FRANKLIN ELECTRIC CO INC
Form 10-Q
August 01, 2017

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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	35-0827455
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO o

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

YES o NO x

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

Class of Common Stock	Outstanding at July 24, 2017
$.10 par value	46,490,853 shares

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Second Quarter Ended		Six Months Ended	
(In thousands, except per share amounts)	June 30, 2017	July 2, 2016	June 30, 2017	July 2, 2016
Net sales	$305,349	$252,081	$525,601	$470,511
Cost of sales	202,596	161,403	347,032	305,597
Gross profit	102,753	90,678	178,569	164,914
Selling, general, and administrative expenses	68,298	57,954	125,289	110,299
Restructuring expense	251	45	566	865
Operating income	34,204	32,679	52,714	53,750
Interest expense	(2,244)	(2,221)	(5,758)	(4,648)
Other income, net	5,573	1,373	6,240	1,341
Foreign exchange income/(expense)	(372)	315	103	238
Income before income taxes	37,161	32,146	53,299	50,681
Income tax expense	6,917	7,959	7,121	12,914
Net income	$30,244	$24,187	$46,178	$37,767
Less: Net income attributable to noncontrolling interests	(335)	(205)	(539)	(328)
Net income attributable to Franklin Electric Co., Inc.	$29,909	$23,982	$45,639	$37,439
Income per share:				
Basic	$0.64	$0.51	$0.97	$0.79
Diluted	$0.64	$0.50	$0.97	$0.78
Dividends per common share	$0.1075	$0.1000	$0.2075	$0.1975

See Notes to Condensed Consolidated Financial Statements.

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

	Second Quarter Ended		Six Months Ended	
(In thousands)	June 30, 2017	July 2, 2016	June 30, 2017	July 2, 2016
Net income	$30,244	$24,187	$46,178	$37,767
Other comprehensive income, before tax:				
Foreign currency translation adjustments	6,101	908	14,504	13,933
Employee benefit plan activity	747	743	1,490	1,485
Other comprehensive income	6,848	1,651	15,994	15,418
Income tax expense related to items of other comprehensive income	(252)	(266)	(504)	(532)
Other comprehensive income, net of tax	6,596	1,385	15,490	14,886
Comprehensive income	36,840	25,572	61,668	52,653
Less: Comprehensive income/(loss) attributable to noncontrolling interests	(364)	154	(153)	362
Comprehensive income attributable to Franklin Electric Co., Inc.	$37,204	$25,418	$61,821	$52,291

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands)	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$55,095	$104,331
Receivables, less allowances of $4,917 and $3,601, respectively	190,650	145,999
Inventories:		
Raw material	100,559	80,052
Work-in-process	18,412	18,735
Finished goods	177,716	104,684
Total inventories	296,687	203,471
Other current assets	37,194	30,018
Total current assets	579,626	483,819
Property, plant, and equipment, at cost:		
Land and buildings	142,014	121,364
Machinery and equipment	259,064	242,170
Furniture and fixtures	52,547	47,523
Other	14,861	19,089
Property, plant, and equipment, gross	468,486	430,146
Less: Allowance for depreciation	(253,834)	(234,009)
Property, plant, and equipment, net	214,652	196,137
Deferred income taxes	7,439	4,621
Intangible assets, net	136,818	134,667
Goodwill	236,153	199,609
Other assets	5,422	21,052
Total assets	$1,180,110	$1,039,905

