (52 weeks), January 3, 2015 (53 weeks), and December 28, 2013 (52 weeks), and referred to as 2015, 2014, and 2013, respectively

**Principles of Consolidation--**The consolidated financial statements include the accounts of Franklin Electric Co , Inc and its consolidated subsidiaries All intercompany transactions have been eliminated

**Business Combinations--**The Company allocates the purchase price of its acquisitions to the assets acquired, liabilities assumed, and noncontrolling interests acquired based upon their respective fair values at the acquisition date The Company utilizes management estimates and inputs from an independent third-party valuation firm to assist in determining these fair values The excess of the acquisition price over these estimated fair values is recorded as goodwill Goodwill is adjusted for any changes to acquisition date fair value amounts made within the measurement period Acquisition-related transaction costs are recognized separately from the business combination and expensed as incurred

**Revenue Recognition--**Products are shipped utilizing common carriers direct to customers or, for consignment products, to customer specified warehouse locations Sales are recognized when the Company's products are shipped direct or, in the case of consignment products, transferred from the customer specified warehouse location to the customer, at which time transfer of ownership and risk of loss pass to the customer The Company records net sales revenues after discounts at the time of sale based on specific discount programs in effect, related historical data, and experience

**Research and Development Expense--**The Company's research and development activities are charged to expense in the period incurred The Company incurred expenses of approximately \$18.4 million in 2015, \$19.3 million in 2014, and \$16.8 million in 2013 related to research and development

**Cash and Cash Equivalents--**The Company considers cash on hand, demand deposits, and highly liquid investments with an original maturity date of three months or less to be cash and cash equivalents

**Fair Value of Financial Instruments--**Total debt, including current maturities, have carrying amounts of \$220.9 million at January 2, 2016 and \$177.2 million at January 3, 2015 The estimated fair value of all debt was \$225 million and \$191 million at January 2, 2016 and January 3, 2015, respectively In the absence of quoted prices in active markets, considerable judgment is required in developing estimates of fair value Estimates are not necessarily indicative of the amounts the Company could realize in a current market transaction In determining the fair value of its 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 The Company's off-balance sheet instruments consist of operating leases and certain derivative instruments with cancellation terms of thirty days or less

**Accounts Receivable, Earned Discounts, and Allowance for Uncollectible Accounts--**Accounts receivable are stated at estimated net realizable value Accounts receivable are comprised of balances due from customers, net of earned discounts and estimated allowances for uncollectible accounts Earned discounts are based on specific customer agreement terms In determining allowances for uncollectible accounts, historical collection experience, current trends, aging of accounts receivable, and periodic credit evaluations of customers' financial condition are reviewed

**Inventories--** Inventories are stated at the lower of cost or market The majority of the cost of domestic and foreign inventories is determined using the FIFO method with a portion of inventory costs determined using the average cost method The Company reviews its inventories for excess or obsolete products or components based on an analysis of historical usage and management's evaluation of estimated future demand, market conditions, and alternative uses for possible excess or obsolete parts

**Property, Plant, and Equipment--**Property, plant, and equipment are stated at cost Depreciation of plant and equipment is calculated on a straight line basis over the estimated useful lives of 10 to 40 years for land improvements and buildings, 5 to 10 years for machinery and equipment, and 3 to 7 years for furniture, fixtures, computers, and software Maintenance, repairs, and renewals of a minor nature are expensed as incurred Betterments and major renewals which extend the useful lives or add to the productive capacity of buildings, improvements, and equipment are capitalized The Company reviews its property, plant,

and equipment for impairment at the asset group level whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company's depreciation expense was \$26.8 million, \$28.1 million, and \$23.4 million in 2015, 2014, and 2013, respectively.

**Goodwill and Other Intangible Assets**--The Company tests goodwill for impairment on an annual basis during the fourth quarter or more frequently as warranted by triggering events that indicate potential impairment. Goodwill is tested at the reporting unit level, which the company has determined to be the North America Water Systems, International Water, and Fueling Systems units. In compliance with FASB ASC Topic 350, *Intangibles - Goodwill and Other*, the Company has evaluated the aggregation criteria and determined that the components within the North America Water Systems and International Water reporting units can be aggregated in 2015.

In assessing the recoverability of goodwill, the Company determines the fair value of its reporting units by utilizing a combination of both the income and market valuation approaches. The income approach estimates fair value based upon future revenue, expenses, and cash flows discounted to present value. The market valuation approach estimates fair value using market multipliers of various financial measures compared to a set of comparable public companies. The fair value calculated for each reporting unit is considered a Level 3 measurement within the fair value hierarchy.

An indication of impairment exists if the carrying value of the reporting unit is higher than its fair value, as determined by the above approach. The second step of testing as outlined in FASB ASC Topic 350 must be performed to measure the amount of impairment loss. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to its carrying value in the same manner as if the reporting units were being acquired in a business combination. The Company would allocate the fair value to all of the reporting unit's assets and liabilities, including any unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. The Company would record an impairment charge for the difference between the implied fair value of goodwill and the recorded goodwill.

The Company also tests indefinite lived intangible assets, primarily trade names, for impairment on an annual basis during the fourth quarter of each year, or more frequently as warranted by triggering events that indicate potential impairment. In assessing the recoverability of the trade names, the Company determines the fair value using an income approach. The income approach estimates fair value based upon future revenue and estimated royalty rates. The fair value calculated for indefinite lived intangible assets is considered a Level 3 measurement within the fair value hierarchy. An indication of impairment exists if the carrying value of the trade names is higher than the fair value. The Company would record an impairment charge for the difference.

Amortization is recorded and calculated for other definite lived intangible assets on a basis that reflects cash flows over the estimated useful lives. The weighted average number of years over which each intangible class is amortized is 17 years for patents, 6 years for supply agreements, 15 years for technology, 13 to 20 years for customer relationships, 5 years for software, and 8 years for all others.

**Warranty Obligations**--Warranty terms are generally 2 years from date of manufacture or 1 year from date of installation. The general warranty liability is recorded when revenue is recognized and is based on actual historical return rates from the most recent warranty periods. In 2007, the Company began offering an extended warranty program to certain Water Systems segment customers, which provides warranty coverage up to 5 years from the 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 and expected customer returns. The Company actively studies trends of warranty claims and takes action to improve product quality and minimize warranty claims.

**Income Taxes**--Income taxes are accounted for in accordance with FASB ASC Topic 740, *Income Taxes*. Under this guidance, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities and net operating loss and credit carry forwards using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Company records a liability for uncertain tax positions by establishing a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return.

**Share-Based Compensation**--Share-based awards are issued to key employees and non-employee directors and include discretionary grants of stock options, stock awards, and stock unit awards. Compensation costs resulting from share-based payment transactions are recognized within selling, general, and administrative expenses at the grant date fair value over the requisite service period on a straight-line basis.

**Pensions**--The Company makes its determination for pension, post retirement, and post employment benefit plans liabilities based on management estimates and consultation with actuaries, incorporating estimates and assumptions of future plan service costs, future interest costs on projected benefit obligations, rates of compensation increases, employee turnover rates, anticipated mortality rates, expected investment returns on plan assets, asset allocation assumptions of plan assets, and other factors

**Earnings Per Common Share**--Basic and diluted earnings per share are computed and disclosed in accordance with FASB ASC Topic 260, *Earnings Per Share*. The Company utilizes the two-class method to compute earnings available to common shareholders. Under the two-class method, earnings are adjusted by accretion amounts to redeemable noncontrolling interests recorded at redemption value. The adjustments represent dividend distributions, in substance, to the noncontrolling interest holder as the holders have contractual rights to receive an amount upon redemption other than the fair value of applicable shares. As a result, earnings are adjusted to reflect this in substance distribution that is different from other common shareholders. In addition, the Company allocates net earnings 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 non-forfeitable 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 allocable 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.

**Translation of Foreign Currency Financial Statements**--All assets and liabilities of foreign subsidiaries in functional currency other than the U.S. dollar are translated at year end exchange rates. All revenue and expense accounts are translated at average rates in effect during the respective period. Adjustments for translating longer term foreign currency assets and liabilities in U.S. dollars are included as a component of other comprehensive income. Transaction gains and losses that arise from shorter term exchange rate fluctuations are included in the "Foreign exchange expense" line within the Company's consolidated statements of income, as incurred.

**Significant Estimates**--The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Significant estimates and assumptions by management affect the allowance for uncollectible accounts, inventory valuation, warranty, business combinations, redeemable noncontrolling interest, trade names and goodwill, income taxes, pension and employee benefit obligations, and share-based compensation.

Although the Company regularly assesses these estimates, actual results could materially differ. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances.

## **2 ACCOUNTING PRONOUNCEMENTS**

### ***Adoption of New Accounting Standards***

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes*. This ASU requires an entity to classify deferred tax assets and liabilities as noncurrent within a classified balance sheet. The ASU is effective for interim and annual periods beginning after December 15, 2016, and early adoption is permitted. Entities can elect either prospective or retrospective adoption of the standard. The Company early adopted the new standard on a prospective basis as of the fiscal year-ended January 2, 2016. Accordingly, classification of prior period deferred tax amounts were not retrospectively adjusted.

In February 2015, the 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, cash flows, or related disclosures.

### ***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, or 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, or 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, or 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 on a retrospective basis 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, or 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 consolidated statements of income in the "Other income, net" line during the first quarter of 2015.

During the third quarter of 2014, the Company acquired controlling interests in two entities in India in separate unrelated 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 January 3, 2015 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 69.6 million million, \$31.0 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 revolving credit agreement.

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.

The goodwill amount of \$3.4 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 increased by \$0.3 million and current assets decreased by \$0.3 million during 2015 due to working capital adjustments. In addition, the Company paid an additional \$0.3 million to the sellers of Bombas Leao during 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		<u>51.0</u>
Liabilities		(20.0)
Total consideration paid	\$	<u><u>31.0</u></u>

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

The results of operations of Bombas Leao were included in the Company's consolidated statements of income from the acquisition date through the year ended January 3, 2015. The difference between actual sales for the Company and proforma sales including Bombas Leao as if it was acquired at the beginning of each year was not material as a component of the



Company's consolidated sales for the years ended January 3, 2015 and December 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 expense in the Company's consolidated statements of income were \$0.2 million, \$2.4 million, and \$1.1 million for the fiscal years ended 2015, 2014, and 2013, respectively.

#### 4 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 January 2, 2016 and January 3, 2015, the assets measured at fair value on a recurring basis were as set forth in the table below:

(In millions)	January 2, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 3.9	\$ 3.9	\$ —	\$ —

	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.

The Company has no assets measured on a recurring basis classified as Level 2 or Level 3.

As of January 2, 2016 and January 3, 2015, the Company had \$1.6 million and \$2.4 million of assets held for sale, respectively, recorded at carrying value in the Water Systems segment relating to an idle facility in Brazil.

