

FRANKLIN ELECTRIC CO INC  
Form DEF 14A  
March 20, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF

THE SECURITIES EXCHANGE ACT OF 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Franklin Electric Co., Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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-

FRANKLIN ELECTRIC CO., INC.

9255 Coverdale Road  
Fort Wayne, Indiana 46809

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held

May 4, 2018 at 8:00 a.m., Eastern Time

To the Shareholders of  
Franklin Electric Co., Inc.

The Annual Meeting of Shareholders of Franklin Electric Co., Inc. (the "Company"), an Indiana corporation, will be held at Franklin Electric Global Headquarters and Engineering Design Center, 9255 Coverdale Road, Fort Wayne, Indiana 46809 on Friday, May 4, 2018, at 8:00 a.m., Eastern Time. The purposes of the meeting are to:

1. Elect Gregg C. Sengstack and David M. Wathen as directors for terms expiring at the 2021 Annual Meeting of Shareholders;
2. Ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2018 fiscal year;
3. Approve, on an advisory basis, the executive compensation of the named executive officers as disclosed in the Proxy Statement; and
4. Transact any other business that may properly come before the Annual Meeting of Shareholders or any adjournment or postponement thereof.

Only shareholders of record at the close of business on March 2, 2018 will be entitled to notice of and to vote at the Annual Meeting.

You are urged to vote your proxy whether or not you plan to attend the Annual Meeting of Shareholders. If you do attend, you may choose to vote in person which will revoke any previously executed proxy.

By order of the Board of Directors.

Jonathan M. Grandon  
Vice President, Chief Administrative Officer, General Counsel and Secretary

Fort Wayne, Indiana  
March 20, 2018



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FRANKLIN ELECTRIC CO., INC.

9255 Coverdale Road, Fort Wayne, Indiana 46809

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PROXY STATEMENT

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Annual Meeting of Shareholders to be Held on May 4, 2018

GENERAL INFORMATION

This Proxy Statement and the enclosed proxy are furnished to shareholders in connection with the solicitation of proxies by the Board of Directors of Franklin Electric Co., Inc. (the "Company"), 9255 Coverdale Road, Fort Wayne, Indiana 46809 for use at the Annual Meeting of Shareholders to be held on May 4, 2018, or any adjournment or postponement thereof. Shareholders were sent a Notice of the Annual Meeting of Shareholders (the "Annual Meeting"), as well as information regarding how to access this Proxy Statement and the Company's 2017 Annual Report, including the financial statements contained therein, beginning on or about March 20, 2018.

The expenses of solicitation, including the cost of printing and mailing, will be paid by the Company. Officers and employees of the Company, without additional compensation, may solicit proxies personally, by telephone, email, or by facsimile. Arrangements will also be made with brokerage firms and other custodians, nominees, and fiduciaries to forward proxy solicitation materials to the beneficial owners of shares held of record by such persons, and the Company will reimburse such entities for reasonable out-of-pocket expenses incurred by them in connection therewith.



## NOTICE AND VOTING INSTRUCTIONS

Shareholders will receive a Notice Card with information regarding the availability of proxy materials over the internet. Shareholders who wish to receive a paper or email copy of the proxy materials must request one by submitting the request to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement. There is no charge for receiving a copy. Requests can also be made at the voting website, via telephone, or via email, as described in the Notice Card.

**Voting by Internet:** Use the internet link and control number provided to you on your Proxy Card. You may vote until 11:59 p.m., Eastern Time, on May 3, 2018. You will need the control number provided on your Proxy Card to access the website.

**Voting by Telephone:** Call the toll-free telephone number provided to you on your Proxy Card. Telephone voting will be available until 11:59 p.m., Eastern Time, on May 3, 2018. Detailed instructions will be provided during the call. The procedures are designed to authenticate votes cast by using the last 4 digits of a shareholder's social security/taxpayer I.D. number.

**Voting by Mail:** Request a hardcopy of the proxy materials by submitting your request to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement. Then complete the Proxy Card, date and sign it, and return it in the envelope provided. Shareholders may also vote their shares in person at the Annual Meeting.

Employees who are participants in the Company's Retirement Program (401(k) plan) will receive a notice and instructions by email or other method that explains how to vote shares credited to their Retirement Program accounts.

If a shareholder does not specify the manner in which the proxy shall be voted, the shares represented thereby will be voted:

• **FOR** the election of the nominees for director as set forth in this Proxy Statement;

• **FOR** the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2018 fiscal year;

• **FOR** approval of the compensation of the Company's named executive officers;

• **In** accordance with the recommendations of management with respect to other matters that may properly come before the Annual Meeting.

A shareholder who has executed a proxy has the power to revoke it at any time before it is voted by (i) delivering written notice of such revocation to Mr. Jonathan M. Grandon, Vice President, Chief Administrative Officer, General Counsel and Secretary, 9255 Coverdale Road, Fort Wayne, Indiana, 46809, (ii) executing and delivering a subsequently dated proxy by mail, or voting by telephone or through the internet at a later date, or (iii) attending the Annual Meeting and voting in person.

## SHAREHOLDERS ENTITLED TO VOTE AND SHARES OUTSTANDING

The Board of Directors of the Company fixed the close of business on March 2, 2018, as the record date (the "Record Date") for determining shareholders entitled to notice of and to vote at the Annual Meeting. As of the Record Date, there were 65,000,000 shares of Common Stock, \$.10 par value (the "Common Stock"), authorized, of which 46,529,805 shares of Common Stock were outstanding. Each share of Common Stock is entitled to one vote on each matter submitted to a vote of the shareholders of the Company. Votes cast by proxy or in person at the Annual

Meeting will be tabulated by the inspectors of election appointed for the Annual Meeting and will be counted as present for purposes of determining whether a quorum is present. A majority of the outstanding shares of Common Stock, present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes (which occur when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions from the beneficial owner) will be counted for purposes of determining the presence or absence of a quorum but will not be counted as votes cast on any matter submitted to shareholders. As a result, abstentions and broker non-votes will not have any effect on the voting results with respect to any of the matters scheduled to be submitted to shareholders at the Annual Meeting.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table shows the persons known by the Company to be the beneficial owners of more than five percent of the Company's Common Stock as of March 2, 2018, unless otherwise noted. The nature of beneficial ownership is sole voting and dispositive power, unless otherwise noted.

Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
BlackRock, Inc. 55 East 52 <sup>nd</sup> Street New York, NY 10022	5,311,651 <sup>(1)</sup>	11.42 %
Patricia Schaefer 5400 Deer Run Court Muncie, IN 47304	4,000,168 <sup>(2)</sup>	8.60 %
The Vanguard Group, Inc. 100 Vanguard Blvd. Malver, PA 19355	4,099,171 <sup>(3)</sup>	8.81 %
Diane D. Humphrey 2279 East 250 North Road Bluffton, IN 46714	3,160,140 <sup>(4)</sup>	6.79 %

(1) According to a Schedule 13G filed with the SEC, as of December 31, 2017, BlackRock, Inc. has sole voting power with respect to 5,215,817 shares.

(2) Pursuant to agreements with Ms. Schaefer, the Company has a right of first refusal with respect to 3,416,080 shares owned by Ms. Schaefer.

(3) According to a Schedule 13G filed with the SEC, as of December 31, 2017, The Vanguard Group, Inc. has sole voting power with respect to 85,197 shares, shared voting power with respect to 6,300 shares, sole dispositive power with respect to 4,010,574 shares and shared dispositive power with respect to 88,597 shares.