	June 30, 2017	December 31, 2016
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$73,266	$63,927
Accrued expenses and other current liabilities	57,047	56,845
Income taxes	3,823	3,274
Current maturities of long-term debt and short-term borrowings	145,381	33,715
Total current liabilities	279,517	157,761
Long-term debt	126,030	156,544
Deferred income taxes	40,842	40,460
Employee benefit plans	42,705	45,307
Other long-term liabilities	17,635	17,093
Commitments and contingencies (see Note 15)	—	—
Redeemable noncontrolling interest	1,948	7,652
Shareholders' equity:		
Common stock (65,000 shares authorized, $.10 par value) outstanding (46,482 and 46,376, respectively)	4,648	4,638
Additional capital	235,141	228,564
Retained earnings	583,698	550,095
Accumulated other comprehensive loss	(153,670)	(169,852)
Total shareholders' equity	669,817	613,445
Noncontrolling interest	1,616	1,643
Total equity	671,433	615,088
Total liabilities and equity	$1,180,110	$1,039,905

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands)	Six Months Ended June 30, 2017	July 2, 2016
Cash flows from operating activities:		
Net income	$46,178	$37,767
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	18,412	17,633
Share-based compensation	4,546	4,155
Deferred income taxes	(3,361)	2,961
Loss on disposals of plant and equipment	178	1,681
Gain on equity investment	(4,788)	—
Foreign exchange (income)/expense	(103)	(238)
Changes in assets and liabilities, net of acquisitions		
Receivables	(9,289)	(31,221)
Inventory	(31,792)	(10,982)
Accounts payable and accrued expenses	(24,712)	3,091
Income taxes	(3,481)	2,502
Employee benefit plans	(2,431)	(3,910)
Other, net	(1,862)	5,872
Net cash flows from operating activities	(12,505)	29,311
Cash flows from investing activities:		
Additions to property, plant, and equipment	(18,621)	(19,490)
Proceeds from sale of property, plant, and equipment	109	2,166
Cash paid for acquisitions, net of cash acquired	(52,255)	—
Other, net	153	178
Net cash flows from investing activities	(70,614)	(17,146)
Cash flows from financing activities:		
Proceeds from issuance of debt	169,284	62,052
Repayment of debt	(122,088)	(69,903)
Proceeds from issuance of common stock	2,047	610
Purchases of common stock	(2,374)	(4,736)
Dividends paid	(10,199)	(9,821)
Purchase of redeemable noncontrolling shares	(5,047)	—
Net cash flows from financing activities	31,623	(21,798)
Effect of exchange rate changes on cash	2,260	(346)
Net change in cash and equivalents	(49,236)	(9,979)
Cash and equivalents at beginning of period	104,331	81,561
Cash and equivalents at end of period	$55,095	$71,582

(In thousands)	Six Months Ended June 30, 2017	July 2, 2016
Cash paid for income taxes, net of refunds	$14,583	$9,400
Cash paid for interest	$4,712	$4,944
Non-cash items:		
Additions to property, plant, and equipment, not yet paid	$474	$321
Payable to seller of Bombas Leao	$24	$24

See Notes to Condensed Consolidated Financial Statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
The accompanying condensed consolidated balance sheet as of December 31, 2016, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements as of June 30, 2017, and for the second quarters and six months ended June 30, 2017 and July 2, 2016 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, all accounting entries and adjustments (including normal, recurring adjustments) considered necessary for a fair presentation of the financial position and the results of operations for the interim period have been made. Operating results for the second quarter and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017. For further information, including a description of the critical accounting policies of Franklin Electric Co., Inc. (the "Company"), refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