#### 5. 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. As of January 2, 2016, the swap has a notional value based on 175,000 shares. For the years ended January 2, 2016 and January 3, 2015, the swap resulted in losses of \$2.0 million and \$0.8 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 consolidated statements of income within the "Selling, general, and administrative expenses" line

## 6 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 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 consolidated statements of income, were immaterial for the years ended January 2, 2016, January 3, 2015, and December 28, 2013.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(In millions)	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangibles				
Patents	\$ 7.4	\$ (6.2)	\$ 7.6	\$ (6.1)
Supply agreements	—	—	4.4	(4.4)
Technology	7.5	(4.8)	7.5	(4.3)
Customer relationships	132.6	(42.3)	140.2	(36.5)
Software	2.5	(1.7)	2.9	(1.7)
Other	1.0	(1.0)	1.2	(1.2)
Total	<u>\$ 151.0</u>	<u>\$ (56.0)</u>	<u>\$ 163.8</u>	<u>\$ (54.2)</u>
Unamortized intangibles				
Trade names	46.4	—	50.7	—
Total intangibles	<u>\$ 197.4</u>	<u>\$ (56.0)</u>	<u>\$ 214.5</u>	<u>\$ (54.2)</u>

The weighted average number of years over which each intangible class is amortized is as follows:

Class	Years
Patents	17
Supply agreements	6
Technology	15
Customer relationships	13 - 20
Software	5
Other	8

Amortization expense related to intangible assets for fiscal years 2015, 2014, and 2013, was \$8.6 million, \$9.1 million, and \$8.0 million, respectively.

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

(In millions)	2016	2017	2018	2019	2020
	\$ 8.4	\$ 8.3	\$ 8.3	\$ 8.2	\$ 8.1

The Company uses the acquisition method of accounting for business combinations. Annual goodwill impairment testing and trade name impairment testing is performed during the fourth quarter of each year based on balances as of the last Saturday of

the Company's eighth fiscal period, unless events or circumstances indicate earlier impairment testing is required. No impairment loss was recognized for 2015, 2014, or 2013.

The change in the carrying amount of goodwill by reporting segment for 2015 and 2014, is as follows:

(In millions)

	2015		
	Water Systems	Fueling Systems	Consolidated
Balance as of January 3, 2015	\$ 145.3	\$ 63.5	\$ 208.8
Acquisitions	—	—	—
Adjustments to prior year acquisitions	(0.9)	(0.2)	(1.1)
Foreign currency translation	(7.6)	(0.3)	(7.9)
Balance as of January 2, 2016	<u>\$ 136.8</u>	<u>\$ 63.0</u>	<u>\$ 199.8</u>

(In millions)

	2014		
	Water Systems	Fueling Systems	Consolidated
Balance as of December 28, 2013	\$ 144.1	\$ 63.1	\$ 207.2
Acquisitions	6.7	0.6	7.3
Adjustments to prior year acquisitions	—	—	—
Foreign currency translation	(5.5)	(0.2)	(5.7)
Balance as of January 3, 2015	<u>\$ 145.3</u>	<u>\$ 63.5</u>	<u>\$ 208.8</u>

The 2014 acquired goodwill in the Water Systems segment primarily related to the Company's acquisition of Bombas Leao. The remaining acquired goodwill in both the Water Systems and Fueling Systems segments related to two immaterial controlling interest acquisitions made in India.

## 8 EMPLOYEE BENEFIT PLANS

**Defined Benefit Plans** - As of January 2, 2016, the Company maintained two domestic pension plans and three German pension plans. The Company used a January 2, 2016 measurement date for these plans. One of the Company's domestic pension plans covers two management employees (one active employee and one former employee), 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 also maintains a postretirement benefit plan to provide health and life insurance benefits to employees hired prior to 1992. The Company effectively capped its cost for those benefits through plan amendments made in 1992, freezing Company contributions for insurance benefits at 1991 levels for current and future beneficiaries with actuarially reduced benefits for employees who retire before age 65. The disclosures surrounding this plan are reflected in the "Other Benefits" caption.

The following table sets forth aggregated information related to the Company's pension benefits and other postretirement benefits, including changes in the benefit obligations, changes in plan assets, funded status, amounts recognized in the balance sheet, amounts recognized in accumulated other comprehensive income, and actuarial assumptions that the Company considered in its determination of benefit obligations and plan costs. Benefit obligation balances presented below reflect the projected benefit obligation (PBO) for the Company's pension plans, and accumulated postretirement benefit obligations (APBO) for the Company's other benefit plans.

(In millions)

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Accumulated benefit obligation, end of year	<u>\$ 182 8</u>	<u>\$ 203 4</u>	<u>\$ 11 3</u>	<u>\$ 13 0</u>
Change in benefit obligation				
Benefit obligation, beginning of year	\$ 209 5	\$ 184 7	\$ 13 0	\$ 12 6
Service cost	1 4	1 2	0 1	0 1
Interest cost	7 5	8 2	0 5	0 5
Actuarial (gain)/loss	(12 3)	33 0	(1 0)	1 2
Settlements paid	(0 4)	(0 2)	—	—
Benefits paid	(14 4)	(15 0)	(1 3)	(1 4)
Curtailment	(1 9)	—	—	—
Foreign currency exchange	(2 5)	(2 4)	—	—
Benefit obligation, end of year	<u>\$ 186 9</u>	<u>\$ 209 5</u>	<u>\$ 11 3</u>	<u>\$ 13 0</u>
Change in plan assets				
Fair value of assets, beginning of year	\$ 160 0	\$ 151 1	\$ —	\$ —
Actual return on plan assets	(4 0)	14 4	—	—
Company contributions	6 9	10 1	1 3	1 4
Settlements paid	(0 4)	(0 1)	—	—
Benefits paid	(14 4)	(15 0)	(1 3)	(1 4)
Foreign currency exchange	(0 7)	(0 5)	—	—
Plan assets, end of year	<u>\$ 147 4</u>	<u>\$ 160 0</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	<u>\$ (39 5)</u>	<u>\$ (49 5)</u>	<u>\$ (11 3)</u>	<u>\$ (13 0)</u>
Amounts recognized in balance sheet				
Deferred tax asset	29 6	30 4	0 9	1 5
Current liabilities	(3 4)	(3 5)	(1 2)	(1 3)
Noncurrent liabilities	(36 0)	(46 0)	(10 1)	(11 7)
Net liability, end of year	<u>\$ (9 8)</u>	<u>\$ (19 1)</u>	<u>\$ (10 4)</u>	<u>\$ (11 5)</u>
Amount recognized in accumulated other comprehensive income				
Prior service cost	—	—	0 5	0 7
Net actuarial loss	48 0	52 3	0 9	1 7
Settlement	2 1	1 4	—	—
Total recognized in accumulated other comprehensive income	<u>\$ 50 1</u>	<u>\$ 53 7</u>	<u>\$ 1 4</u>	<u>\$ 2 4</u>

The following table sets forth other changes in plan assets and benefit obligation recognized in other comprehensive income for 2015 and 2014

(In millions)	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Net actuarial (gain)/loss	\$ (0 3)	\$ 29 1	\$ (1 0)	\$ 1 3
Amortization of				
Net actuarial gain	(2 8)	(2 2)	(0 2)	(0 1)
Prior service credit	—	—	(0 4)	(0 4)
Settlement recognition	(2 1)	(1 4)	—	—
Deferred tax asset/(liability)	1 9	(8 3)	0 6	(0 3)
Foreign currency exchange	(0 3)	(0 3)	—	—
Total recognized in other comprehensive income	\$ (3 6)	\$ 16 9	\$ (1 0)	\$ 0 5

Weighted-average assumptions used to determine domestic benefit obligations

	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Discount rate	4 37%	3 95%	4 09%	3 75%
Rate of increase in future compensation*	—%	—%	3 00 - 8 00% (Graded)	3 00 - 8 00% (Graded)

\*No rate of increases in future compensation used within assumptions for 2015 and 2014, as the cash balance component of the domestic Pension Plan was frozen and the other domestic Pension Plan components do not base benefits on compensation

Assumptions used to determine domestic periodic benefit cost

	Pension Benefits			Other Benefits		
	2015	2014	2013	2015	2014	2013
Discount rate	4 00%	4 75%	4 00%	3 75%	4 50%	3 50%
Rate of increase in future compensation*	—%	—%	—%	3 00 - 8 00% (Graded)	3 00 - 12 00% (Graded)	3 00 - 12 00% (Graded)
Expected long-term rate of return on plan assets	7.00%	7 70%	8 00%	—%	—%	—%

\*No rate of increases in future compensation used within assumptions for 2015 and 2014, as the cash balance component of the domestic Pension Plan was frozen and the other domestic Pension Plan components do not base benefits on compensation

For the fiscal year ended January 2, 2016, the Company used the RP-2014 aggregate table adjusted to back out estimated mortality improvements from 2006 to the measurement date using Scale MP-2014, and then projected forward using Scale MP-2015 released by the Society of Actuaries during 2015 to estimate future mortality rates based upon current data. For the fiscal year ended January 3, 2015, the Company adopted the RP-2014 aggregate table projected using Scale MP-2014 released by the Society of Actuaries during 2014.

The accumulated benefit obligation for the Company's tax qualified plan and German benefit pension plans was \$175.2 million and \$192.8 million for the years ended 2015 and 2014.

The following table sets forth the aggregated net periodic benefit cost for all pension plans for 2015, 2014, and 2013

(In millions)	Pension Benefits			Other Benefits		
	2015	2014	2013	2015	2014	2013
Service cost	\$ 1 4	\$ 1 2	\$ 1 8	\$ 0 1	\$ 0 1	\$ 0 1
Interest cost	7 5	8 2	7 6	0 5	0 5	0 5
Expected return on assets	(9 9)	(10 6)	(10 0)	—	—	—
Amortization of						
Transition obligation	—	—	—	—	—	0 4
Settlement cost	—	—	0 1	—	—	—
Prior service cost	—	—	—	0 4	0 4	0 4
Actuarial loss	3 4	2 5	3 6	0 2	0 1	—
Net periodic benefit cost	\$ 2 4	\$ 1 3	\$ 3 1	\$ 1 2	\$ 1 1	\$ 1 4
Settlement cost	1 2	1 0	—	—	—	—
Total net periodic benefit cost	\$ 3 6	\$ 2 3	\$ 3 1	\$ 1 2	\$ 1 1	\$ 1 4

The estimated net actuarial (gain)/loss and prior service cost/(credit) that will be amortized from accumulated other comprehensive income into net periodic benefit cost during the 2016 fiscal year are \$2 6 million and \$0 0 million, respectively, for the pension plans and \$0 1 million and \$0 3 million, respectively, for all other benefits

The Company consults with a third party investment manager for the assets of the funded domestic defined benefit plan. The plan assets are currently invested primarily in pooled funds, where each fund in turn is composed of mutual funds that have at least daily net asset valuations. Thus, the Company's funded domestic defined benefit plan assets are invested in a "fund of funds" approach.