(4) Pursuant to agreements with Ms. Humphrey, the Company has a right of first refusal with respect to 2,843,436 shares owned by Ms. Humphrey.

## SECURITY OWNERSHIP OF MANAGEMENT

The following table shows the number of shares of Common Stock beneficially owned by directors, nominees, each of the executive officers named in the "Summary Compensation Table" on page 30 of this Proxy Statement and all executive officers and directors as a group, as of March 2, 2018. The nature of beneficial ownership is sole voting and investment power, unless otherwise noted, except for restricted shares, with respect to which the holder has investment power only after the shares vest.

Name of beneficial owner	Amount and nature of beneficial ownership	Percent of class
David T. Brown	0 <sup>(2)</sup>	*
Renee J. Peterson	0 <sup>(2)</sup>	*
David A. Roberts	45,512 <sup>(2)(4)(6)</sup>	*
Jennifer L. Sherman	0 <sup>(2)</sup>	*
Thomas R. VerHage	2,000 <sup>(2)</sup>	*
David M. Wathen	0 <sup>(2)</sup>	*
Gregg C. Sengstack	617,831 <sup>(1)(5)(8)</sup>	1.33
John J. Haines	164,269 <sup>(1)(3)(4)(5)(8)</sup>	*
Robert J. Stone	162,615 <sup>(1)(3)(4)(5)(7)(8)</sup>	*
DeLancey W. Davis	36,240 <sup>(1)(3)(4)(5)(8)</sup>	*
Donald P. Kenney	71,157 <sup>(1)(3)(5)(8)</sup>	*
All directors and executive officers as a group	1,171,176 <sup>(1)(2)(3)(4)(5)(6)(7)(8)</sup>	2.52

\* Less than 1 percent of class

Includes shares issuable pursuant to stock options exercisable within 60 days after March 2, 2018 as follows: Mr. (1) Sengstack, 276,426; Mr. Haines, 131,680; Mr. Stone, 97,651; Mr. Davis, 21,599; and Mr. Kenney, 34,320. All directors and executive officers as a group, 600,843.

Does not include stock units credited pursuant to the terms of the Non-Employee Directors' Deferred Compensation (2) Plan described under "Director Compensation" to: Mr. Brown, 67,889; Ms. Peterson, 14,461; Mr. Roberts, 5,427; Ms. Sherman, 17,034; Mr. VerHage, 34,075; and Mr. Wathen, 78,678.

Includes shares held by the 401(k) Plan Trustee as of March 2, 2018: Mr. Haines, 6,040; Mr. Stone, 24,549; Mr. (3) Davis, 122; and Mr. Kenney, 30,404. All executive officers as a group, 61,115.

Includes unvested restricted shares as follows: Mr. Roberts, 9,717; Mr. Haines, 3,571; Mr. Stone, 6,711; and Mr. (4) Davis 9,646. All executive officers as a group, 53,206.

Does not include unvested restricted stock units as follows: Mr. Sengstack, 79,100; Mr. Haines, 20,943; Mr. Stone, (5) 11,898; Mr. Davis, 5,944; and Mr. Kenney, 17,299. All executive officers as a group, 138,575.

(6) Includes 23,101 shares owned by a trust.

(7) Includes 17,928 shares indirectly owned.

Includes shares based on estimated release of performance share units earned in 2017 as follows: Mr. Sengstack, (8) 7,402; Mr. Haines, 2,327; Mr. Stone, 1,904; Mr. Davis, 1,599; and Mr. Kenney, 876. All executive officers as a group, 14,954. See the "Compensation Discussion and Analysis" section for further information.

#### PROPOSAL 1: ELECTION OF DIRECTORS

The Company's Amended and Restated By-laws provide that the Board of Directors shall consist of seven directors, divided into three classes of two or three directors each. Each year, the directors of one of the three classes are elected to serve terms of three years or until their successors have been elected and qualified. Two directors will be elected at the Annual Meeting this year. Directors are elected by the affirmative vote of a majority of the shares voted, unless the number of nominees for director exceeds the number of directors to be elected, in which case directors shall be elected by a plurality of the shares voted (i.e., the two nominees who receive the most votes will be elected).

Gregg C. Sengstack and David M. Wathen have been nominated to serve as directors of the Company for terms expiring in 2021. The nominees are current directors of the Company and have indicated their willingness to continue to serve as directors if elected. If, however, any nominee is unwilling or unable to serve as a director, shares represented by the proxies will be voted for the election of another nominee proposed by the Board of Directors or the Board may reduce the number of directors to be elected at the Annual Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS  
THAT YOU VOTE FOR THE ELECTION OF EACH NOMINEE.

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INFORMATION CONCERNING NOMINEES AND CONTINUING DIRECTORS

Set forth below for the director nominees and continuing directors are their ages, year they first became a director, principal occupations and directorships for at least the past five years, and legal proceedings, if any, for the past ten years. With respect to each nominee or continuing director, we describe under the heading "Relevant Experience" the particular experience and other attributes that have led to the conclusion that the individual should serve on the Board of Directors of the Company.

Directors with terms  
expiring in 2018

~~Agg~~ 59

C.  
Sengstack  
Director  
and  
Chief  
Executive  
Director Since: 2014

Officer  
of  
the  
Company

Principal  
Occupation: Chief  
Executive Officer of  
the Company since  
2014.

Formerly: President  
and Chief Operating  
Officer of the  
Company from  
2011-2014; prior  
thereto, Senior Vice  
President and  
President, Franklin  
Fueling Systems and  
International Water  
Group from  
2005-2011; prior  
thereto, Chief  
Financial Officer of  
the Company from  
1999-2005.

Directorships -  
Public  
Companies: Woodward,  
Inc.

Relevant  
Experience: Mr.  
Sengstack received

his bachelor's degree in math and economics from Bucknell University and his MBA from the University of Chicago. Mr. Sengstack joined the Company in 1988 and has significant experience holding various positions in the Company, which provides the Board with a unique depth of understanding of the Company's markets and businesses that is beneficial to the Board in its deliberations. Mr. Sengstack's long tenure with the Company also helps give the Board a historical perspective of the Company.

David 65

M. Wathen  
Director Since: 2005  
of the Company  
Principal  
Occupation: Retired in 2016.  
Formerly: President and Chief Executive Officer of TriMas Corporation, a manufacturer of engineered products, from 2009-2016; prior thereto, President and Chief Executive Officer, Balfour Beatty, Inc. (U.S. Operations), an engineering,



construction and building management services company, from 2002-2006; prior thereto, Group Executive/Corporate Officer, Eaton Corporation, a global technology leader in diversified power management solutions, from 1997-2000.

Relevant

Experience: Mr.

Wathen received his bachelor's degree in mechanical engineering from Purdue University and his MBA from Saint Francis College, Fort Wayne, Indiana. Mr. Wathen brings to the Board his experience as CEO of two companies and leadership positions in others, including over twenty years direct technical and general management experience in the same industry as the Company and direct experience managing electrical businesses serving pump OEMs and distributor channels similar to those served by the Company. His background enables him to serve as an "audit committee financial expert". His experience on the Board of the Company also helps give the Board a

historical perspective  
in its deliberations.

Directors with terms  
expiring in 2019

Renee

JAge: 56

Peterson

Director

of  
the Director Since: 2015

Company

Principal

Occupation: Vice  
President, Treasurer  
and Chief Financial  
Officer of The Toro  
Company, since  
2011.