2. ACCOUNTING PRONOUNCEMENTS

Accounting Standards Issued But Not Yet Adopted
In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires entities to present only the service cost component of net periodic benefit cost as an operating expense (consistent with the presentation of other employee compensation costs). The other components of net periodic benefit cost are to be presented as a non-operating expense. The ASU is effective on a retrospective basis for interim and annual periods beginning after December 15, 2017. Early adoption is permitted as of the beginning of any annual period for which an entity's financial statements have not been issued or made available for issuance. The Company plans to adopt the ASU in the first quarter ended March 31, 2018 and does not expect the adoption to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 removes step two from the goodwill impairment test and instead requires an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. The ASU is effective on a prospective basis for interim and annual periods beginning after December 15, 2019 with early adoption permitted. The Company is still determining the date of adoption for this ASU but does not anticipate the adoption to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes existing guidance on accounting for leases found in Accounting Standards Codification ("ASC") Topic 840. This ASU requires lessees to present right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. The guidance is to be applied using a modified retrospective approach at the beginning of the earliest comparative period in the financial statements and is effective for interim and annual periods beginning after December 15, 2018 with early adoption permitted. The Company has begun the evaluation process for the adoption of the ASU, and anticipates that the majority of the Company’s outstanding operating leases would be recognized as right-of-use assets and lease liabilities upon adoption, resulting in a significant impact to the Company’s consolidated balance sheets. The impact of this ASU is non-cash in nature and will not affect the Company’s cash position. The impact to the Company’s results of operations is still being evaluated.

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. This ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this standard. The Company will adopt ASU 2014-09 beginning in the first quarter of 2018 using the modified retrospective approach. The Company does expect to expand some disclosures in response to this ASU upon adoption; however, the Company does not expect the adoption of this ASU to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

3. ACQUISITIONS

During the second quarter of 2017, the Company redeemed 10 percent of the noncontrolling interest of Impo, a Turkish subsidiary, increasing the Company's ownership to 100 percent for approximately TRY 17.0 million, $5.0 million at the then current exchange rate. The 10 percent redemption value was calculated using a specified formula and resulted in a reduction to the carrying value of TRY 0.6 million ($0.2 million). Due to the immaterial nature of the redemption, the Company has not included full year proforma statements of income for the acquisition year or previous year.

During the second quarter of 2017, the Company acquired controlling interests in three distributors (2M Company, Inc. (“2M”), Drillers Service, Inc. (“DSI”), and Western Hydro, LLC (“Western Hydro”), collectively referred to below as the “Headwater acquisitions”) in the U.S. professional groundwater market for a combined purchase price of approximately $57.9 million, subject to certain terms and conditions. The Company had previously prepaid a $3.0 million portion of the purchase price at the time of original investment. The Company funded the Headwater acquisitions with cash on hand and short-term borrowings from the Company’s Revolver (see Note 10 - Debt). The Headwater acquisitions will be reported within a new “Distribution” segment (see Note 14 - Segment Information). The Headwater acquisitions provide the Company with a robust groundwater distribution channel throughout the United States.

The Company previously held equity interests in these entities, each of which was less than 50 percent, and accounted for by the equity method of accounting. The Company’s total interest in each of the entities is now 100 percent and the entities are included in the Company’s consolidated results effective from the date of acquisition. The original equity interests in the acquired entities were remeasured to their fair values as of the acquisition date (which aggregated was $20.2 million) based on the income approach, which utilized management estimates and consultation with an independent third-party valuation firm. Inputs included an analysis of the enterprise value based on financial projections and ownership percentages. As a result, the Company recognized an aggregate one-time gain on the acquisitions of $4.8 million, and none of the individual entity gains were material. This gain is included in the “Other income, net” line of the Company’s condensed consolidated statements of income for the second quarter and six months ended June 30, 2017.

The preliminary identifiable intangible assets recognized due to the Headwater acquisitions were $5.7 million and consist of customer relationships, which will be amortized utilizing the straight-line method over 15 years.

The preliminary goodwill of $34.4 million resulting from the Headwater acquisitions consists primarily of the benefits of forward channel integration opportunities and broadened product offerings. All of the goodwill was recorded as part of the Distribution segment, and only a portion ($12.1 million) is expected to be deductible for tax purposes.