The Company's Board has delegated oversight and guidance to an appointed Employee Benefits Committee. The Committee has the tasks of reviewing plan performance and asset allocation, ensuring plan compliance with applicable laws, establishing plan policies, procedures, and controls, monitoring expenses, and other related activities.

The plans' investment policies and strategies focus on the ability to fund benefit obligations as they come due. Considerations include the plan's current funded level, plan design, benefit payment assumptions, funding regulations, impact of potentially volatile business results on the Company's ability to make certain levels of contributions, and interest rate and asset return volatility among other considerations. The Company currently attempts to maintain plan funded status at approximately 80 percent or greater pursuant to the Pension Protection Act of 2007. Given the plan's current funded status, the Company's cash on hand, cash historically generated from business operations, and cash available under committed credit facilities, the Company sees ample liquidity to achieve this goal.

Risk management and continuous monitoring requirements are met through monthly investment portfolio reports, quarterly Employee Benefits Committee meetings, annual valuations, asset/liability studies, and the annual assumption process focusing primarily on the return on asset assumption and the discount rate assumption. As of January 2, 2016, funds were invested in equity, fixed income, and other investments as follows:

Equity	Percentage
U S Large Cap	15%
World Equity ex-U S	13%
U S Small / Mid Cap	6%
Subtotal	34%
Fixed Income	
U S Treasury and Government Agency Securities	11%
Intermediate Duration Bond	24%
Long Duration Bond	19%
High Yield Fixed Income	4%
Emerging Markets Debt	4%
Subtotal	62%
Other	
Insurance Contracts	3%
Cash Equivalents	1%
Subtotal	4%
Total	100%

The Company does not see any particular concentration of risk within the plans, nor any plan assets that pose difficulties for fair value assessment. The Company currently has no allocation to potentially illiquid or potentially difficult to value assets such as hedge funds, venture capital, private equity, and real estate.

The Company works with actuaries and consultants in making its determination of the asset rate of return assumption and also the discount rate assumption.

Asset class assumptions are set using a combination of empirical and forward-looking analysis for long-term rate of return on plan assets. A variety of models are applied for filtering historical data and isolating the fundamental characteristics of asset classes. These models provide empirical return estimates for each asset class, which are then reviewed and combined with a qualitative assessment of long-term relationships between asset classes before a return estimate is finalized. This provides an additional means for correcting for the effect of unrealistic or unsustainable short-term valuations or trends, opting instead for return levels and behavior that are more likely to prevail over long periods. With that, the Company has assumed an expected long-term rate of return on plan assets of 6.50 percent for the 2016 net periodic benefit cost, down from 7.00 percent in the prior year. This decrease in the assumed long-term rate of return is due to a higher percentage of assets in fixed income securities.

The Company uses the Aon Hewitt AA Above Median curve to determine the discount rate. All cash flow obligations under the plan are matched to bonds in the Aon Hewitt universe of liquid, high-quality, non-callable / non-putable corporate bonds with outliers removed. From that matching exercise, a discount rate is determined.

At January 2, 2016, the Company changed the method used to calculate the service and interest components of net periodic benefit cost for pension and other postretirement benefits for plans that utilize a yield curve approach. This change compared to the previous method will result in different service and interest components of net period benefit cost in future periods. Historically, the Company estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The Company elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield

curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change does not affect the measurement of the Company's domestic pension and postretirement benefit obligations and is accounted for as a change in accounting estimate applied prospectively. The change in the service and interest costs going forward is not expected to be material.

The Company's German pension plans are funded by insurance contract policies whereby the insurance company guarantees a fixed minimum return. Due to tax legislation, individual pension benefits can only be financed using direct insurance policies up to certain maximums. These maximum amounts in respect of each member are paid into such an arrangement on a yearly basis.

The Company designated all equity and most domestic fixed income plan assets as Level 1, as they are mutual funds with prices that are readily available. The U.S. Treasury securities and German plan assets are designated as Level 2 inputs. The fair value of the German plan assets are measured by the reserve that is supervised by the German Federal Financial Supervisory Authority. The U.S. Treasury securities are administered by the United States government.

The fair values of the Company's pension plan assets for 2015 and 2014 by asset category are as follows:

(In millions)	2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity				
U.S. Large Cap	\$ 22.9	\$ 22.9	\$ —	\$ —
U.S. Small / Mid Cap	8.1	8.1	—	—
World Equity ex-U.S.	19.6	19.6	—	—
Fixed Income				
U.S. Treasury and Government Agency Securities	15.8	—	15.8	—
Intermediate Duration Bond	35.4	35.4	—	—
Long Duration Bond	28.0	28.0	—	—
High Yield Fixed Income	6.5	6.5	—	—
Emerging Markets Debt	5.4	5.4	—	—
Other				
Insurance Contracts	4.9	—	4.9	—
Cash and Equivalents	0.8	0.8	—	—
Total	<u>\$ 147.4</u>	<u>\$ 126.7</u>	<u>\$ 20.7</u>	<u>\$ —</u>



(In millions)	2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Equity</b>				
U S Large Cap	\$ 23 0	\$ 23 0	\$ —	\$ —
U S Small / Mid Cap	8 9	8 9	—	—
World Equity ex-U S	19 9	19 9	—	—
<b>Fixed Income</b>				
U S Treasury and Government Agency Securities	27 9	—	27 9	—
Intermediate Duration Bond	—	—	—	—
Long Duration Bond	62 7	62 7	—	—
High Yield Fixed Income	7 0	7 0	—	—
Emerging Markets Debt	5 4	5 4	—	—
<b>Other</b>				
Insurance Contracts	5 2	—	5 2	—
Cash and Equivalents	—	—	—	—
<b>Total</b>	<u>\$ 160 0</u>	<u>\$ 126 9</u>	<u>\$ 33 1</u>	<u>\$ —</u>

One of the Company's domestic pension plans covers only two management employees. The Company does not fund this plan. The plan's projected benefit obligation and accumulated benefit obligation were \$9.8 million and \$7.7 million, respectively, for 2015, and \$12.4 million and \$10.5 million, respectively, for 2014.

The Company estimates total contributions to the plans of \$7 million in 2016.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in accordance with the following schedule:

(In millions)	Pension Benefits	Other Benefits
2016	\$ 14 9	\$ 1 2
2017	11 3	1 1
2018	11 5	1 0
2019	11 2	1 0
2020	11 2	0 9
Years 2021 through 2025	61 6	3 8

**Defined Contribution Plans** - The Company maintained two defined contribution plans during 2015 and 2014. The Company's cash contributions are allocated to participant's accounts based on investment elections.

The following table sets forth Company contributions to the defined contribution plans:

(In millions)	2015	2014	2013
Company contributions to the plans	\$ 5 9	\$ 5 6	\$ 5 3

## 9. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of

(In millions)	2015	2014
Salaries, wages, and commissions	\$ 20 5	\$ 38 8
Product warranty costs	9 3	9 4
Insurance	2 7	2 8
Employee benefits	11 0	11 1
Pioneer additional purchase price	—	22 9
Other	8 6	9 8
	<u>\$ 52 1</u>	<u>\$ 94 8</u>

## 10. INCOME TAXES

Income before income taxes consisted of the following

(In millions)	2015	2014	2013
Domestic	\$ 23 6	\$ 42 2	\$ 53 5
Foreign	62 7	47 5	58 0
	<u>\$ 86 3</u>	<u>\$ 89 7</u>	<u>\$ 111 5</u>

The income tax provision/(benefit) from continuing operations consisted of the following

(In millions)	2015	2014	2013
Current			
Federal	\$ 1 2	\$ 7 4	\$ 10 8
Foreign	17 4	12 2	14 3
State	0 8	1 7	2 1
Total current	<u>19 4</u>	<u>21 3</u>	<u>27 2</u>
Deferred			
Federal	(1 8)	3 3	4 3
Foreign	(4 0)	(3 8)	(1 3)
State	(1 0)	(1 9)	(1 3)
Total deferred	<u>\$ (6 8)</u>	<u>\$ (2 4)</u>	<u>\$ 1 7</u>
	<u>\$ 12 6</u>	<u>\$ 18 9</u>	<u>\$ 28 9</u>

A reconciliation of the tax provision for continuing operations at the U S statutory rate to the effective income tax expense rate as reported is as follows

	2015	2014	2013
U S Federal statutory rate	35 0%	35 0%	35 0%
State income taxes, net of federal benefit	(0 3)	1 0	1 2
Foreign operations	(13 1)	(9 2)	(6 2)
R&D tax credits	(1 0)	(0 6)	(1 1)
Uncertain tax position adjustments	(1 5)	(1 6)	(1 9)
Deferred tax adjustments - restructuring and rate adjustments	1 1	(3 9)	—
Valuation allowance on state and foreign deferred tax	4 1	(0 3)	(0 8)
Purchase of noncontrolling interest	(9 4)	—	—
Other items	(0 3)	0 6	(0 3)
Effective tax rate	14 6%	21 0%	25 9%

Significant components of the Company's deferred tax assets and liabilities were as follows

(In millions)	2015	2014
Deferred tax assets		
Accrued expenses and reserves	\$ 12 8	\$ 12 2
Compensation and employee benefits	25 7	32 6
Other items	9 6	7 3
Valuation allowance on state and foreign deferred tax	(7 2)	(3 9)
Total deferred tax assets	40 9	48 2
Deferred tax liabilities		
Accelerated depreciation on fixed assets	14 0	14 0
Amortization of intangibles	56 6	62 1
Other items	0 2	6 0
Total deferred tax liabilities	70 8	82 1
Net deferred tax liabilities	\$ (29 9)	\$ (33 9)

The effective tax rate continues to be lower than the statutory rate 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 settled the liability for the noncontrolling interest of a subsidiary during the first quarter. This transaction created additional accretive benefits for the Company from the reversal of a deferred tax liability created in 2012 when the Company acquired the controlling interest in the Pioneer subsidiary and realized a gain on the then equity investment in Pioneer. The Company also realized a gain on the mandatorily redeemable noncontrolling interest liability.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes*. This ASU requires an entity to classify deferred tax assets and liabilities as noncurrent within a classified balance sheet. The ASU is effective for interim and annual periods beginning after December 15, 2016, and early adoption is permitted. Entities can elect either prospective or retrospective adoption of the standard. The Company adopted the new standard on a prospective basis as of the fiscal year-ended January 2, 2016. Accordingly, classification of prior period deferred tax amounts were not retrospectively adjusted.

The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the

cumulative loss for certain state and foreign income tax purposes incurred over the three-year period ended January 2, 2016. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. On the basis of this evaluation, as of January 2, 2016, a valuation allowance of \$7.2 million has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized.