Formerly: Vice  
President, Finance  
and Planning of  
Eaton Corporation  
from 2008 to 2011;  
prior thereto, Vice  
President and  
Division Chief  
Financial Officer of  
the Aerospace and  
Defense Segment of  
Honeywell  
International Inc.  
Peterson held a  
variety of positions  
of increasing  
responsibility  
throughout her  
Honeywell career  
from 1983 to 2008.

Relevant

Experience: Ms.

Peterson received  
her bachelor's degree  
in accounting from  
Saint Cloud State  
University and her  
MBA from the  
University of  
Minnesota. Ms.

Peterson brings  
financial and  
operational

experience at three large manufacturers that provides the Board with specific expertise and assists in its deliberations.

At Toro, Ms.

Peterson also provides leadership oversight of the Information Systems function. Her background enables her to serve as an "audit committee financial expert."

Jennifer

Age: 53

Sherman

Director

of Director Since: 2015  
the

Company

Principal

Occupation: President and Chief Executive Officer of Federal Signal Corporation, a diversified manufacturer of specialized vehicles and systems in maintenance and infrastructure as well as safety and security products, including audible and visual warning devices, since 2016.

Formerly: Chief Operating Officer of Federal Signal from 2014 to 2015; prior thereto, Chief Administrative Officer of Federal Signal from 2010 to 2014; prior thereto, General Counsel of Federal Signal from 2004 to 2010.

Relevant

Experience: Ms. Sherman received her bachelor's degree in business administration and her Juris Doctor from the University of Michigan. She is also a fellow of the Kellogg School of Management at Northwestern University. Ms. Sherman's background has provided her with a broad range of experiences that will complement the Board. Specifically, Ms. Sherman's experience includes, but is not limited to, compliance, human resources, legal issues, governance and business operations. Consequently, Ms. Sherman has the background and capability to serve as an important member of the Board.

Directors with terms  
expiring in 2020

David

Age: 69

Brown

Director

of  
the Director Since: 2008

Company

Principal

Occupation: Retired  
in 2007.

Formerly: President  
and Chief Executive  
Officer of Owens  
Corning, a world  
leader in building  
materials systems and  
glass fiber  
composites, from  
2002 until 2007; prior  
thereto, Executive  
Vice President and  
Chief Operating  
Officer, from 2001  
through 2002; prior  
thereto, Vice  
President and  
President, Insulating  
Systems Business,  
from 1997 through  
2001.

Directorships - Public  
Companies:

BorgWarner, Inc.  
(2004 - 2014); RSC  
Holdings, Inc.  
(2011-2012).

Relevant

Experience: Mr.

Brown received his  
bachelor's degree in  
business economics  
from Purdue  
University. Mr.

Brown adds to the  
Board his experience  
in a long career at  
Owens Corning,

where he moved through the ranks from salesman to regional sales manager to chief operating officer and ultimately CEO where he led the company out of an asbestos related bankruptcy. In addition to his perspective as a successful CEO of a global manufacturer, he brings his experience on the Board of Borg Warner, Inc. and RSC Holdings, Inc.

David

Age: 70

Roberts

Director

of  
Director Since: 2003  
the

Company

Principal

Occupation: Chairman, Carlisle Companies, Incorporated since 2016.

Formerly: Chairman, President and Chief Executive Officer, Carlisle Companies, Incorporated, a diversified global manufacturing company from 2007 until 2016; Chairman, President and Chief Executive Officer, Graco Inc., a manufacturer of fluid-handling equipment and systems, from 2001 to 2007.

Directorships – Public Companies: Carlisle

Companies,  
Incorporated  
(2007-present); SPX  
Corporation  
(2015-present);  
Horizon Global  
Corporation  
(2018-present);  
Polypore  
International, Inc.  
(2012-2015); Arctic  
Cat (2006-2009);  
ADC  
Telecommunications,  
Inc. (2008-2010).

Relevant  
Experience: Mr.  
Roberts received his  
bachelor's degree in  
technology from  
Purdue University  
and his MBA from  
Indiana University.  
He brings to the  
Board his experience  
as CEO of two  
substantial  
publicly-held  
manufacturing  
companies. His  
experience on the  
Board of the  
Company also helps  
give the Board a  
historical perspective  
in its deliberations.

Thomas  
Age: 65  
VerHage  
Director  
of Director Since: 2010  
the  
Company  
Principal  
Occupation: Retired  
in 2011.  
Formerly: Vice  
President and Chief  
Financial Officer,  
Donaldson Company,  
Inc., a worldwide



provider of filtration systems and replacement parts, from 2004 until 2011; prior thereto, Partner, Deloitte & Touche, LLP, an international accounting and consulting firm, from 2002 to 2004; prior thereto, Partner, Arthur Andersen, LLP, a consulting and accounting firm, from 1976 to 2002.

Relevant

Experience: Mr.

VerHage received his bachelor's degree in business

administration and his MBA from the University of Wisconsin. Mr.

VerHage adds to the Board his financial and accounting expertise from his experience as CFO of Donaldson Company, Inc. and his prior experience with two major public accounting firms. His background enables him to serve as an "audit committee financial expert."

## INFORMATION ABOUT THE BOARD AND ITS COMMITTEES

### Director Independence

The Board of Directors of the Company has determined that each of the current directors, except for Gregg C. Sengstack, Chief Executive Officer, is an “independent director” in compliance with the independence standards set forth in the Company’s Corporate Governance Guidelines and under the applicable rules adopted by The NASDAQ Stock Market, Inc. (“NASDAQ”). In making its independence determinations, the Board concluded that no director, other than Mr. Sengstack, has any material relationship in the Company, except as a director and shareholder.

### Board Leadership Structure and Risk Oversight

The Board is led by Mr. Sengstack, who has served as Chairman of the Board and Chief Executive Officer since 2015. The Board consists of Mr. Sengstack and six other directors. The Board has three standing committees - Audit, Management Organization and Compensation, and Corporate Governance. The Audit Committee is primarily responsible for risk oversight and the full Board receives regular reports from the Audit Committee and from the Company's officers and other management personnel regarding risk management. Each of the other two committees also considers risk as it falls within its area of responsibility.

The Company’s Corporate Governance Guidelines provide for an independent nonexecutive director to act as Lead Independent Director. The Lead Independent Director is appointed by a majority of the independent directors and serves for two-year terms; however, he or she may be removed or replaced by a majority of the independent directors at any time. David M. Wathen currently serves as the Company’s Lead Independent Director. The Lead Independent Director receives additional compensation for his or her services, as the Board determines from time to time.

The specific responsibilities of the Lead Independent Director when acting as such include the following:

- Acting as a liaison between the Chairman and the Independent Directors;
- Assisting the Chairman and Secretary in setting the Board agenda and determining what materials will be provided to the directors and the outside general counsel in advance of Board meetings and ensuring that the agenda items receive adequate time for discussion and deliberation;
- Providing leadership to the Board to ensure that the Board works cohesively and independently;
- Determining when the Board should meet in executive session without management present, coordinating and developing the agenda for, and chairing, such executive sessions; and
- In the event of the incapacitation of the Chairman, serving as non-executive chairman until a permanent chairman is appointed.

The Lead Independent Director also performs any additional responsibilities delegated to the Lead Independent Director by the Board.

