

FRANKLIN ELECTRIC CO INC  
Form 10-K  
March 02, 2016

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

FORM 10-K

ý 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

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-362

FRANKLIN ELECTRIC CO., INC.  
(Exact name of registrant as specified in its charter)

Indiana  
(State or other jurisdiction of incorporation or  
organization)

35-0827455  
(I.R.S. Employer Identification No.)

9255 Coverdale Road  
Fort Wayne, Indiana  
(Address of principal executive offices)

46809  
(Zip Code)

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

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

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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.S., 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 Wadcorp 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,<br>2016 | February 19,<br>2015 |
|-----------------|----------------------|----------------------|
| Water Systems   | \$44.4               | \$50.6               |
| Fueling Systems | 15.0                 | 13.5                 |
| Consolidated    | \$59.4               | \$64.1               |

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

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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 |         | 2014    |         |
|-------------|---------------------|---------|-----------------|---------|---------|---------|
|             | 2015                | 2014    | 2015            |         | 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)       |   |
| Operations:  |           |             |           |           |           |   |
| 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    |   |
| Balance sheet:   |           |             |           |           |           |   |
| 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   |   |
| Other data:  |           |             |           |           |           |   |
| 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    |   |
| Per share:   |           |             |           |           |           |   |
| Market price range   |           |             |           |           |           |   |
| 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.

Includes the results of operations of the Company's 100% wholly owned subsidiary, Bombas Leao S.A., since its (b) acquisition in the second quarter of 2014, and 90% of the Company's owned subsidiary, Impo Motor Pompa Sanayi ve Ticaret A.S., 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.

Includes the results of operations of the Company's 80% owned subsidiary, Impo Motor Pompa Sanayi ve Ticaret (d)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    | \$924.9   | \$1,047.8 | \$(122.9 )  |

## 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    | \$ 90.4                 | \$ 100.1 | \$(9.7 )    |

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 |         |          |              |
|--|---------------------------|---------|----------|--------------|
|  | Water                     | Fueling | Other    | Consolidated |
| 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<br>(Operating Income Margin after Non-GAAP Adjustments) | 12.7                      | %23.9   | %        | 10.3 %       |

|  | 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<br>(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<br>(in millions) | For the Full Year |         |   | Change |   |
|---|-------------------|---------|---|--------|---|
|   | 2015              | 2014    |   |        |   |
| 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 |        | % |
| Non-GAAP adjustments (before tax):                              |                   |         |   |        |   |
| Restructuring   | \$3.0             | \$16.6  |   |        |   |
| Non-GAAP items  | \$2.1             | \$7.7   |   |        |   |
| Pioneer tax benefits on equity gain                             | \$(4.8)           | )\$—    |   |        |   |
| Non-GAAP adjustments, net of tax:                               |                   |         |   |        |   |
| Restructuring   | \$1.8             | \$11.4  |   |        |   |



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|  |         |        |     |    |
|--|---------|--------|-----|----|
| Non-GAAP items   | \$1.3   | \$4.7  |     |    |
| Pioneer tax benefits on equity gain  | \$(4.8) | )\$—   |     |    |
| Net Income attributable to Franklin Electric Co., Inc.<br>after Non-GAAP Adjustments (Adjusted Net Income) | \$69.7  | \$84.3 | (17 | )% |

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| Earnings Per Share Before and After Non-GAAP Adjustments For the Full Year |         |        |        |    |
|--|---------|--------|--------|----|
| (in millions except per-share data)  | 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    | \$ 100.1                | \$ 123.8 | \$(23.7 )   |

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



| Earnings Per Share Before and After Non-GAAP Adjustments<br>(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<br>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       | —         | —                    |
|                      | \$287.0 | \$55.9 | \$83.6    | \$42.0    | \$105.5              |

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 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.

#### 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  | \$996,408 | \$1,075,887 |

|  | 2015      | 2014         |
|--|-----------|--------------|
| <b>LIABILITIES AND EQUITY</b>  |           |              |
| Current liabilities:   |           |              |
| 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        |
| Shareowners' equity:   |           |              |
| 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  |

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| (In thousands)   | 2015     | 2014     | 2013      |
|--|----------|----------|-----------|
| Cash and equivalents at end of period  | \$81,561 | \$59,141 | \$134,553 |
| 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<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Noncontrolling<br>Interest | Redeemable<br>Noncontrolling<br>Interest |
|--|---------------------------------|-----------------|-----------------------|----------------------|--|----------------------------|--|
| Balance as of year<br>end 2012   | 47,132                          | \$4,712         | \$170,890             | \$395,950            | \$(57,146)   | \$2,580                    | \$5,263                                  |
| Net income   |                                 |                 |                       | 81,958               |  | 656                        | 84                                       |
| Currency<br>translation<br>adjustment  |                                 |                 |                       |                      | (15,662)   | 49                         | (374)                                    |
| Minimum pension<br>liability<br>adjustment, net of<br>tax expense of<br>\$12,113 |                                 |                 |                       |                      | 18,079   |                            |  |
| Adjustments to<br>Impo redemption<br>value                                       |                                 |                 |                       | (198)                |  |                            | 198                                      |
| Dividends on<br>common stock<br>(\$0.3050/share)                                 |                                 |                 |                       | (14,518)             |  |                            |  |
| Noncontrolling<br>dividend   |                                 |                 |                       |                      |  | (776)                      |  |
| Common stock<br>issued   | 880                             | 88              | 13,989                | (9)                  |  |                            |  |
| Share-based<br>compensation  | 65                              | 7               | 4,868                 |                      |  |                            |  |
| Common stock<br>repurchased  | (362)                           | (36)            |                       | (12,328)             |  |                            |  |
| Tax benefit of<br>stock options<br>exercised                                     |                                 |                 | 5,063                 |                      |  |                            |  |
| Balance as of year<br>end 2013   | 47,715                          | \$4,771         | \$194,810             | \$450,855            | \$(54,729)   | \$2,509                    | \$5,171                                  |
| Net income   |                                 |                 |                       | 69,806               |  | 654                        | 392                                      |
| Currency<br>translation<br>adjustment  |                                 |                 |                       |                      | (35,767)   | (220)                      | (256)                                    |
| Minimum pension<br>liability<br>adjustment, net of<br>tax benefit of<br>\$8,593  |                                 |                 |                       |                      | (17,417)   |                            |  |
| Adjustments to<br>Impo redemption<br>value                                       |                                 |                 |                       | (910)                |  |                            | 910                                      |
|  |                                 |                 |                       | (16,621)             |  |                            |  |

|   |        |         |           |           |            |         |         |         |
|---|--------|---------|-----------|-----------|------------|---------|---------|---------|
| Dividends on common stock (\$0.3475/share)                          |        |         |           |           |            |         |         |         |
| 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     |

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

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.