The Company has foreign income tax net operating loss ("NOL") carryforwards of \$5.2 million and state income tax NOL and credit carryforwards of \$5.1 million, which will expire on various dates as follows:

(In millions)		
2016-2019	\$	0.9
2020-2024		2.2
2025-2029		0.2
2030-2034		2.0
2035-2039		0.5
Unlimited		4.5
	<u>\$</u>	<u>10.3</u>

The Company believes that it is more likely than not that the benefit from certain foreign NOL carryforwards as well as certain state NOL and state credit carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance of \$2.4 million on the deferred tax assets related to these foreign NOL carryforwards and a valuation allowance of \$4.8 million on the deferred tax assets related to these state NOL and credit carryforwards.

The Company considers undistributed earnings from its foreign subsidiaries to be indefinitely reinvested with respect to the U.S. It is the Company's policy to reinvest earnings as needed for operations, capital and acquisition spending. The Company does not provide for deferred taxes on the excess of the financial reporting over the tax basis in our investments in foreign subsidiaries that are essentially permanent in duration. That excess totaled approximately \$374.8 million as of January 2, 2016. The determination of the additional deferred taxes that have not been provided is not practicable.

As of the beginning of fiscal year 2015, the Company had gross unrecognized tax benefits of \$4.4 million, excluding accrued interest and penalties. The unrecognized tax benefits decreased \$2.0 million for federal tax liabilities and remained the same for state income tax liabilities based on evaluations made during 2015 primarily due to statute expirations and offset by uncertain tax positions identified in the current year. The Company had gross unrecognized tax benefits, excluding accrued interest and penalties, of \$2.4 million as of January 2, 2016.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for 2015, 2014, and 2013 (excluding interest and penalties) is as follows:

(In millions)	2015	2014	2013
Beginning balance	\$ 4.4	\$ 5.1	\$ 6.9
Additions for tax positions of the current year	0.2	0.1	—
Additions for tax positions of prior years	0.2	1.7	1.7
Reductions for tax positions of prior years	(0.8)	(1.1)	(3.5)
Statute expirations	(1.6)	(1.4)	—
Settlements	—	—	—
Ending balance	<u>\$ 2.4</u>	<u>\$ 4.4</u>	<u>\$ 5.1</u>

If recognized, each annual effective tax rate would be affected by the net unrecognized tax benefits of \$2.3 million, \$4.3 million, and \$5.0 million as of January 2, 2016, January 3, 2015, and December 28, 2013, respectively.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. In 2015, interest and penalties decreased \$0.2 million, for prior year tax positions. The Company has accrued interest and penalties as of January 2, 2016, January 3, 2015, and December 28, 2013 of approximately \$2.3 million, \$2.5 million, and \$0.2 million, respectively.

Of the unrecognized tax benefits at January 2, 2016, \$2.1 million is related to acquisitions for which indemnification was provided for in the respective purchase agreement. The stock purchase agreements related to these acquisitions provide the Company rights to recover tax liabilities related to pre-acquisition tax years from the sellers.

The Company is subject to taxation in the United States and various state and foreign jurisdictions. With few exceptions, as of January 2, 2016, the Company is no longer subject to U.S. federal income tax examinations by authorities for years before 2012 and is no longer subject to foreign or state income tax examinations by tax authorities for years before 2010.

It is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months as a result of an audit or due to the expiration of a statute of limitation. Based on the current audits in process and pending statute expirations, the payment of taxes as a result could be up to \$0.7 million.

## **11. DEBT**

### ***New York Life***

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 senior notes have a floating interest rate of one-month USD LIBOR plus a spread of 1.35 percent with interest-only payments due on a monthly basis. As of January 2, 2016, there was \$75.0 million remaining borrowing capacity under the New York Life Agreement.

### ***Project Bonds***

On December 31, 2012, the Company, Allen County, Indiana and certain institutional investors entered into a Bond Purchase and Loan Agreement. Under the agreement, Allen County, Indiana issued a series of Project Bonds entitled "Taxable Economic Development Bonds, Series 2012 (Franklin Electric Co., Inc. Project)". The aggregate principal amount of the Project Bonds that were issued, authenticated, and are now outstanding thereunder was limited to \$25.0 million. The Company then borrowed the proceeds under the Project Bonds through the issuance of Project Notes to finance the cost of acquisition, construction, installation and equipping of the new Global Corporate Headquarters and Engineering Center. These Project Notes (tax increment financing debt) bear interest at 3.6 percent per annum. Interest and principal balance of the Project Notes are due and payable by the Company directly to the institutional investors in aggregate semi-annual installments commencing on July 10, 2013, and concluding on January 10, 2033. The use of the proceeds from the Project Notes was limited to assist the financing of the new Global Corporate Headquarters and Engineering Center. On May 5, 2015, the Company entered into Amendment No. 1 to the Bond Purchase and Loan Agreement. This amendment provided for debt repayment guarantees from certain Company subsidiaries and waived certain non-financial covenants related to subsidiary guarantees.

### ***Prudential Agreement***

On April 9, 2007, the Company entered into the Amended and Restated Note Purchase and Private Shelf Agreement (the "Prudential Agreement") in the amount of \$175.0 million. Under the Prudential Agreement, the Company issued notes in an aggregate principal amount of \$110.0 million on April 30, 2007 (the "B-1 Notes") and \$40.0 million on September 7, 2007 (the "B-2 Notes"). The B-1 Notes and B-2 Notes bear a coupon of 5.79 percent and had at issuance an average life of 10 years with a final maturity in 2019. On July 22, 2010, the Company entered into Amendment No. 3 to the Prudential Agreement to increase its borrowing capacity by \$25.0 million. On December 14, 2011, the Company entered into Amendment No. 4 to the Second Amended and Restated Note Purchase and Private Shelf Agreement to redefine the debt to EBITDA ratio covenant in order to be equivalent to that under the Agreement. On December 31, 2012, the Company and Prudential Insurance Company of America entered into an amendment to the Second Amended and Restated Note Purchase and Private Shelf Agreement to extend the effective date to December 31, 2015. On May 5, 2015, the Company entered into Amendment No. 6 to the Second Amended and Restated Note Purchase and Private Shelf Agreement. This amendment provided for debt repayment guarantees from certain Company subsidiaries and waived certain non-financial covenants related to subsidiary guarantees. On May 28, 2015, the Company entered into a Third Amended and Restated Note Purchase and Private Shelf Agreement with Prudential to increase the total borrowing capacity from \$200.0 million to \$250.0 million. As of January 2, 2016, the Company has \$100.0 million borrowing capacity available 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.

### ***Credit Agreement***

On December 14, 2006, the Company entered into an amended and restated unsecured, 60-month \$120.0 million revolving credit agreement (the "Credit Agreement"). The Credit Agreement provides for various borrowing rate options including interest rates based on the London Interbank Offered Rates (LIBOR) plus interest spreads keyed to the Company's ratio of debt

to earnings before interest, taxes, depreciation, and amortization ("EBITDA") On December 14, 2011, the Company executed the Second Amended and Restated Credit Agreement, which extended the maturity of the Agreement to December 14, 2016, and increased the commitment amount to \$150.0 million On May 5, 2015, the Company entered into Amendment No. 3 to the Credit Agreement This amendment provided for debt repayment guarantees from certain Company subsidiaries and waived certain non-financial covenants related to subsidiary guarantees The Company had zero borrowings under the Credit Agreement at January 2, 2016 and January 3, 2015

### Covenants

The New York Life Agreement, the Project Bonds, the Prudential Agreement, and the Credit Agreement contain customary affirmative and negative covenants The affirmative covenants relate to financial statements, notices of material events, conduct of business, inspection of property, maintenance of insurance, compliance with laws and most favored lender obligations The negative covenants include limitations on loans, advances and investments, and the granting of liens by the Company or its subsidiaries, as well as prohibitions on certain consolidations, mergers, sales and transfers of assets The covenants also include financial requirements including a maximum leverage ratio of 3.50 to 1.00 and a minimum interest coverage ratio of 3.00 to 1.00 Cross default is applicable with the Credit Agreement, the Prudential Agreement, the Project Bonds, and the New York Life Agreement, but only if the Company is defaulting on an obligation exceeding \$10.0 million The Company was in compliance with all financial covenants as of January 2, 2016

The Company also has certain overdraft facilities at its foreign subsidiaries, of which none were outstanding at January 2, 2016 and January 3, 2015

Debt consisted of the following

(In millions)	2015	2014
New York Life	\$ 75.0	\$ —
Prudential Agreement - 5.79 percent	120.0	150.0
Tax increment financing debt	22.8	23.7
Capital leases	0.1	0.6
Foreign subsidiary debt	3.1	3.5
	<u>221.0</u>	<u>177.8</u>
Less current maturities	(32.9)	(34.1)
Long-term debt	<u>\$ 188.1</u>	<u>\$ 143.7</u>

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	\$ 220.9	\$ 32.8	\$ 31.1	\$ 31.2	\$ 31.3	\$ 1.3	\$ 93.2
Capital leases	0.1	0.1	—	—	—	—	—
	<u>\$ 221.0</u>	<u>\$ 32.9</u>	<u>\$ 31.1</u>	<u>\$ 31.2</u>	<u>\$ 31.3</u>	<u>\$ 1.3</u>	<u>\$ 93.2</u>

## 12. SHAREOWNERS' EQUITY

The Company has the authority to issue 65,000,000, \$ 10 par value shares

During 2015, 2014, and 2013, pursuant to a stock repurchase program authorized by the Company's Board of Directors, the Company repurchased and retired the following amounts and number of shares

(In millions, except share amounts)	2015	2014	2013
Repurchases	\$ 46.3	\$ 9.0	\$ 2.8
Shares	1,568,731	243,020	88,200

In 2015, the Company retired 65,209 shares that were received from employees as payment for the exercise price of their stock options and taxes owed upon the exercise of their stock options and release of their restricted awards. The Company also retired 958 shares that had been previously granted as stock awards to employees, but were forfeited upon not meeting the required restriction criteria or termination. In 2014, the Company retired 40,679 shares that were received from employees as payment for the exercise price of their stock options and taxes owed upon the exercise of their stock options and release of their restricted awards. The Company also retired 68,675 shares that had been previously granted as a stock award to employees, but were forfeited upon termination. In 2013, the Company retired 273,799 shares that were received from employees as payment for the exercise price of their stock options and taxes owed upon the exercise of their stock options and release of their restricted awards. The Company also retired 6,190 shares that had been previously granted as stock awards to employees, but were forfeited upon termination.

In 2015, 2014, and 2013, the Company recorded \$1.4 million, \$2.3 million, and \$5.1 million, respectively, as a reduction in tax liability and an increase to shareowners' equity as a result of stock option exercises.