The Board believes that the Chairman and Chief Executive Officer should consist of a single individual who is seen by the Company’s customers, business partners, investors, and shareholders as someone who provides strong leadership for the Company and is viewed as such in the industries in which the Company competes. The Company believes that the Lead Independent Director, the Board committees, all of which are chaired by and consist of independent directors, and the full Board of Directors, provide effective oversight of the Company’s businesses and the risks involved in them.

### Meetings

The Board held five meetings during 2017. Each director attended at least 75 percent of the aggregate meetings of the Board and Board committees of which he or she was a member during the period that each served as a director. All directors attended the 2017 Annual Meeting of Shareholders.

#### Committees

##### Audit Committee.

The members of the Audit Committee during 2017 were Thomas R. VerHage (Chairman), David M. Wathen and Renee J. Peterson. The Board of Directors has determined that each member of the Audit Committee is an “independent director” in compliance with the independence standards set forth in the Company’s Corporate Governance Guidelines and under the applicable NASDAQ rules. The Board of Directors has adopted an Audit Committee charter, a copy of which is available on the Company’s website at [www.franklin-electric.com](http://www.franklin-electric.com) under “Governance,” that sets forth the duties and responsibilities of the Audit Committee.

Under its charter, the Audit Committee appoints the Company's independent registered public accounting firm and assists the Board of Directors in fulfilling its oversight responsibilities by reviewing the Company's financial information, the Company's system of internal control, the Company's processes for monitoring compliance with laws and regulations and the Company's audit and risk management processes. It is the general responsibility of the Audit Committee to advise and make recommendations to the Board of Directors in all matters regarding the Company's accounting methods and internal control procedures. The Audit Committee held four meetings in 2017.

The Audit Committee is also responsible for the review, approval, or ratification of transactions between the Company and "related persons." The Audit Committee reviews information compiled in response to the Directors' and Officers' Questionnaires or otherwise developed by the Company with respect to any transactions with the Company in which any director, executive officer, 5% beneficial holders, or any member of his or her immediate family, has a direct or indirect material interest that would require disclosure under applicable SEC regulations. In 2017, there were no such transactions.

The Board of Directors has determined that all members of the Audit Committee are "audit committee financial experts" as defined by Item 407(d)(5)(ii) of Regulation S-K of the Exchange Act and are "independent" under the applicable NASDAQ rules.

#### Management Organization and Compensation Committee.

The members of the Management Organization and Compensation Committee (the "Compensation Committee") during 2017 were David T. Brown (Chairman), David A. Roberts, and Jennifer L. Sherman. The Board of Directors has determined that each member of the Compensation Committee is an "independent director" in compliance with the independence standards set forth in the Company's Corporate Governance Guidelines and under applicable NASDAQ rules. The Board of Directors has adopted a Compensation Committee charter, a copy of which is available on the Company's website at [www.franklin-electric.com](http://www.franklin-electric.com) under "Governance," that sets forth the duties and responsibilities of the Compensation Committee. Under its charter, the Compensation Committee recommends to the Board of Directors the annual salary and bonus for the Chief Executive Officer, determines and approves the equity awards for the Chief Executive Officer and the annual salary, bonus and equity awards of the other executive officers of the Company; reviews and submits to the Board of Directors recommendations concerning bonus and stock plans; periodically reviews the Company's policies in the area of management benefits; and oversees the Company's management development and organization structure. As part of its oversight responsibilities, the Compensation Committee evaluated the risks arising from the Company's compensation policies and practices, with the assistance of Meridian Compensation Partners, LLC, an independent executive consulting firm. The Committee considered, among other factors, the design of the incentive compensation programs, which are closely linked to corporate performance and capped the mix of long- and short-term compensation, the distribution of compensation as between equity and cash, and other factors that mitigate risk. The Committee concluded that the Company's compensation policies and practices do not involve undue risk. The Compensation Committee held five meetings in 2017.

#### Corporate Governance Committee.

The members of the Corporate Governance Committee during 2017 (the "Governance Committee") were David T. Brown, and David A. Roberts, and Jennifer L. Sherman (Chairman). The Board of Directors has determined that each member of the Governance Committee is an "independent director" in compliance with the independence standards set forth in the Company's Corporate Governance Guidelines and under applicable NASDAQ rules. The Board of Directors has adopted a Governance Committee charter, a copy of which is available on the Company's website at [www.franklin-electric.com](http://www.franklin-electric.com) under "Governance," that sets forth the duties and responsibilities of the Governance Committee. Under its charter, the Governance Committee reviews the size of the Company's Board of Directors and committee structure and recommends appointments to the Board and the Board Committees; reviews and recommends

to the Board of Directors the compensation of non-employee directors, including awards to non-employee directors under the Company's equity-based and compensation plans; and develops and recommends to the Board corporate governance guidelines deemed necessary for the Company. The Governance Committee held two meetings in 2017.

#### Director Nomination Process

The Governance Committee is responsible for identifying and recommending to the Board candidates for director. The Governance Committee considers diversity when identifying candidates for directorships. Although the Company does not have a written policy regarding diversity, the Governance Committee seeks to identify persons from various backgrounds and with a variety of life experiences who have a reputation for, and a record of, integrity and good business judgment and the willingness to make an appropriate time commitment. The Governance Committee also considers whether a person has experience in a highly responsible position in a profession or industry relevant to the conduct of the Company's business. The Governance Committee

takes into account the current composition of the Board and the extent to which a person's particular expertise, experience and ability will complement the expertise and experience of other directors. Candidates for director should also be free of conflicts of interest or relationships that may interfere with the performance of their duties. Based on its evaluation and consideration, the Governance Committee submits its recommendation for director candidates to the full Board of Directors, which is then responsible for selecting the candidates to be elected by the shareholders. The Governance Committee evaluates its success in achieving these goals for Board composition from time to time, particularly when considering Board succession and candidates to fill vacancies.

The Governance Committee will consider as candidates for director persons recommended or nominated by shareholders. Shareholders may recommend candidates for director by writing to the Secretary of the Company at the address listed below under "Other Corporate Governance Matters." Nominations of directors may be made by any shareholder entitled to vote in the election of directors, provided that written notice of intent to make a nomination is given to the Secretary of the Company not later than 90 days prior to the anniversary date of the immediately preceding Annual Meeting of shareholders. The notice must set forth (i) information regarding the proposed nominee as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC, and (ii) the consent of such nominee to serve as a director of the Company if so elected.

#### Other Corporate Governance Matters

The Board of Directors has adopted Corporate Governance Guidelines, a copy of which is available on the Company's website at [www.franklin-electric.com](http://www.franklin-electric.com) under "Governance," that provide, among other things, that the Company's independent directors will meet in executive session, outside the presence of the non-independent directors and management, at least twice a year. In 2017, the independent directors met in executive session five times.

Each Board committee, on an annual basis, conducts and reviews with the Board a performance evaluation of the committee, which evaluation compares the committee's performance against the requirements of the committee's charter and sets the committee's goals for the coming year.

Anyone may contact the Board of Directors, any Board Committee, the Lead Independent Director, any independent director or any other director by writing to the Secretary of the Company as follows:

Franklin Electric Co., Inc.  
Attention: [Board of Directors], [Board Committee], [Board Member]  
c/o Corporate Secretary  
Franklin Electric Co., Inc.  
9255 Coverdale Road  
Fort Wayne, IN 46809

The independent directors of the Board have approved a process for collecting, organizing and responding to written shareholder communications addressed to the Board, Board Committees or individual directors.