The preliminary purchase price assigned to the major identifiable assets and liabilities for the Headwater acquisitions on an aggregated basis is as follows:

(In millions)	
Cash	$2.7
Receivables	30.4
Inventory	56.9
Other current assets	2.9
Total current assets	92.9
Property, plant, and equipment	9.4
Intangible assets	5.7
Goodwill	34.4
Other assets	1.7
Total assets	144.1
Accounts payable	(20.2)
Accrued liabilities and other current liabilities	(11.5)
Current maturities of long-term debt	(31.6)
Total current liabilities	(63.3)
Long-term debt	(2.0)
Other long-term liabilities	(0.7)
Total liabilities	(66.0)
Total	78.1
Less: Fair value of original equity interest	(20.2)
Total purchase price	$57.9

The fair values of the identifiable intangible assets and property, plant, and equipment related to the Headwater acquisition are provisional amounts as of June 30, 2017, pending final valuations and purchase accounting adjustments. The Company utilized management estimates and consultation with an independent third-party valuation firm to assist in the valuation process.
The following unaudited proforma financial information for the second quarters and six months ended June 30, 2017 and July 2, 2016 gives effect to the Headwater acquisitions by the Company as if the acquisitions had occurred as of January 3, 2016. These unaudited proforma condensed consolidated financial statements are prepared for informational purposes only and are not necessarily indicative of actual results or financial position that would have been achieved had the acquisitions been consummated on the dates indicated and are not necessarily indicative of future operating results or financial position of the consolidated companies. The unaudited proforma condensed consolidated financial statements do not give effect to any cost savings or incremental costs that may result from the integration of the Headwater acquisitions with the Company.
FRANKLIN ELECTRIC CO., INC.
PROFORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Second Quarter Ended		Six Months Ended	
(in millions, except per share amounts)	June 30, 2017	July 2, 2016	June 30, 2017	July 2, 2016
Revenue:				
As reported	$305.3	$252.1	$525.6	$470.5
Proforma	315.2	309.8	585.5	571.0
Net income:				
As reported	$29.9	$24.0	$45.6	$37.4
Proforma	30.3	26.3	46.9	40.6
Basic earnings per share:				
As reported	$0.64	$0.51	$0.97	$0.79
Proforma	0.65	0.56	1.00	0.84
Diluted earnings per share:				
As reported	$0.64	$0.50	$0.97	$0.78
Proforma	0.64	0.55	0.99	0.83

The Headwater entities contributed a total of $59.1 million of revenue and $1.9 million of net income to the Company's condensed consolidated statements of income from their acquisition dates through June 30, 2017.
Transaction costs were expensed as incurred under the guidance of FASB Accounting Standards Codification Topic 805, Business Combinations. There were $0.1 million and $0.3 million of transaction costs included in the "Selling, general, and administrative expenses" line of the Company's condensed consolidated statements of income for the second quarter and six months ended June 30, 2017, respectively. There were no transaction costs incurred in the second quarter or six months ended July 2, 2016.
4. FAIR VALUE MEASUREMENTS
FASB ASC Topic 820, Fair Value Measurements and Disclosures, provides guidance for defining, measuring, and disclosing fair value within an established framework and hierarchy. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard established a fair value hierarchy which requires an entity to maximize the use of observable inputs and to minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value within the hierarchy are as follows:

Level 1 – Quoted prices for identical assets and liabilities in active markets;

Level 2 – Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

As of June 30, 2017 and December 31, 2016, the assets measured at fair value on a recurring basis were as set forth in the table below:

(In millions)	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 3.0	$ 3.0	$ —	$ —

	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 3.6	$ 3.6	$ —	$ —

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

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

Total debt, including current maturities, have carrying amounts of $271.4 million and $190.2 million and estimated fair values of $276 million and $195 million as of June 30, 2017 and December 31, 2016, 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.