### 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) by component are summarized below.

(In millions)

	Foreign Currency Translation Adjustments	Pension and Post- Retirement Plan Benefit Adjustments	Total
<b>For the Year Ended January 2, 2016:</b>			
Balance, January 3, 2015	\$ (51.8)	\$ (56.1)	\$ (107.9)
Other comprehensive income/(loss) before reclassifications			
Pre-tax income/(loss)	(58.9)	—	(58.9)
Income tax (expense)/benefit	—	—	—
Other comprehensive income/(loss) before reclassifications, net of income taxes	(58.9)	—	(58.9)
Amounts reclassified from accumulated other comprehensive income/(loss)			
Pre-tax income/(loss)	—	7.1 (1)	7.1
Income tax (expense)/benefit	—	(2.5)	(2.5)
Amounts reclassified from accumulated other comprehensive income/(loss), net of income taxes	—	4.6	4.6
Net current period other comprehensive income/(loss), net of income taxes	(58.9)	4.6	(54.3)
Less: Other comprehensive income/(loss) attributable to noncontrolling interest	(0.6)	—	(0.6)
Balance, January 2, 2016	\$ (110.1)	\$ (51.5)	\$ (161.6)
<b>For the Year Ended January 3, 2015:</b>			
Balance, December 28, 2013	\$ (16.0)	\$ (38.7)	\$ (54.7)
Other comprehensive income/(loss) before reclassifications			
Pre-tax income/(loss)	(36.3)	—	(36.3)
Income tax (expense)/benefit	—	—	—
Other comprehensive income/(loss) before reclassifications, net of income taxes	(36.3)	—	(36.3)
Amounts reclassified from accumulated other comprehensive income/(loss)			
Pre-tax income/(loss)	—	(26.0) (1)	(26.0)
Income tax (expense)/benefit	—	8.6	8.6
Amounts reclassified from accumulated other comprehensive income/(loss), net of income taxes	—	(17.4)	(17.4)

Net current period other comprehensive income/(loss), net of income taxes	(36 3)	(17 4)	(53 7)
Less Other comprehensive income/(loss) attributable to noncontrolling interest	(0 5)	—	(0 5)
Balance, January 3, 2015	<u>\$ (51 8)</u>	<u>\$ (56 1)</u>	<u>\$ (107 9)</u>
<b>For the Year Ended December 28, 2013:</b>			
Balance, December 29, 2012	<u>\$ (0 3)</u>	<u>\$ (56 8)</u>	<u>\$ (57 1)</u>
Other comprehensive income/(loss) before reclassifications			
Pre-tax income/(loss)	(16 0)	—	(16 0)
Income tax (expense)/benefit	—	—	—
Other comprehensive income/(loss) before reclassifications, net of income taxes	(16 0)	\$ —	(16 0)
Amounts reclassified from accumulated other comprehensive income/(loss)			
Pre-tax income/(loss)	—	30 2 (1)	30 2
Income tax (expense)/benefit	—	(12 1)	(12 1)
Amounts reclassified from accumulated other comprehensive income/(loss), net of income taxes	—	18 1	18 1
Net current period other comprehensive income/(loss), net of income taxes	(16 0)	18 1	2 1
Less Other comprehensive income/(loss) attributable to noncontrolling interest	(0 3)	—	(0 3)
Balance, December 28, 2013	<u>\$ (16 0)</u>	<u>\$ (38 7)</u>	<u>\$ (54 7)</u>

(1) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost (refer to Note 8 for additional details) and is included in the "Selling, general, and administrative expenses" line of the Company's consolidated statements of income



#### 14 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.

(In millions, except per share amounts)	2015	2014	2013
<b>Numerator</b>			
Net income attributable to Franklin Electric Co., Inc.	\$ 72.9	\$ 69.8	\$ 82.0
Less: Undistributed earnings allocated to participating securities	0.7	0.7	1.0
Less: Undistributed earnings allocated to redeemable noncontrolling interest	0.8	0.9	0.2
	<u>\$ 71.4</u>	<u>\$ 68.2</u>	<u>\$ 80.8</u>
<b>Denominator</b>			
<b>Basic</b>			
Weighted average common shares	47.1	47.7	47.5
<b>Diluted</b>			
Effect of dilutive securities			
Non-participating employee incentive stock options and performance awards	0.5	0.5	0.6
Adjusted weighted average common shares	<u>47.6</u>	<u>48.2</u>	<u>48.1</u>
Basic earnings per share	\$ 1.52	\$ 1.43	\$ 1.70
Diluted earnings per share	\$ 1.50	\$ 1.41	\$ 1.68
Anti-dilutive stock options	0.3	0.1	0.1

#### 15. 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 authorizes 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

The total share-based compensation expense recognized in 2015, 2014, and 2013 was \$5.6 million, \$7.5 million, and \$4.9 million, respectively

**Stock Options:**

Under the above plans, the exercise price of each option equals the market price of the Company's common stock on the date of grant, and the options expire 10 years after the date of the grant. Options granted to employees vest at 25 percent a year and become fully vested and fully exercisable after 4 years (vesting is accelerated upon retirement, death, or disability). Subject to the terms of the plans, in general, the aggregate option exercise price and any applicable tax withholdings may be satisfied in cash or its equivalent, by the plan participant's delivery of shares of the Company's common stock having a fair market value at the time of exercise equal to the aggregate option exercise price and/or the applicable tax withholdings or by having shares otherwise subject to the award withheld by the Company or via cashless exercise through a broker-dealer.

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. Options granted to retirement eligible employees are immediately expensed. The Company uses historical data to estimate the expected volatility of its stock, the weighted average expected life, the period of time options granted are expected to be outstanding, and its dividend yield. The risk-free rates for periods within the contractual life of the option are based on the U.S. Treasury yield curve in effect at the time of the grant.

The assumptions used for the Black-Scholes model to determine the fair value of options granted during 2015, 2014, and 2013, are as follows:

	2015	2014	2013
Risk-free interest rate	1.59%	1.68%	1.03%
Dividend yield	0.95%	0.70%	0.89%
Volatility factor	0.379	0.387	0.394
Expected term	5.5 years	5.6 years	6.0 years
Forfeiture rate	3.67%	3.81%	4.52%

A summary of the Company's outstanding stock option activity and related information is as follows

(Shares in thousands)

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (000's)
Outstanding at beginning of 2013	2,184	\$ 16.69		
Granted	176	32.53		
Exercised	(880)	15.98		
Forfeited	(4)	14.37		
Expired	—	—		
Outstanding at beginning of 2014	1,476	\$ 19.01		
Granted	115	42.24		
Exercised	(171)	17.03		
Forfeited	(6)	26.28		
Expired	(17)	16.34		
Outstanding at beginning of 2015	1,397	\$ 21.17		
Granted	185	36.67		
Exercised	(108)	18.99		
Forfeited	(2)	34.93		
Expired	—	—		
Outstanding at end of period	1,472	\$ 23.26	4.79 years	\$ 9,981
Expected to vest after applying forfeiture rate	1,456	\$ 23.11	4.74 years	\$ 9,980
Vested and exercisable at end of period	1,106	\$ 19.04	3.61 years	\$ 9,871

	2015	2014	2013
Weighted average grant-date fair value of options	\$ 12.34	\$ 15.09	\$ 11.47

(In millions)	2015	2014	2013
Intrinsic value of options exercised	\$ 1.7	\$ 3.8	\$ 16.6
Cash received from the exercise of options	2.0	2.9	14.1
Fair value of shares vested	1.4	2.8	2.1
Tax benefit of options exercised	0.7	1.5	6.5

There were no share-based liabilities paid during the 2015 and 2014 fiscal years

A summary of the Company's non-vested stock option activity and related information is as follows

(Shares in thousands)	Shares	Weighted-Average Grant- Date Fair Value
Non-vested at beginning of 2014	534	\$ 25 30
Granted	115	42 24
Vested	(330)	23 98
Forfeited	(6)	26 28
Non-vested at beginning of 2015	313	\$ 32 91
Granted	185	36 67
Vested	(130)	29 49
Forfeited	(2)	34 93
Non-vested at end of period	366	\$ 36 02

As of January 2, 2016, there was \$1 6 million of total unrecognized compensation cost related to non-vested stock options granted under the 2012 Stock Plan and the 2009 Stock Plan. That cost is expected to be recognized over a weighted-average period of 2 44 years.

**Stock/Stock Unit Awards.**

Under the 2009 Stock Plan, non-employee directors and employees may be granted stock awards. Under the 2012 Stock Plan, non-employee directors and employees may be granted stock awards and stock units.

Stock awards to non-employee directors are generally fully vested when made. Stock/stock unit awards to employees cliff vest over 3 or 4 years (subject to accelerated vesting of a pro rata portion in the case of retirement, death or disability) and may be contingent on the attainment of certain performance goals. Dividends are paid to the recipient prior to vesting, except that dividends on performance-based stock awards under the 2012 Stock Plan will be paid only to the extent the performance goals are met. Stock/stock unit awards granted to retirement eligible employees are expensed over the vesting period.

A summary of the Company's restricted stock/stock unit award activity and related information is as follows

(Shares in thousands)	Shares	Weighted-Average Grant- Date Fair Value
Non-vested at beginning of 2014	551	\$ 24 75
Awarded	208	42 39
Vested	(132)	17 08
Forfeited	(73)	28 49
Non-vested at beginning of 2015	554	\$ 32 72
Awarded	134	36 27
Vested	(169)	30 39
Forfeited	(9)	32 31
Non-vested at end of period	510	\$ 34 43

As of January 2, 2016, there was \$7 7 million of total unrecognized compensation cost related to non-vested stock/stock unit awards granted under the 2012 Stock Plan and the 2009 Stock Plan. That cost is expected to be recognized over a weighted-average period of 2 25 years.

## 16. SEGMENT AND GEOGRAPHIC INFORMATION

The Company's business consists of the Water Systems and Fueling Systems reportable segments, based on the principal end market served. The Company includes unallocated corporate expenses and inter-company eliminations in an "Other" segment that together with the Water Systems and Fueling Systems segments, represent the Company.

The Water Systems segment designs, manufactures and sells motors, pumps, electronic controls and related parts and equipment primarily for use in submersible water and other fluid system applications. The Fueling Systems segment designs, manufactures and sells pumps, electronic controls and related parts and equipment primarily for use in submersible fueling system applications. The Fueling Systems segment integrates and sells motors and electronic controls produced by the Water Systems segment.

The accounting policies of the Company's reportable segments are the same as those described in Note 1 (Summary of Significant Accounting Policies). Performance is evaluated based on the sales and operating income of the segments and a variety of ratios to measure performance. These results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented.