Copies of the Company's corporate governance documents, including the Board Committee charters and the Corporate Governance Guidelines are available upon written request to the Secretary of the Company at the address listed above or on the Company's website at [www.franklin-electric.com](http://www.franklin-electric.com) under "Governance."

In compliance with Section 406 of the Sarbanes-Oxley Act of 2002, the Company has adopted a code of business conduct and ethics for its directors, principal financial officer, controller, principal executive officer, and other employees (the "Code"). The Company has posted the Code on the Company's website at [www.franklin-electric.com](http://www.franklin-electric.com) under "Governance". The Company will disclose any amendments to the Code and any waivers from the Code for

directors and executive officers by posting such information on its website.

MANAGEMENT ORGANIZATION AND  
COMPENSATION COMMITTEE REPORT

The Management Organization and Compensation Committee of the Board of Directors hereby furnishes the following report to the shareholders of the Company in accordance with rules adopted by the Securities and Exchange Commission.

The Management Organization and Compensation Committee has reviewed and discussed with management the Company's Compensation Discussion and Analysis contained in this Proxy Statement.

Based upon this review and discussion, the Management Organization and Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

This report is submitted on behalf of the 2017 members of the Management Organization and Compensation Committee.

David T. Brown (Chairman)  
David A. Roberts  
Jennifer L. Sherman



## COMPENSATION DISCUSSION AND ANALYSIS

This section of the proxy statement is intended to provide shareholders with information about the compensation awarded in fiscal 2017 to the Company's executives, including the "named executive officers." This information includes a discussion of the key elements of the Company's compensation program and the philosophy and rationale behind the Management Organization and Compensation Committee's executive compensation decisions. The named executive officers are those listed below and in the Summary Compensation Table of this proxy statement:

Gregg C. Sengstack: Chairman of the Board and Chief Executive Officer  
John J. Haines: VP, Chief Financial Officer  
Robert J. Stone: Senior VP and President, International Water Systems  
DeLancey W. Davis: VP and President, Headwater Companies  
Donald P. Kenney: VP and President, North America Water Systems

You should review this Compensation, Discussion and Analysis section together with the tabular disclosures beginning on page 30.

### Executive Summary

The Management Organization and Compensation Committee of the Board (the "Committee") believes that a significant portion of the total compensation opportunity for each executive should be tied to performance, both of the Company and of the individual executive. This summary contains a discussion of the 2017 executive compensation highlights, 2017 performance and the prior year Advisory Vote on Executive compensation ("say on pay") results.

### 2017 Executive Compensation Overview

• Performance-based compensation represented between 53% and 62% of the named executive officers' total targeted compensation for fiscal 2017.

• The annual cash incentive awards are directly aligned with critical one-year operating results. No cash awards are earned unless a threshold level of performance is attained. Earned payouts cannot exceed 200% of the target opportunity.

• Long-term incentive awards are equity-based, and are designed to align management's interests with those of the Company's shareholders and to foster retention of key executives. The 2017 long-term incentive grants are predominantly performance-based, generally with 40% of the targeted value awarded as stock options and 30% of the targeted value awarded as performance-based share units (earned units cannot exceed 200% of the target number of units). The remaining 30% of the targeted value is awarded as time-based restricted stock or restricted stock units. These awards focus executives on delivering results that drive shareholder value.

• The Company generally does not provide perquisites to the named executive officers, but will, in certain circumstances, such as relocation, provide perquisites.

• The Company has stock ownership requirements in place to further align the interests of the Company's executives with those of the Company's shareholders.

• The Company has a recoupment policy that permits the recovery of incentive compensation paid to executives in instances where misconduct results in a restatement of financial statements or material harm to the Company.

• The Company has anti-hedging and anti-pledging provisions that prohibit executives and directors from hedging the value of Company securities or pledging Company securities held by them.

### 2017 Company Performance

The financial results achieved by the Company included an 18% increase in sales, to \$1,124.9 million from \$949.9 million in the prior year. The sales increase was primarily related to acquisitions. Water Segment sales were \$748.6

million in 2017, an increase of \$25.4 million or about 4 percent. The sales change in 2017, excluding acquisitions and foreign currency translation, was an increase of \$23.4 million or about 3 percent. Fueling Segment sales were \$245.9 million in 2017 and increased \$19.2 million or about 8 percent from 2016. Foreign currency translation rate changes increased sales \$0.7 million or less than 1 percent compared to sales in 2016. The Fueling Segment sales change in 2017, excluding foreign currency translation, was an increase of \$18.5 million or about 8 percent. During 2017, the Company acquired controlling interests in

three distribution entities and began reporting on its newly created Distribution Segment. Distribution sales were \$176.7 million and were all acquisition related. The Company made significant progress with respect to its key strategic initiatives in 2017, including the following:

The Water Systems business expanded its product offering through research and development expenditures with emphasis on continued market leadership in submersible and surface pumps, and in the production of motors for residential, agricultural and municipal applications.

The Water Systems business remained focused on enhancing the value of the Company's products and improving efficiency through the introduction of the MagForce Submersible 6-Inch permanent magnet motor and drive system, which provides an efficiency improvement of 10-12 percent when compared to standard induction motors, as well as launching the 6" SSR, 9" STS, and SSI Submersible Turbine Pump lines.

Focus also remained on electronic drives and controls for submersible and surface pumping and HVAC applications. The business launched the new SubDrive Utility product which provides constant pressure for the large 2-Wire motor residential segment, and also developed a new family of Variable Frequency Drives, the SubDrive Vantage, which is focused on Agricultural and Industrial applications, and the QLink, focused on HVAC applications.

In the Plumbing Wholesale/HVAC channel, the redesigned FPS PowerSewer® System provides a more flexible, service friendly, and efficient low-pressure sewer system for residential and commercial applications.

The Fueling Systems business added the EVO™ 200 & EVO™ 400 series tank gauges to the Automatic Tank Gauge lineup serving the retail fueling industry. The EVO™ Series tank gauges are designed for easy setup and operation, and provide features like remote connectivity and security functionality which protect the fuel system while providing direct connectivity to vital site data. The business also launched the Cable Tight™ wire management system for the UL market, which protects petroleum system electrical and data wiring with an electrofusion welding installation process.

During the second quarter of 2017, the Company forward-integrated into groundwater distribution with the acquisitions of controlling interests in three distributors (2M Company, Inc., Drillers Service, Inc. and Western Hydro, LLC, collectively referred to as the "Headwater Companies"). The Headwater Companies provide the Company with a professional groundwater distribution channel within the United States.

#### Prior Year Say on Pay Results

At the May 5, 2017 shareholders meeting, the "Advisory Vote on Executive Compensation" proposal (the "say on pay" vote) received support from 97.8% of votes cast. The Committee considered these results and determined that the results of the vote did not call for any significant changes to the executive compensation plans and programs already in place for 2017 or for the 2018 fiscal year.

#### Management Organization and Compensation Committee

The Committee, consisting entirely of independent directors, has the responsibility for establishing, implementing and monitoring adherence with the Company's compensation program and providing input to the Board with respect to management development and succession planning. The role of the Committee is to oversee, on behalf of the Board, the Company's compensation and benefit plans and policies, administer its stock plans (including reviewing and approving equity grants to the CEO and all other executive officers), review and approve all other compensation decisions relating to the executive officers of the Company other than the CEO, and recommend CEO non-equity compensation to the Board for its approval.