5. FINANCIAL INSTRUMENTS

The Company’s deferred compensation stock program is subject to variable plan accounting and, accordingly, is adjusted for changes in the Company’s stock price at the end of each reporting period. The Company has entered into share swap transaction agreements ("the swap") to mitigate the Company’s exposure to the fluctuations in the Company's stock price. The swap has not been designated as a hedge for accounting purposes and is cancellable with 30 days' written notice by either party. As of June 30, 2017, the swap had a notional value based on 215,000 shares. For the second quarter and six months ended June 30, 2017, the swap resulted in a loss of $0.4 million and a gain of $0.4 million, respectively. For the second quarter and six months ended July 2, 2016, the swap resulted in gains of $0.3 million and $1.1 million, respectively. Gains and losses resulting from the the swap were primarily offset by gains and losses on the fair value of the deferred compensation stock liability. All gains or losses and expenses related to the swap are recorded in the Company's condensed consolidated statements of income within the “Selling, general, and administrative expenses” line.

6. OTHER ASSETS

Through the second quarter of 2017, the Company held equity interests in the acquired companies identified in Note 3 - Acquisitions for various strategic purposes. The investments were accounted for under the equity method and were included in “Other assets” on the Company’s condensed consolidated balance sheets. The carrying amount of the investments were adjusted for the Company's proportionate share of earnings, losses, and dividends. The investments were not considered material to the Company’s financial position, either individually or in the aggregate. The Company’s proportionate share of earnings from its equity interests, included in the "Other income, net" line of the Company's condensed consolidated statements of income, were immaterial for the second quarters ended June 30, 2017 and July 2, 2016.

During the second quarter of 2017, the remaining interests of these equity method investments were purchased (see Note 3 - Acquisitions), bringing total ownership of these entities to 100 percent. As of June 30, 2017, there were no equity method investments recorded on the Company's condensed consolidated balance sheets.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(In millions)	June 30, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangibles:				
Patents	$7.5	$ (6.6)	$7.4	$ (6.4)
Technology	7.5	(5.6)	7.5	(5.3)
Customer relationships	140.0	(53.8)	133.4	(49.6)
Other	3.1	(2.5)	2.7	(2.1)
Total	$158.1	$ (68.5)	$151.0	$ (63.4)
Unamortized intangibles:				
Trade names	47.2	—	47.1	—
Total intangibles	$205.3	$ (68.5)	$198.1	$ (63.4)

Amortization expense related to intangible assets for the second quarters ended June 30, 2017 and July 2, 2016 was $2.2 million and $2.1 million, respectively and $4.3 million and $4.1 million for the six months ended June 30, 2017 and July 2, 2016, respectively.

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

(In millions)	2017	2018	2019	2020	2021
	$8.4	$8.4	$8.2	$8.1	$7.7

The change in the carrying amount of goodwill by reporting segment for the six months ended June 30, 2017, is as follows:
(In millions)

	Water Systems	Fueling Systems	Distribution	Consolidated
Balance as of December 31, 2016	$136.3	$ 63.3	$ —	$ 199.6
Acquisitions	—	—	34.4	34.4
Foreign currency translation	2.0	0.2	—	2.2
Balance as of June 30, 2017	$138.3	$ 63.5	$ 34.4	$ 236.2

8. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans - As of June 30, 2017, the Company maintained two domestic pension plans and three German pension plans. The Company used a December 31, 2016 measurement date for these plans. One of the Company's domestic pension plans covers one active management employee, while the other domestic plan covers all other eligible employees (plan was frozen as of December 31, 2011). The two domestic and three German plans collectively comprise the 'Pension Benefits' disclosure caption.

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

The following table sets forth the aggregated net periodic benefit cost for all pension plans for the second quarters and six months ended June 30, 2017 and July 2, 2016:

(In millions)	Pension Benefits			
	Second Quarter Ended		Six Months Ended	
	June 30, 2017	July 2, 2016	June 30, 2017	July 2, 2016
Service cost	$0.2	$0.3	$0.3	$0.5
Interest cost	1.5	1.6	2.9	3.1
Expected return on assets	(2.3)	(2.4)	(4.5)	(4.7)
Amortization of:				
Prior service cost	—	—	—	—
Actuarial loss	0.7	0.7	1.3	1.3
Settlement cost	—	0.3	—	0.6
Net periodic benefit cost	$0.1	$0.5	$—	$0.8

In the six months ended June 30, 2017, the Company made contributions of $2.2 million to the funded plans. The amount of contributions to be made to the plans during the calendar year 2017 will be finalized by September 15, 2017, based upon the funding level requirements identified and year-end valuation performed at December 31, 2016.