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

(In millions)	Net sales to external customers			Operating income (loss)		
	2015	2014	2013	2015	2014	2013
Water Systems	\$ 707.6	\$ 824.6	\$ 766.4	\$ 86.7	\$ 103.9	\$ 131.3
Fueling Systems	217.3	223.2	199.1	51.5	49.7	42.6
Other	—	—	—	(47.8)	(53.5)	(50.1)
Consolidated	<u>\$ 924.9</u>	<u>\$ 1,047.8</u>	<u>\$ 965.5</u>	<u>\$ 90.4</u>	<u>\$ 100.1</u>	<u>\$ 123.8</u>

(In millions)	Total assets		Depreciation		
	2015	2014	2015	2014	2013
Water Systems	\$ 677.6	\$ 757.5	\$ 19.5	\$ 19.9	\$ 18.1
Fueling Systems	248.5	252.7	2.5	2.4	1.9
Other	70.3	65.7	4.8	5.8	3.4
Consolidated	<u>\$ 996.4</u>	<u>\$ 1,075.9</u>	<u>\$ 26.8</u>	<u>\$ 28.1</u>	<u>\$ 23.4</u>

(In millions)	Amortization			Capital expenditures		
	2015	2014	2013	2015	2014	2013
Water Systems	\$ 6.6	\$ 7.1	\$ 6.0	\$ 19.5	\$ 33.8	\$ 31.0
Fueling Systems	1.9	1.8	1.9	1.4	3.9	4.0
Other	0.1	0.2	0.1	5.0	4.7	32.2
Consolidated	<u>\$ 8.6</u>	<u>\$ 9.1</u>	<u>\$ 8.0</u>	<u>\$ 25.9</u>	<u>\$ 42.4</u>	<u>\$ 67.2</u>

Property, plant and equipment is the major asset group in "Other" of total assets at January 2, 2016. Property, plant and equipment is the major asset group in "Other" of total assets at January 3, 2015.

Financial information by geographic region is as follows:

(In millions)	Net sales			Long-lived assets	
	2015	2014	2013	2015	2014
United States	\$ 418.5	\$ 485.5	\$ 460.5	\$ 404.1	\$ 418.0
Foreign	506.4	562.3	505.0	150.7	184.4
Consolidated	<u>\$ 924.9</u>	<u>\$ 1,047.8</u>	<u>\$ 965.5</u>	<u>\$ 554.8</u>	<u>\$ 602.4</u>

Net sales are attributed to geographic regions based upon the ship to location of the customer Long-lived assets are attributed to geographic regions based upon the country of domicile

No single customer accounted for more than 10 percent of the Company's consolidated sales in 2015, 2014, or 2013 No single customer accounted for more than 10 percent of the Company's gross accounts receivable in 2015 or 2014

## 17 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 The complaints were consolidated into one case (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 On September 29, 2015 the Court of Appeals heard oral arguments on the case On December 8, 2015, the Court of Appeals affirmed the lower court's decision Although CARB had the opportunity to petition for cert to the California Supreme Court, the time for filing such petition has passed and thus this case has concluded

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

Total rent expense charged to operations for operating leases including contingent rentals was \$11.9 million, \$12.6 million, and \$11.0 million in 2015, 2014, and 2013, respectively

The future minimum rental payments for non-cancelable operating leases as of January 2, 2016, are as follows

(In millions)	2016	2017	2018	2019	2020
Future minimum rental payments	\$ 7.7	\$ 5.0	\$ 3.6	\$ 2.5	\$ 1.9

Rental commitments subsequent to 2020 are not significant by year, but aggregated are \$1.9 million in total

At January 2, 2016, the Company had \$8.3 million of commitments primarily for capital expenditures and the purchase of raw materials to be used in production

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 consolidated balance sheets for 2015 and 2014, are as follows

(In millions)	2015	2014
Beginning balance	\$ 9.4	\$ 9.5
Accruals related to product warranties	7.6	8.9
Reductions for payments made	(7.7)	(9.0)
Ending balance	<u>\$ 9.3</u>	<u>\$ 9.4</u>

## 18. RESTRUCTURING

On July 1, 2014, the Company announced a plan to close its Wittlich, Germany manufacturing facility As part of this action, the Company will transfer the existing Wittlich manufacturing activity to its Brno, Czech Republic facility The Company will

maintain its European Water Systems headquarters and distribution center in Wittlich, only the manufacturing operations will be relocating. The realignment began in the third quarter of 2014 and is estimated to conclude by the end of 2016. Charges for the realignment are expected to be approximately \$19.4 million and will include severance expenses, professional service fees, asset write-offs, and temporarily leased facilities costs.

Costs incurred in the twelve months ended January 2, 2016, included in the "Restructuring expense" line of the Company's consolidated statements of income, are as follows:

(In millions)	Water Systems	Fueling Systems	Other	Consolidated
Employee severance	\$ 0.3	\$ 0.3	\$ —	\$ 0.6
Equipment relocation	0.6	—	—	0.6
Asset write-off	0.1	—	—	0.1
Pension	0.6	—	—	0.6
Other	1.1	—	—	1.1
Total	<u>\$ 2.7</u>	<u>\$ 0.3</u>	<u>\$ —</u>	<u>\$ 3.0</u>

Restructuring expenses of \$16.6 million and \$3.7 million were incurred in 2014 and 2013, respectively, primarily for the Water Systems realignment.

As of January 2, 2016, there were no restructuring reserves. As of January 3, 2015, there were \$13.1 million restructuring reserves.

#### 19. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited quarterly financial information for 2015 and 2014, from continuing operations, is as follows:

(In millions, except per share amounts)

	Net Sales	Gross Profit	Net Income	Net Income Attributable to Franklin Electric Co., Inc.	Basic Earnings Per Share	Diluted Earnings Per Share
<b>2015</b>						
1st quarter	\$ 225.7	\$ 71.5	\$ 20.0	\$ 19.8	\$ 0.41	\$ 0.41
2nd quarter	247.4	80.2	16.4	16.1	0.33	0.33
3rd quarter	232.5	76.8	21.0	20.8	0.44	0.43
4th quarter	219.3	69.1	16.3	16.2	0.34	0.33
	<u>\$ 924.9</u>	<u>\$ 297.6</u>	<u>\$ 73.7</u>	<u>\$ 72.9</u>	<u>\$ 1.52</u>	<u>\$ 1.50</u>
<b>2014</b>						
1st quarter	\$ 231.4	\$ 78.1	\$ 17.4	\$ 17.0	\$ 0.35	\$ 0.35
2nd quarter	284.5	99.4	27.5	27.1	0.56	0.55
3rd quarter	278.1	89.2	22.8	22.7	0.46	0.46
4th quarter	253.8	77.7	3.2	3.0	0.06	0.06
	<u>\$ 1,047.8</u>	<u>\$ 344.4</u>	<u>\$ 70.9</u>	<u>\$ 69.8</u>	<u>\$ 1.43</u>	<u>\$ 1.41</u>

Basic and diluted earnings per share amounts are computed independently for each of the quarters presented. As a result, the sum of the quarterly earnings per share amounts may not equal the annual earnings per share amount.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and Directors, Franklin Electric Co , Inc

We have audited the accompanying consolidated balance sheets of Franklin Electric Co , Inc and subsidiaries (the "Company") as of January 2, 2016 and January 3, 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended January 2, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Franklin Electric Co , Inc and subsidiaries as of January 2, 2016 and January 3, 2015, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 2, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 2, 2016, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/DELOITTE & TOUCHE LLP  
Chicago, Illinois  
March 2, 2016



## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

### **ITEM 9A. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 under the Exchange Act during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

### **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting of the Company. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in the *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that the Company's system of internal control over financial reporting was effective as of January 2, 2016.

Our independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of January 2, 2016. This report appears on page 72.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and Directors, Franklin Electric Co , Inc

We have audited the internal control over financial reporting of Franklin Electric Co , Inc and subsidiaries (the "Company") as of January 2, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the three years ended January 2, 2016 of the Company and our report dated March 2, 2016 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/DELOITTE & TOUCHE LLP  
Chicago, Illinois  
March 2, 2016

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information concerning directors and director nominees required by this Item 10 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2016, under the headings of "ELECTION OF DIRECTORS" and "INFORMATION CONCERNING NOMINEES AND CONTINUING DIRECTORS," and is incorporated herein by reference

The information concerning executive officers required by this Item 10 is contained in Part I of this Form 10-K under the heading of "EXECUTIVE OFFICERS OF THE REGISTRANT," and is incorporated herein by reference

The information concerning Regulation S-K, Item 405 disclosures of delinquent Form 3, 4, or 5 filers required by this Item 10 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2016, under the heading of "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE," and is incorporated herein by reference

The information concerning the procedures for shareholders to recommend nominees to the Company's board of directors, the Audit Committee of the board of directors, and the Company's code of conduct and ethics required by this Item 10 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2016 under the heading "INFORMATION ABOUT THE BOARD AND ITS COMMITTEES," and is incorporated herein by reference

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2016, under the headings of "INFORMATION ABOUT THE BOARD AND ITS COMMITTEES," "MANAGEMENT ORGANIZATION AND COMPENSATION COMMITTEE REPORT," "COMPENSATION, DISCUSSION AND ANALYSIS," "SUMMARY COMPENSATION TABLE," "GRANT OF PLAN BASED AWARDS TABLE," "OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE," "OPTION EXERCISES AND STOCK VESTED TABLE," "PENSION BENEFITS TABLE," "NON-QUALIFIED DEFERRED COMPENSATION," "POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL OF THE COMPANY," and "DIRECTOR COMPENSATION," and is incorporated herein by reference

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2016, under the headings of "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS," "SECURITY OWNERSHIP OF MANAGEMENT" and "SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS," and is incorporated herein by reference

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 13 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2016, under the heading "INFORMATION ABOUT THE BOARD AND ITS COMMITTEES," and is incorporated herein by reference

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by Item 14 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 2016, under the heading "PROPOSAL 3 RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE 2016 FISCAL YEAR," and is incorporated herein by reference

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES**

Documents filed as part of this report	Form 10-K Annual Report (page)
<b>1 Financial Statements - Franklin Electric Co , Inc</b>	
Consolidated Statements of Income for the three years ended January 2, 2016	34
Consolidated Statements of Comprehensive Income for the three years ended January 2, 2016	35
Consolidated Balance Sheets as of January 2, 2016 and January 3, 2015	36
Consolidated Statements of Cash Flows for the three years ended January 2, 2016	38
Consolidated Statements of Equity for the three years ended January 2, 2016	40
Notes to Consolidated Financial Statements	42
<b>2 Financial Statement Schedule - Franklin Electric Co , Inc</b>	
Schedule II - Valuation and Qualifying Accounts	76
Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is disclosed elsewhere in the financial statements and related notes	
<b>3 Exhibits</b>	
Exhibits are set forth in the attached Exhibit Index	79
Management Contract, Compensatory Plan, or Arrangement is denoted by an asterisk (*)	