In addition, the Committee (i) reviews the Company's organization structure, (ii) reviews the recruitment of key employees and management's development plans for key employees, (iii) makes recommendations to the Board with respect to the CEO succession plan and (iv) reviews compensation risk to determine whether the compensation policies and practices are reasonably likely to have a material adverse effect on the Company. The Committee meets a minimum of three times annually to discharge its duties and held five meetings in 2017.

#### Compensation Philosophy and Pay Objectives

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The Company and the Committee believe that compensation paid to executive officers, including the named executive officers, should be aligned with the strategy and performance of the Company on both a short-term and long-term basis, and that such compensation should assist the Company in attracting and retaining key executives critical to the Company's success. Compensation is structured to ensure that a significant portion of the executive's compensation opportunities will be directly related to Company performance and other factors that directly and indirectly influence shareholder value.

The Committee encourages superior short-term performance through the use of annual cash incentive awards and superior long-term performance through equity incentive awards. For the Company's CEO and CFO, the cash incentive compensation is designed to reward Company-wide performance by tying 100% of their target cash incentive opportunity to corporate financial goals, including return on invested capital, earnings per share, and in the case of the CFO, fixed cost management. For other named executive officers, the cash incentive compensation is weighted to reward the achievement of specific financial metrics within areas under their control, although Company-wide performance is still an important factor. Stock-based compensation consists of a combination of stock options, restricted stock (or restricted stock units for retirement-eligible executives) and performance share units. The Committee believes that all three equity-based components create a strong link to shareholder value creation, with the majority of the awards in the form of stock options and performance share units.

Historically, the Committee has set executive pay opportunities based on a number of factors deemed appropriate by the Committee, including market competitive pay data, individual performance and the experience level of the executive. Subject to the factors set forth above, the Committee used the following pay objectives as a guide in assessing competitiveness of pay opportunities at a peer group of companies for 2017 pay decisions (the same levels were used in 2016). The higher targeted pay objectives for annual bonus and long-term incentive components reflect the Committee's objective to attract and retain high quality executive talent in order to meet the aggressive performance goals of the Company and its belief that a significant portion of total compensation should be at risk and variable.

Pay Component	Targeted Pay Objectives
Base Salary	50 <sup>th</sup> percentile
Annual Bonus Opportunity	65 <sup>th</sup> percentile
Long-Term Incentives	65 <sup>th</sup> percentile

#### Role of Management in Compensation Decisions

The Committee makes equity compensation decisions with respect to the CEO and all compensation decisions with respect to all other executive officers of the Company. The Committee recommends to the Board, for its review and approval, the annual salary and annual non-equity incentive compensation for the CEO.

The CEO reviews the performance of other executive officers, including the other named executive officers, and makes recommendations to the Committee with respect to their annual salary adjustments, annual cash incentive opportunities and payments, and grants of long-term incentive awards. The Committee approves the compensation of these executives after considering the CEO's input and recommendations and its own judgment of each executive's performance during the period.

The Committee and the CEO also review the financial metrics to be used to measure the performance of the Company and its business units, taking into account the strategic goals of the Company. For this purpose, the CEO provides information and commentary relevant to the Committee's review and ultimate determination. The CEO also describes the individual strategic initiatives he sets for each executive for the fiscal year. The Board sets the strategic individual initiatives for the CEO.

Although the CEO regularly attends Committee meetings, he is present only by invitation of the Committee and has no independent right to attend such meetings. In fiscal 2017, Mr. Sengstack attended all of the Committee meetings but did not participate in any of the executive sessions.

#### Role of Compensation Consultant and Advisers in Compensation Decisions

The Committee utilizes the Company's Human Resources department and has the authority under its charter to engage the services of outside consultants to assist the Committee. In accordance with this authority, the Committee has engaged the services of Meridian Compensation Partners, LLC ("Meridian"), an independent executive compensation consulting firm, to conduct reviews of its total compensation program for executive officers and to provide advice to the Committee in the design and implementation of its executive compensation program. Pursuant to its charter and NASDAQ listing standards, the Committee

regularly reviews Meridian’s independence relative to key factors, including: (i) whether Meridian provides any other services to the Company; (ii) the amount of fees paid to Meridian relative to the total revenue of the firm; (iii) policies in place to prevent conflicts of interest; (iv) any personal or business relationships with members of the Committee; (v) ownership of Company stock; and (vi) any personal or business relationships with executive officers.

A representative from Meridian is invited by the Committee to attend the relevant portions of its meetings. During 2017, Meridian participated in all five of the Committee meetings in person or by telephone. In the course of fulfilling its consulting responsibilities, representatives of Meridian frequently communicate with the Chairman of the Committee outside of regular Committee meetings. A representative of Meridian meets with the Committee in executive session at most meetings. Meridian also interacts with management from time to time to exchange information and to review proposals that management may present to the Committee.

### Peer Group Benchmarking

In late 2016, the Committee, with the assistance of Meridian, conducted an in-depth analysis of the current peer group used for compensation benchmarking purposes to ensure that all included companies continued to be relevant comparators. This detailed peer group review was conducted to systematically evaluate each current peer company along with other potential companies with the intent on increasing the proportion of the peer group that is made up of industrial machinery companies that are more closely aligned with the Company’s business of designing, manufacturing and distributing engineered industrial products. As part of this process, the Committee considered revenue size and industry, as well as companies that compete with the Company for executive talent. Based on this review, the peer group was modified to replace 15 existing peer companies that were either acquired during the year or were deemed less relevant from a business/product perspective with 11 companies that are generally more aligned with the criteria discussed above. The Committee approved the 25-company peer group listed below (the “2017 Peer Group”) for purposes of updating the executive pay study to assist in 2017 pay decisions. The companies in the newly constructed 2017 Peer Group are primarily engaged in manufacturing, are publicly traded, and had trailing twelve-month revenue (as of 10/31/2016) between \$387 million and \$2.75 billion. Due to the differences in size among the companies in the 2017 Peer Group, Meridian used a form of regression analysis to adjust the pay study results based on Company revenue as compared to revenue of other companies in the 2017 Peer Group and each executive’s level of responsibility as compared to executives in comparable positions in the 2017 Peer Group.

Actuant Corporation	Hillenbrand, Inc.	Standex International Corp.
Chart Industries, Inc.	IDEX Corporation	The Gorman-Rupp Co.
CIRCOR International, Inc.	ITT, Inc.	The Timken Co.
Crane Co.	Lindsay Corporation	Toro Co.
Curtiss-Wright Corporation	Lydall, Inc.	TriMas Corporation
Donaldson Company, Inc.	Mueller Water Products, Inc.	Watts Water Technologies, Inc.
ESCO Technologies, Inc.	Nordson Corporation	Woodward, Inc.
Esterline Technologies, Corp.	RBC Bearings, Inc.	
Graco, Inc.	SPX FLOW, Inc.	

### Setting Executive Compensation

#### In General

The Company compensates its executives through programs that emphasize performance-based compensation. For the executive officers, including the named executive officers, the compensation package for 2017 included base salary, an annual cash incentive opportunity and an annual long-term incentive opportunity in the form of stock options,

performance share units, and restricted stock/units. Base salary is intended to provide a certain level of fixed compensation commensurate with an executive's position, responsibilities and contributions to the Company. The Company has structured annual and long-term incentive compensation to motivate executives to achieve the strategic objectives set by the CEO and the Board, to tie executives' long-term interests to those of the Company's shareholders, to reward the executives for achieving such goals, and to provide a retention incentive.