The following table sets forth the aggregated net periodic benefit cost for the post-retirement benefit plan for the second quarters and six months ended June 30, 2017 and July 2, 2016:

(In millions)	Other Benefits			
	Second Quarter Ended		Six Months Ended	
	June 30, 2017	July 2, 2016	June 30, 2017	July 2, 2016
Service cost	$—	$—	$—	$—
Interest cost	0.1	0.1	0.2	0.2
Expected return on assets	—	—	—	—
Amortization of:				
Prior service cost	0.1	0.1	0.2	0.2
Actuarial loss	—	—	—	—
Settlement cost	—	—	—	—
Net periodic benefit cost	$0.2	$0.2	$0.4	$0.4

9. INCOME TAXES

The Company’s effective tax rate from continuing operations for the six month period ended June 30, 2017 was 13.4 percent as compared to 25.5 percent for the six month period ended July 2, 2016. For the second quarters of 2017 and 2016 the effective tax rate was 18.6 percent and 24.8 percent, respectively.

The effective tax rate continues to be lower than the U.S. 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 U.S. incentives and certain discrete events. 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.

During the second quarter ended June 30, 2017, the Company acquired controlling interests in three U.S. distributors (see Note 3 - Acquisitions). These transactions created a discrete non-taxable gain recognized on the original minority equity investments resulting in a tax benefit of $1.8 million. In addition, the Company's unrecognized tax benefits decreased $0.8 million for foreign tax liabilities due to statute expirations during the second quarter.

During the first quarter ended March 31, 2017, the Company realized a loss on discrete intercompany loans that were long-term-investment in nature resulting in a permanent tax benefit of $1.7 million and the Company released a valuation allowance on deferred tax of $1.9 million in a foreign jurisdiction where a restructuring occurred.

10. DEBT

Debt consisted of the following:

(In millions)	June 30, 2017	December 31, 2016
Prudential Agreement	$60.0	$ 90.0
Tax increment financing debt	21.3	21.8
New York Life	75.0	75.0
Revolver	111.3	—
Capital leases	0.1	0.1
Foreign subsidiary debt	4.0	3.6
Less: unamortized debt issuance costs	(0.3)	(0.3)
	$271.4	$ 190.2
Less: current maturities	(145.4)	(33.7)
Long-term debt	$126.0	$ 156.5

Debt outstanding, excluding unamortized debt issuance costs, at June 30, 2017 matures as follows:

(In millions)	Total	Year 1	Year 2	Year 3	Year 4	Year 5	More Than 5 Years
Debt	$271.6	$145.3	$31.2	$1.3	$1.2	$1.3	$91.3
Capital leases	0.1	0.1	—	—	—	—	—
	$271.7	$145.4	$31.2	$1.3	$1.2	$1.3	$91.3

Prudential Agreement

The Company maintains the Third Amended and Restated Note Purchase and Private Shelf Agreement (the "Prudential Agreement") with an initial borrowing capacity of $250.0 million. The Prudential Agreement bears a coupon of 5.79 percent with a final maturity in 2019. Principal installments of $30.0 million are payable annually, including the date of maturity of April 30, 2019, with any unpaid balance due at that time. There is no additional borrowing capacity resulting from principal payments made by the Company. As of June 30, 2017, the Company has $100.0 million borrowing capacity available under the Prudential Agreement.

Project Bonds

The Company, Allen County, Indiana and certain institutional investors maintain 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. 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.