FRANKLIN ELECTRIC CO , INC AND CONSOLIDATED SUBSIDIARIES  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In millions)	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions (a)	Other	Balance at End of Period
2015					
Allowance for doubtful accounts	\$ 3 2	\$ 1 1	\$ 0 5	\$ —	\$ 3 8
Allowance for deferred taxes	3 9	3 5	0 2	—	7 2
2014					
Allowance for doubtful accounts	\$ 3 0	\$ 0 2	\$ —	\$ —	\$ 3 2
Allowance for deferred taxes	3 5	1 3	0 9	—	3 9
2013					
Allowance for doubtful accounts	\$ 3 2	\$ (0 1)	\$ 0 1	\$ —	\$ 3 0
Allowance for deferred taxes	4 4	(0 9)	—	—	3 5

(a) Charges for which allowances were created

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized

FRANKLIN ELECTRIC CO , INC

Registrant

Date March 2, 2016

By

/s/ Gregg C Sengstack

Gregg C Sengstack, Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 2, 2016

By /s/ Gregg C Sengstack

Gregg C Sengstack  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

/s/ John J Haines

John J Haines  
Vice President and Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)

/s/ David T Brown

David T Brown  
Director

/s/ Renee J Peterson

Renee J Peterson  
Director

/s/ David A Roberts

David A Roberts  
Director

/s/ Jennifer L Sherman

Jennifer L Sherman  
Director

/s/ Thomas R VerHage

Thomas R VerHage  
Director

/s/ David M Wathen

David M Wathen  
Director

FRANKLIN ELECTRIC CO , INC  
EXHIBIT INDEX TO THE ANNUAL REPORT ON FORM 10-K  
FOR THE FISCAL YEAR ENDED JANUARY 2, 2016

Number	Description
3 1	Amended and Restated Articles of Incorporation of Franklin Electric Co , Inc (incorporated by reference to Exhibit 3 1 of the Company's Form 8-K filed on May 3, 2007)
3 2	Amended and Restated Bylaws of Franklin Electric Co , Inc , as amended February 26, 2016 (incorporated by reference to Exhibit 3 1 of the Company's Form 8-K filed on March 1, 2016)
10 1	Franklin Electric Co , Inc Stock Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement for the Annual Meeting held on April 29, 2005)*
10 2	Franklin Electric Co , Inc Amended and Restated Stock Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement for the Annual Meeting held on April 24, 2009)*
10 3	Franklin Electric Co , Inc 2012 Stock Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement for the Annual Meeting held on May 4, 2012)*
10 4	Franklin Electric Co , Inc Non-employee Directors' Deferred Compensation Plan, as amended and restated (incorporated by reference to Exhibit 10 1 of the Company's Form 10-Q for the fiscal quarter ended on April 1, 2006)*
10 5	First Amendment to the Franklin Electric Co , Inc Nonemployee Directors' Deferred Compensation Plan dated February 19, 2010 (incorporated by reference to Exhibit 10 5 of the Company's Form 10-K for the fiscal year ended January 1, 2011)*
10 6	Second Amendment to the Franklin Electric Co , Inc Nonemployee Directors' Deferred Compensation Plan dated May 6, 2011 (incorporated by reference to Exhibit 10 6 of the Company's Form 10-K for the fiscal year ended December 31, 2011)*
10 7	Amended and Restated Franklin Electric Co , Inc Pension Restoration Plan (incorporated by reference to Exhibit 10 4 of the Company's Form 10-K filed for the fiscal year ended January 3, 2009)*
10 8	First Amendment to the Franklin Electric Co , Inc Pension Restoration Plan dated December 20, 2012 (incorporated by reference to Exhibit 10 8 of the Company's Form 10-K for the fiscal year ended December 29, 2012)*
10 9	Second Amendment to the Franklin Electric Co , Inc Pension Restoration Plan (incorporated by reference to Exhibit 10 10 of the Company's Form 10-K for the fiscal year ended January 3, 2015)*
10 10	Franklin Electric Co , Inc Supplemental Retirement and Deferred Compensation Plan (incorporated by reference to Exhibit 10 1 of the Company's Form 10-Q for the fiscal quarter ended September 29, 2012)*
10 11	First Amendment to the Franklin Electric Co , Inc Supplemental Retirement and Deferred Compensation Plan dated December 20, 2012 (incorporated by reference to Exhibit 10 10 of the Company's Form 10-K for the fiscal year ended December 29, 2012)*
10 12	Second Amendment to the Franklin Electric Co , Inc Supplemental Retirement and Deferred Compensation Plan (incorporated by reference to Exhibit 10 13 of the Company's Form 10-K for the fiscal year ended January 3, 2015)*
10 13	Third Amendment to the Franklin Electric Co , Inc Supplemental Retirement and Deferred Compensation Plan (incorporated by reference to Exhibit 10 14 of the Company's Form 10-K for the fiscal year ended January 3, 2015)*
10 14	Retirement and Consulting Agreement between the Company and R Scott Trumbull (incorporated by reference to Exhibit 10 1 of the Company's Form 8-K filed on May 6, 2014)*
10 15	Employment Agreement between the Company and Gregg C Sengstack (incorporated by reference to Exhibit 10 13 of the Company's Form 10-K for the fiscal year ended December 29, 2012)*
10 16	Employment Agreement between the Company and John J Haines (incorporated by reference to Exhibit 10 14 of the Company's Form 10-K for the fiscal year ended December 29, 2012)*
10 17	Form of Confidentiality and Non-Compete Agreement between the Company and Gregg C Sengstack, John J Haines, Steven W Aikman, Daniel J Crose, DeLancey W Davis, Julie S Freigang, Donald P Kenney, Robert J Stone, Thomas J Strupp, and R Scott Trumbull (incorporated by reference to Exhibit 10 15 of the Company's Form 10-K for the fiscal year ended January 1, 2005)*



- 10 18 Form of Employment Security Agreement between the Company and Steven W Aikman, Daniel J Crose, DeLancey W Davis, Julie S Freigang, Donald P Kenney, Robert J Stone and Thomas J Strupp (incorporated by reference to Exhibit 10 1 of the Company's Form 8-K filed on May 7, 2013)\*
- 10 19 Description of the Executive Officer Annual Incentive Cash Bonus Program (filed herewith)\*
- 10 20 Franklin Electric Co , Inc Management Incentive Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement for the Annual Meeting of Shareholders held May 8, 2015)\*
- 10 21 Form of Non-Qualified Stock Option Agreement for Non-Director Employees (incorporated by reference to Exhibit 10 1 of the Company's Form 8-K filed on March 12, 2013)\*
- 10 22 Form of Non-Qualified Stock Option Agreement for Director Employees (incorporated by reference to Exhibit 10 2 of the Company's Form 8-K filed on March 12, 2013)\*
- 10 23 Form of Restricted Stock Unit Agreement for Non-Director Employees (incorporated by reference to Exhibit 10 5 of the Company's Form 8-K filed on March 12, 2013)\*
- 10 24 Form of Restricted Stock Unit Agreement for Director Employees (incorporated by reference to Exhibit 10 4 of the Company's Form 8-K filed on March 12, 2013)\*
- 10 25 Form of Restricted Stock Agreement for Non-Director Employees (incorporated by reference to Exhibit 10 3 of the Company's Form 8-K filed on March 12, 2013)\*
- 10 26 Form of Restricted Stock Award Agreement for Director Employees (incorporated by reference to the Company's Form 8-K filed on May 4, 2012)\*
- 10 27 Form of Performance Stock Unit Award Agreement for Non-Director Employees (incorporated by reference to Exhibit 10 6 of the Company's Form 8-K filed on March 12, 2013)\*
- 10 28 Form of Performance Stock Unit Award Agreement for Director Employees (incorporated by reference to Exhibit 10 7 of the Company's Form 8-K filed on March 12, 2013)\*
- 10 29 Third Amended and Restated Note Purchase and Private Shelf Agreement by and among the Company, Prudential Investment Management, Inc , and the purchasers named therein (incorporated by reference to Exhibit 4 2 of the Company's Form 8-K filed on June 2, 2015)
- 10 30 Bond Purchase and Loan Agreement, dated December 31, 2012, among the Company, The Board of Commissions of the County of Allen, Indiana, and the Bondholders referred to therein (incorporated by reference to Exhibit 10 1 of the Company's Form 8-K filed on January 2, 2013)
- 10 31 Amendment No 1 to Bond Purchase and Loan Agreement and Waiver, dated May 5, 2015, among the Company, The Board of Commissioners of the County of Allen, and the Bondholders referred to therein (incorporated by reference to the Company's Form 10-Q filed on May 6, 2015)
- 10 32 \$150,000,000 Second Amended and Restated Credit Agreement, dated as of December 14, 2011, among the Company, Franklin Electric B V , JPMorgan Chase, N A , as Administrative Agent, and the lenders identified therein (incorporated by reference to Exhibit 10 1 of the Company's Form 8-K filed on December 15, 2011)
- 10 33 Amendment No 1 to the Second Amended and Restated Credit Agreement, dated as of October 1, 2013, between the Company and JPMorgan Chase and others (incorporated by reference to Exhibit 10 39 of the Company's Form 10-K for the fiscal year ended December 28, 2013)
- 10 34 Amendment No 2 to the Second Amended and Restated Credit Agreement, dated as of February 27, 2015, between the Company and JPMorgan Chase and others (incorporated by reference to Exhibit 10 42 of the Company's Form 10-K for the fiscal year ended January 3, 2015)
- 10 35 Amendment No 3 to the Second Amended and Restated Credit Agreement, dated May 5, 2015, by and among the Company, Franklin Electric B V , JPMorgan Chase N A , as Administrative Agent and the lenders identified therein (incorporated by reference to Exhibit 10 4 of the Company's Form 10-Q filed on May 6, 2015)
- 10 36 Note Purchase and Private Shelf Agreement by and among the Company, NYL Investors LLC, and the purchasers named therein (incorporated by reference to Exhibit 4 1 of the Company's Form 8-K filed on June 2, 2015)
- 10 37 Stock Redemption Agreement, dated April 15, 2015, between the Company and Ms Patricia Schaefer and Ms Diane Humphrey (incorporated by reference to Exhibit 99 1 of the Company's Form 8-K filed on April 20, 2015)
- 18 1 Franklin Electric Co , Inc and Subsidiaries Preferability Letter from Independent Registered Public Accounting Firm (incorporated by reference to Exhibit 18 1 of the Company's Form 10-Q for the fiscal quarter ended April 2, 2011)
- 21 Subsidiaries of the Registrant
- 23 1 Consent of Independent Registered Public Accounting Firm
- 31 1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

- 31 2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes—Oxley Act of 2002
- 32 1 Chief Executive Officer Certification Pursuant to 18 U S C Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32 2 Chief Financial Officer Certification Pursuant to 18 U S C Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99 1 Forward-Looking Statements

- 101 INS XBRL Instance Document
- 101 SCH XBRL Taxonomy Extension Schema
- 101 CAL XBRL Taxonomy Extension Calculation Linkbase
- 101 LAB XBRL Taxonomy Extension Label Linkbase
- 101 PRE XBRL Taxonomy Extension Presentation Linkbase
- 101 DEF XBRL Taxonomy Extension Definition Linkbase