The mix of compensation among base salary, annual bonus opportunity and long-term incentives is a result of the targeted pay objective for each component of pay. This approach results in a significant portion of the compensation of those executive



officers having the greatest ability to influence the Company's performance being performance-based, which the Committee believes is appropriate. Additionally, after setting each separate component of pay, the Committee reviews the total compensation package of each named executive officer to assess the level of total target compensation provided in relation to the competitive range of market practice and may make adjustments to one or more components of pay based on this assessment.

Each year Meridian provides a study of market competitive compensation data. The updated study included 2016 compensation data for the companies in the 2017 Peer Group, with cash data "aged" to reflect expected 2017 compensation levels for the 2017 Peer Group. In February 2017, the Committee set the specific components of the compensation of the named executive officers, with the overall goal of providing compensation opportunities at levels generally competitive with the 2017 pay study. Total targeted compensation for 2017 for the named executive officers ranged from 8.4% below to 4.1% above (4.8% below on an aggregate basis) the targeted level of total compensation in the 2017 Peer Group for similar executive positions.

The following table shows the 2017 total targeted compensation (the sum of base salary, target annual bonus opportunity and long-term incentives) for the named executive officers, using targets of the 50th percentile of the 2017 Peer Group for base salary and the 65th percentile of the 2017 Peer Group for annual bonus opportunity and long-term incentives:

Named Executive Officer	2017 Targeted Total Compensation <sup>(1)(2)</sup> (\$)
Gregg C. Sengstack	3,680,417
John J. Haines	1,399,750
Robert J. Stone	1,157,157
DeLancey W. Davis	1,032,219
Donald P. Kenney	1,063,750

(1) Based on annualized base salary rates plus target annual bonus opportunity (based on salary targeted to be paid for 2017) and economic value of long-term incentives.

(2) The Company completed its acquisition of the remaining interests in the Headwater Companies in April 2017. As part of the integration process, Mr. Davis became President of the Headwater Companies and Mr. Kenney replaced Mr. Davis as President of North America Water Systems. Mr. Kenney's appointment moved him to a larger role that increased the market competitive level of his target compensation, resulting in increases in target salary, bonus and long-term compensation, as reflected in the table above. Mr. Davis' move was viewed more as a lateral change which did not materially change the market competitive level of compensation or his target compensation, but given the strategic importance of this venture, the Company granted him a performance-based equity award in April (which is not included in the table above).

The following sections discuss the individual elements of the Company's compensation program, including any changes made for fiscal 2017.

#### Base Salary

The Company pays its executives annual salaries, which provide a degree of financial stability and are intended to reflect the competitive marketplace and help attract and retain quality executives. In determining the 2017 base salary for each executive, the Committee took into account the targeted annual salary objective for the position based on the results of the pay study for 2017 and assessed the responsibilities associated with the position, individual contribution and performance, skill set, prior experience and external pressures to attract and retain talent.

Applying these factors, the Committee made the base salary adjustments shown in the table below for the named executive officers. Based on the pay study, the resulting base salaries of the named executive officers ranged from 1.3% above to 3.4% below (1.4% below on an aggregate basis) the 50<sup>th</sup> percentile of salaries paid to executives in comparable positions at the companies in the 2017 Peer Group.

Named Executive Officer	2016 Base Salary Rate <sup>(1)</sup> (\$)	2017 Base Salary Rate <sup>(2)</sup> (\$)	% Change
Gregg C. Sengstack	703,000	750,000	6.7%
John J. Haines	392,000	412,000	5.1%
Robert J. Stone	377,500	389,000	3.0%
DeLancey W. Davis	351,500	362,000	3.0%
Donald P. Kenney	316,500	365,000	15.3%

(1)2016 base salary increases were effective June 1, 2016.

2017 base salary increases were effective June 1, 2017 for all named executive officers, except that Mr. Kenney's

(2)2017 base salary increase was effective as of January 1, 2017 in connection with his appointment to VP and President, North America Water Systems.

#### Annual Cash Incentive Award

The executive officers of the Company are eligible to participate in the Executive Officer Annual Incentive Cash Bonus Program (the "Annual Bonus Plan"). The Annual Bonus Plan, which works in conjunction with the Management Incentive Plan ("MIP"), is designed to motivate and reward participants for achieving or exceeding financial goals that support the overall business objectives and strategic direction of the Company.

Under the MIP, the Committee sets a performance-based ceiling on the bonuses paid under the Annual Bonus Plan so that they meet the deductibility requirements of Section 162(m) of the Internal Revenue Code. For 2017, the MIP covered Messrs. Sengstack, Stone, Davis and Kenney (Mr. Haines was not subject to Code Section 162(m) for 2017 because he is CFO). The Committee established Company operating income before restructuring charges as a performance goal under the MIP and a bonus pool equal to 10% of operating income, with each named executive officer eligible for a bonus opportunity stated as a percentage of the bonus pool as follows:

Named Executive Officer	% of Bonus Pool <sup>(1)</sup>
Gregg C. Sengstack	40%
Robert J. Stone	15%
DeLancey W. Davis	15%
Donald P. Kenney	15%

(1) One other participant who is not a named executive officer was allocated 15% of the bonus pool.

As discussed below, the Committee also established performance criteria for each participant pursuant to the Annual Bonus Plan and exercised its negative discretion to adjust the bonus pool amounts on the basis of achievement of the Annual Bonus Plan criteria.

The table below shows the target annual bonus opportunities for each of the named executive officers for 2017. Target amounts for the named executive officers are based on their respective target bonus percentage multiplied by the amount of base salary paid to the executive for the year (taking into account salary increases effective as of June 1, 2017 and Mr. Kenney's salary and target bonus percentage increase effective May 4, 2017). Based on the pay study for 2017, the target level of annual bonus opportunity for the named executive officers ranged from 2.5% above to 4.5% below (2.9% below on an aggregate basis) the 65<sup>th</sup> percentile of the annual bonus opportunity for executives in comparable positions in the 2017 Peer Group.



Named Executive Officer	2017 Target Bonus Opportunity (as a % of Base Salary)	2017 Target Bonus Opportunity (\$) <sup>(1)</sup>
Gregg C. Sengstack	100%	730,417
John J. Haines	75%	302,764
Robert J. Stone	75%	288,169
DeLancey W. Davis	75%	268,241
Donald P. Kenney	75%	273,754

(1) Based on base salary actually paid for fiscal 2017.

In the first quarter of 2017, the Committee approved financial performance targets to be used under the Annual Bonus Plan for 2017. The corporate-wide financial performance targets for the named executive officers were return on invested capital (ROIC) and earnings per share (EPS). The Committee selected ROIC due to the belief that it is a primary and consistent measure that many of the Company's shareholders use to evaluate performance and compare the Company to its peer group. The Committee also believes that EPS is an important indicator of profitability that aligns the interests of the executive officers with those of the Company's shareholders. In addition, the CFO had a portion of his target annual bonus based on fixed cost management. For the three business unit leaders, financial performance targets also included: (i) the business unit's operating income after non-GAAP adjustments (Operating Income), and (ii) for Messrs. Stone and Kenney, inventory turns. The Operating Income goal for Mr. Davis was evenly split between the Headwater Companies and North America Water Systems, and Mr. Kenney's goals were based entirely on North America Water Systems. These corporate metrics were the same as those used in 2016 (except Mr. Davis' target did not include inventory turns). While the Committee continues to set individual goals for executives and assess their achievement for purposes of merit increases and promotions, individual performance will not impact the annual bonus outside of extraordinary circumstances.