New York Life

The Company maintains an uncommitted and unsecured private shelf agreement with NYL Investors LLC, an affiliate of New York Life (the "New York Life Agreement"), entered into on May 27, 2015 for $150.0 million maximum aggregate principal borrowing capacity and authorized 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 (1.22 percent as of June 30, 2017) plus a spread of 1.35 percent with interest-only payments due on a monthly basis. As of June 30, 2017, there was $75.0 million remaining borrowing capacity under the New York Life Agreement.

Credit Agreement

The Company maintains the Third Amended and Restated Credit Agreement (the "Credit Agreement”). The Credit Agreement has a maturity date of October 28, 2021 and commitment amount of $300.0 million. The Credit Agreement provides that the Borrowers may request an increase in the aggregate commitments by up to $150.0 million (not to exceed a total commitment of $450.0 million). Under the Credit Agreement, the Borrowers are required to pay certain fees, including a facility fee of 0.100% to 0.275% (depending on the Company's leverage ratio) of the aggregate commitment, which fee is payable quarterly in arrears. Loans may be made either at (i) a Eurocurrency rate based on LIBOR plus an applicable margin of 0.75% to 1.60% (depending on the Company's leverage ratio) or (ii) an alternative base rate as defined in the Credit Agreement.

As of June 30, 2017, the Company had $111.3 million in outstanding borrowings which were primarily used for acquisition and working capital needs, $6.0 million in letters of credit outstanding, and $182.7 million of available capacity under the Credit Agreement.

Covenants

The New York Life Agreement, the Project Bonds, the Prudential Agreement, and the Credit Agreement contain customary affirmative and negative covenants. The affirmative covenants relate to financial statements, notices of material events, conduct of business, inspection of property, maintenance of insurance, compliance with laws and most favored lender obligations. The negative covenants include limitations on loans, advances and investments, and the granting of liens by the Company or its subsidiaries, as well as prohibitions on certain consolidations, mergers, sales and transfers of assets. The covenants also include financial requirements including a maximum leverage ratio of 3.50 to 1.00 and a minimum interest coverage ratio of 3.00 to 1.00. Cross default is applicable with the Prudential Agreement, the Project Bonds, the New York Life Agreement, and the Credit Agreement but only if the Company is defaulting on an obligation exceeding $10.0 million. The Company was in compliance with all financial covenants as of June 30, 2017.

11. EARNINGS PER SHARE

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

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

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

(In millions, except per share amounts)	Second Quarter Ended		Six Months Ended	
	June 30, 2017	July 2, 2016	June 30, 2017	July 2, 2016
Numerator:				
Net income attributable to Franklin Electric Co., Inc.	$29.9	$24.0	$45.6	$37.4
Less: Undistributed earnings allocated to participating securities	0.2	0.2	0.3	0.3
Less: Undistributed earnings allocated to redeemable noncontrolling interest	(0.2)	0.3	—	0.8
Net income available to common shareholders	$29.9	$23.5	$45.3	$36.3
Denominator:				
Basic weighted average common shares outstanding	46.5	46.2	46.4	46.2
Effect of dilutive securities:				
Non-participating employee stock options and performance awards	0.5	0.5	0.6	0.4
Diluted weighted average common shares outstanding	47.0	46.7	47.0	46.6
Basic earnings per share	$0.64	$0.51	$0.97	$0.79
Diluted earnings per share	$0.64	$0.50	$0.97	$0.78

There were 0.4 million and 0.5 million stock options outstanding for the second quarters ended June 30, 2017 and July 2, 2016, and 0.3 million and 0.7 million stock options outstanding for the six months ended June 30, 2017 and July 2, 2016, that were excluded from the computation of diluted earnings per share, as their inclusion would be anti-dilutive.