\* Management Contract, Compensatory Plan or Arrangement

**FRANKLIN ELECTRIC CO., INC.**  
**SUBSIDIARIES OF THE REGISTRANT**

Subsidiary	State or Country of Organization	Percent of Voting Stock Owned
Bombas Leao SA	Brazil	100
Cookson & Zinn (PTL) Limited	United Kingdom	100
Coverco S r l	Italy	100
FE Latin America B V	Netherlands	100
FELE C V	Netherlands	100
Franklin Control Systems, Inc	Oregon	100
Franklin Electric (Australia) Pty Ltd	Australia	100
Franklin Electric (Chile) Ltda	Chile	100
Franklin Electric (SEA) Pty Ltd	Singapore	100
Franklin Electric (South Africa) Pty Ltd	South Africa	100
Franklin Electric (Suzhou) Co , Ltd	China	100
Franklin Electric (Zambia) Ltd	Zambia	100
Franklin Electric B V	Netherlands	100
Franklin Electric Botswana Pty Ltd	Botswana	100
Franklin Electric Canada, Inc	Canada	100
Franklin Electric Colombia SAS	Colombia	100
Franklin Electric Europa GmbH	Germany	100
Franklin Electric Germany Holding GmbH	Germany	100
Franklin Electric Holding B V	Netherlands	100
Franklin Electric India Private Ltd	India	100
Franklin Electric Industria de Motobombus SA	Brazil	100
Franklin Electric International, Inc	Delaware	100
Franklin Electric NL BV	Netherlands	100
Franklin Electric spol s r o	Czech Republic	100
Franklin Electric Subsidiaries, LLC	Indiana	100
Franklin Electric Trading (Shanghai) Co , Ltd	China	100
Franklin Fueling Sistemas de Combustiveis Ltda	Brazil	100
Franklin Fueling Systems (Beijing) Company Ltd	China	100
Franklin Fueling Systems Australia Pty Ltd	Australia	100
Franklin Fueling Systems France SARL	France	100
Franklin Fueling Systems India Private Ltd	India	100
Franklin Fueling Systems Ltd	United Kingdom	100
Franklin Fueling Systems, GmbH	Germany	100
Franklin Fueling Systems, Inc	Indiana	100
Impo Motor Pompa Sanayi ve Ticaret A S	Turkey	80
Intelligent Controls, Inc	Maine	100
Motores Electricos Sumergibles De Mexico S de R L	Mexico	100
Motores Franklin S A de C V	Mexico	100
Motori Sommersi Riavvolgibili S r l	Italy	75
Pioneer Pump Holdings Pty	Australia	100

Pioneer Pump Holdings, Inc	Delaware	100
Pioneer Pump Ltd	United Kingdom	100
Pioneer Pump Pty Ltd	South Africa	100
Pioneer Pump Solutions Ltd	United Kingdom	100
Pioneer Pump, Inc	Texas	100
Pluga Pumps and Motors Private Limited	India	70
Servicios de MESMEX de SRL	Mexico	100
Franklin Electric S r l	Italy	100
Wadcorpp Indian Private Limited	India	65

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statements (file numbers 333-01959, 333-59771, 333-34994, 333-34996, 333-111370, 333-124845, 333-158771, 333-166268, and 333-181138) on Form S-8 of our reports dated March 2, 2016, relating to the consolidated financial statements and financial statement schedule of Franklin Electric Co , Inc and subsidiaries (the "Company"), and the effectiveness of Franklin Electric Co , Inc and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Franklin Electric Co , Inc and subsidiaries for the year ended January 2, 2016

/s/DELOITTE & TOUCHE LLP  
Chicago, Illinois  
March 2, 2016

## CERTIFICATIONS

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregg C Sengstack, certify that

- 1 I have reviewed this Annual Report on Form 10-K of Franklin Electric Co , Inc , for the year ending January 2, 2016,
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report,
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Franklin Electric Co , Inc as of, and for, the periods presented in this report,
- 4 Franklin Electric Co , Inc 's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Franklin Electric Co , Inc and we have
  - a Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Franklin Electric Co , Inc , including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared,
  - b Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
  - c Evaluated the effectiveness of Franklin Electric Co , Inc 's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of end of the period covered by this report based on such evaluation, and
  - d Disclosed in this report any changes in Franklin Electric Co , Inc 's internal control over financial reporting that occurred during Franklin Electric Co , Inc 's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and
- 5 Franklin Electric Co , Inc 's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Franklin Electric Co , Inc 's auditors and the audit committee of Franklin Electric Co , Inc 's board of directors
  - a All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Franklin Electric Co , Inc 's ability to record, process, summarize and report financial information, and
  - b Any fraud, whether or not material, that involves management or other employees who have a significant role in Franklin Electric Co , Inc 's internal control over financial reporting

Date March 2, 2016

/s/ Gregg C Sengstack

Gregg C Sengstack

Chairman and Chief Executive Officer

Franklin Electric Co , Inc

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John J Haines, certify that

- 1 I have reviewed this Annual Report on Form 10-K of Franklin Electric Co , Inc , for the year ending January 2, 2016,
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report,
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Franklin Electric Co , Inc as of, and for, the periods presented in this report,
- 4 Franklin Electric Co , Inc 's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Franklin Electric Co , Inc and we have
  - a Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Franklin Electric Co , Inc , including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared,
  - b Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
  - c Evaluated the effectiveness of Franklin Electric Co , Inc 's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of end of the period covered by this report based on such evaluation, and
  - d Disclosed in this report any change in Franklin Electric Co , Inc 's internal control over financial reporting that occurred during Franklin Electric Co , Inc 's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, Franklin Electric Co , Inc 's internal control over financial reporting, and
- 5 Franklin Electric Co , Inc 's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Franklin Electric Co , Inc 's auditors and the audit committee of Franklin Electric Co , Inc 's board of directors
  - a All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Franklin Electric Co , Inc 's ability to record, process, summarize and report financial information, and
  - b Any fraud, whether or not material, that involves management or other employees who have a significant role in Franklin Electric Co , Inc 's internal control over financial reporting

Date March 2, 2016

/s/ John J Haines

John J Haines

Vice President and Chief Financial Officer and Secretary  
Franklin Electric Co , Inc

CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO 18 U S C SECTION 1350 AS ADOPTED PURSUANT  
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Franklin Electric Co , Inc (the "Company") on Form 10-K for the year ending January 2, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregg C Sengstack, President and Chief Executive Officer of the Company, certify to my knowledge, pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U S C Section 1350), that

- 1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- 2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company

Date March 2, 2016

/s/ Gregg C Sengstack

Gregg C Sengstack

Chairman and Chief Executive Officer

Franklin Electric Co , Inc



CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO 18 U S C SECTION 1350 AS ADOPTED PURSUANT  
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Franklin Electric Co , Inc (the "Company") on Form 10-K for the year ending January 2, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John J Haines, Vice President and Chief Financial Officer and Secretary of the Company, certify to my knowledge, pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U S C Section 1350), that

- 1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- 2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company

Date March 2, 2016

/s/ John J Haines

John J Haines

Vice President and Chief Financial Officer and Secretary

Franklin Electric Co , Inc

## ADDITIONAL EXHIBITS

### Forward-Looking Statements

Written and oral statements provided by the Company from time to time, including in the Company's annual report to shareholders and its annual report on Form 10-K and other filings under the Securities Exchange Act of 1934, may contain certain forward-looking information, such as statements about the Company's financial goals, acquisition strategies, financial expectations including anticipated revenue or expense levels, business prospects, market positioning, product development, manufacturing re-alignment, capital expenditures, tax benefits and expenses, and the effect of contingencies or changes in accounting policies. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intend," "estimate," "may increase," "may fluctuate," "plan," "goal," "target," "strategy," and similar expressions or future or conditional verbs such as "may," "will," "should," "would," and "could." While the Company believes that the assumptions underlying such forward-looking statements are reasonable based on present conditions, forward-looking statements made by the Company involve risks and uncertainties and are not guarantees of future performance. Actual results may differ materially from those in the Company's written or oral forward-looking statements as a result of various factors, including, but not limited to, the following:

- The Company's success in its ongoing evaluation and implementation of its business strategies, especially its success in managing the expense and integration, valuation and other risks of its acquisition strategy and divestitures
- Continued or increased competitive pressures that affect sales volume, pricing and profitability
- Increased competition due to industry consolidation or new entrants into the Company's existing markets
- The strength of the recovery and future health of the U.S. and international economies and other economic factors that directly or indirectly affect the demand for the Company's products, including the effect of economic conditions on housing starts in the United States and on the availability and terms of financing
- Increases in the cost of raw material, components, other materials, transportation or other services which the Company is unable to pass on to customers or which impact demand for the Company's products
- The effects of and changes in, trade, monetary and fiscal policies, laws and regulations and other activities of governments, agencies and similar organizations across the many countries and regions where the Company manufactures or sells its products, including trade restrictions, inflation, currency fluctuations, import and other charges or taxes, nationalizations and unstable governments
- The Company's success in implementing its strategy of concentrating production in low cost locations
- The Company's ability to anticipate changing customer requirements, fund and accomplish product innovation, improve processes, and attract and retain capable staff in order to deal with increasing volume and complexity in its products
- Difficulties or delays in the development, production, testing and marketing of products, including a failure to ship new products when anticipated, failure of customers to accept these products when planned, any defects in products or a failure of manufacturing economies to develop when planned
- The costs and other effects of administrative, civil or criminal proceedings, settlements and investigations, claims, developments or assertions by or against the Company, including those relating to intellectual property rights and licenses, alleged defects in products and non-compliance with governmental regulations
- The introduction of alternative products or governmental and regulatory actions that favor alternative methods of serving the same function as the Company's products, such as the extension of municipal water systems
- The effect of environmental legislation and regulation on the Company's products and sales
- Company's success in reducing or controlling growth in selling, general and administrative expenses

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- The Company's ability to manage the life cycle of its products, reduce product costs and other costs and increase productivity
  - Events such as fires, floods, or other natural disasters and weather conditions impacting the Company's ability to produce products or the demand for its products
  - A prolonged disruption of scheduled deliveries from suppliers when alternative sources of raw material and components are not available
  - Labor strikes or work stoppages by employees of the Company, its customers, suppliers, or freight contractors or other providers
  - The adoption of new, or changes in, accounting policies and practices

Some of these and other risks and uncertainties that may affect future results are discussed in more detail in "Item 1A - Risk Factors," "Item 7A - Quantitative and Qualitative Disclosures About Market Risk," and Note 17, "Commitments and Contingencies" included in Item 8 of this Annual Report on Form 10-K. All forward-looking statements included herein are based upon information presently available. The Company does not assume any obligation to update any forward-looking information, except as required by law.

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