12. EQUITY ROLL FORWARD

The schedule below sets forth equity changes in the six months ended June 30, 2017:

(In thousands)	Common Stock	Additional Paid in Capital	Retained Earnings	Minimum Pension Liability	Cumulative Translation Adjustment	Noncontrolling Interest	Total Equity	Redeemable Noncontrolling Interest
Balance as of December 31, 2016	$4,638	$228,564	$550,095	$(51,568)	$(118,284)	$ 1,643	$615,088	$ 7,652
Net income			45,639			374	46,013	165
Adjustment to Impo redemption value			27				27	(27)
Dividends on common stock			(9,695)				(9,695)	
Common stock issued	9	2,038					2,047	
Common stock repurchased	(6)		(2,368)				(2,374)	
Share-based compensation	7	4,539					4,546	
Noncontrolling dividend						(504)	(504)	
Purchase of redeemable noncontrolling shares								(5,047)
Currency translation adjustment					15,196	103	15,299	(795)
Pension liability, net of tax				986			986	
Balance as of June 30, 2017	$4,648	$235,141	$583,698	$(50,582)	$(103,088)	$ 1,616	$671,433	$ 1,948

13. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)
Changes in accumulated other comprehensive income/(loss) by component for the six months ended June 30, 2017 and July 2, 2016, are summarized below:
(In millions)

For the six months ended June 30, 2017:	Foreign Currency Translation Adjustments	Pension and Post-Retirement Plan Benefit Adjustments (2)	Total
Balance as of December 31, 2016	$ (118.4)	$ (51.5)	$(169.9)
Other comprehensive income/(loss) before reclassifications	15.2	—	15.2
Amounts reclassified from accumulated other comprehensive income/(loss) (1)	—	1.0	1.0
Net other comprehensive income/(loss)	15.2	1.0	16.2
Balance as of June 30, 2017	$ (103.2)	$ (50.5)	$(153.7)
For the six months ended July 2, 2016:			
Balance as of January 2, 2016	$ (110.1)	$ (51.5)	$(161.6)
Other comprehensive income/(loss) before reclassifications	13.9	—	13.9
Amounts reclassified from accumulated other comprehensive income/(loss) (1)	—	0.9	0.9
Net other comprehensive income/(loss)	13.9	0.9	14.8
Balance as of July 2, 2016	$ (96.2)	$ (50.6)	$(146.8)

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

(2) Net of tax (benefit)/expense of $0.5 million for both the six months ended June 30, 2017 and July 2, 2016.

Amounts related to noncontrolling interests were not material.

14. SEGMENT INFORMATION

The accounting policies of the operating segments are the same as those described in Note 1 of the Company's Form 10-K. During the second quarter of 2017, as a result of recent acquisitions, the Company revised its reportable segments to now include a Distribution segment. The Water and Fueling segments include manufacturing operations and supply certain components and finished goods, both between segments and to the Distribution segment. The Company accounts for intersegment revenue transactions consistent with independent third party transactions, that is, at current market prices. Operating income by segment is based on net sales less identifiable operating expenses and allocations and includes profits recorded on sales to other segments of the Company.

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

(In millions)	Second Quarter Ended		Six Months Ended	
	June 30, 2017	July 2, 2016	June 30, 2017	July 2, 2016
	Net sales			
Water Systems				
External sales	$185.8	$194.6	$353.0	$363.4
Intersegment sales	17.6	—	17.6	—
Total sales	203.4	194.6	370.6	363.4
Distribution				
External sales	59.1	—	59.1	—
Intersegment sales	—	—	—	—
Total sales	59.1	—	59.1	—
Fueling Systems				
External sales	60.4	57.5	113.5	107.1
Intersegment sales	1.0	—	1.0	—
Total sales	61.4	57.5	114.5	107.1
Intersegment Eliminations/Other	(18.6)	—	(18.6)	—
Consolidated	$305.3	$252.1	$525.6	$470.5

	Second Quarter Ended		Six Months Ended	
	June 30, 2017	July 2, 2016	June 30, 2017	July 2, 2016