With respect to each performance measure, the Committee set a threshold level of performance below which no bonus is earned for that performance measure. For each of the financial-based measures, the performance threshold was set at 80% of the target performance level. Payout for threshold level performance was set at 33% of target. For every 1% by which performance exceeds the threshold level, the actual payout level increases 3.35% up to the target level (i.e., 100% of target payout), and for every 1% by which performance exceeds the target level, up to 120% of the target, the actual payout increases 5% up to the maximum performance level (i.e., 200% of target payout).

The performance measures, and the relative percentage of the 2017 target bonus opportunity assigned to each performance measure, were as follows:

Performance Measure	Gregg C. Sengstack	John J. Haines	Robert J. Stone	DeLancey W. Davis	Donald P. Kenney
ROIC	50%	45%	25%	25%	25%
EPS	50%	45%	25%	25%	25%
Business Unit Operating Income (1)			40%	50%	40%
Fixed Costs		10%			
Inventory Turns			10%		10%

The Business Unit Operating Income goal for Mr. Davis is split evenly between Headwater Companies and North America Water Systems to reflect his transition to President of Headwater Companies. Mr. Kenney's Business Unit performance measures were based entirely on North America Water Systems.

The chart below sets forth the threshold, target and maximum performance levels for 2017 and the actual level of attainment for ROIC, EPS, fixed costs, and inventory turns and for all five performance goals, the percentage at which target was attained. The performance goals were established assuming the goals would be adjusted for certain discrete items. Accordingly, with the approval of the Committee, the following items were excluded in calculating ROIC and EPS: restructuring expense, which decreased operating income by \$4.3 million and EPS by \$0.06; and the impact on the income tax expense of the U.S. Tax Cuts and Jobs Act, which decreased EPS by \$0.21. The “Actual” results shown in the table reflect these adjustments where appropriate.

The Company does not publicly report Operating Income by business units below the operating segment level given the size of the business units as compared to its competitors and the potential for competitive harm. The Operating Income and other goals were set at the beginning of 2017 and the Committee believed at the time that it would require a high degree of execution of the 2017 business plan in order to attain these goals.

Performance Goal Achievement	Threshold	Target	Maximum	Actual	% of Attainment of Target
ROIC	12.6%	15.7%	18.8%	13.1%	83.4%
EPS (\$)	1.44	1.80	2.16	1.92	106.7%
Business Unit Operating Income	—	—	—	—	61.7% - 99.5% <sup>(1)</sup>
Fixed Costs (In millions \$)	57.0	47.5	38.0	45.5	104.2%
Haines					
Inventory Turns					
Stone	2.31	2.89	3.47	2.54	87.9%
Kenney	3.40	4.25	5.10	2.01	47.3%

(1) The percentage of attainment of target results for the business unit Operating Income goals represents the range of results for the various business units.

Mr. Sengstack evaluated the extent to which the other named executive officers attained their individual strategic goals. The annual bonus plan has a discretionary adjustment component of a positive or negative 20%. The intended application of this discretionary adjustment component is reserved, in part, for “above and beyond” accomplishments based on individual achievements, or extraordinary events outside of the executive’s control despite exceptional performance. The Committee, based on its review of Mr Sengstack’s assessment, approved a discretionary bonus adjustment resulting in an additional \$40,000 payout to Mr. Davis due in part to his extraordinary performance in 2017. The Committee did not make any other changes to the bonus payouts to any other named executive officers, and, with respect to all of the other named executive officers, the entire payments were based on the pre-established financial goals.

Based on the results summarized above, the following table sets forth the actual bonus payouts for each named executive officer as a percentage of his target opportunity.

Executive	Payout Percentage (% of Target)
Gregg C. Sengstack	89%
John J. Haines	92%
Robert J. Stone	50%
DeLancey W. Davis	84%
Donald P. Kenney	84%

For additional information about the specific awards made to the named executive officers for 2017 pursuant to the above criteria, see the “Non-Equity Incentive Plan Compensation” column of the Summary Compensation Table on page 30.

#### Long-Term Incentive Compensation

The Committee grants equity incentives to its executive officers to more closely align the executives' compensation with the return received by the Company's shareholders, to offer an incentive for long-term performance, to provide a retention incentive and to encourage stock ownership. The regular cycle long-term incentive awards to executive officers generally include a combination of performance share units, stock options and restricted stock/units. (Retirement eligible executives, including the named executive officers, receive restricted stock units instead of restricted stock because, unlike restricted stock units, restricted stock grants to a retirement eligible individual results in the early recognition of income even though the individual



has not actually retired and received the stock subject to awards.)

#### LTI Award Target Values

In determining the size of equity grants made to the named executive officers, the Committee uses the pay study provided by Meridian as a guide. The Committee then considers other important factors such as experience level and individual performance to approve the long-term incentive value to be granted to each named executive officer.

The following table shows the 2017 targeted economic value for the named executive officers. Based on the pay study for 2017, total targeted long-term incentive compensation to the named executive officers for 2017 ranged from 8.0% above to 11.7% below (7.4% below on an aggregate basis) the targeted level of long-term incentive compensation for executives in comparable positions in the 2017 Peer Group.

Named Executive Officer	Targeted Economic Value for 2016 (\$)
Gregg C. Sengstack	2,200,000
John J. Haines	685,000
Robert J. Stone	480,000
DeLancey W. Davis	402,000 <sup>(1)</sup>
Donald P. Kenney	425,000 <sup>(1)</sup>

(1) The Company completed its acquisition of the remaining interests in the Headwater Companies in April 2017. As part of the integration process, Mr. Davis became President of the Headwater Companies and Mr. Kenney replaced Mr. Davis as President of North America Water Systems. Mr. Kenney's appointment moved him to a larger role that increased the market competitive level of his target compensation, resulting in increases in target salary, bonus and long-term compensation, as reflected in the table above. Mr. Davis' move was viewed more as a lateral change which did not materially change the market competitive level of compensation or his target compensation, but given the strategic importance of this venture, the Company granted him a performance-based equity award in April (which is not included in the table above).

#### LTI Award Mix

Based on a review of market data and input from Meridian, the Committee determined to deliver the targeted economic value of long-term incentives to the named executive officers as follows: 40% in the form of stock options; 30% in the form of restricted stock (or restricted stock units); and 30% in the form of performance share units. All three long-term incentive components are used to align the interests of the named executive officers with those of shareholders. Stock options provide an element of risk to the executives in that value is created for the executive only when the stock price increases, while restricted stock and restricted stock units provide executives with outright value which supports their retention and helps manage the potential increased dilution that would result in using only options. Through the use of performance share units, the Committee can focus the executives on one or more select performance metrics deemed to be critical to driving Company performance and, in turn, increasing shareholder value.

#### Special Equity Awards

In February 2017, the Committee approved the targeted economic value for Mr. Davis' and Mr. Kenney's 2017 LTI awards at \$402,000 and \$270,000, respectively, which were granted based on the existing mix of components (i.e., 40% stock options, 30% RSUs and 30% performance share units). The Compensation Committee made additional special grants to each of them in April, 2017. In connection with his appointment as President, Headwater Companies, Mr. Davis received an award of performance-based restricted stock units with an economic value of \$200,000, which

vests in April 2020 based on the level of attainment of a return on invested capital goal for the Headwater Companies. In connection with his appointment as VP and President, North America Water Systems, Mr. Kenney received an award of service-based restricted stock units with an economic value of \$155,000, which vests in February 2021.

Performance Share Units

The performance share units vest based solely on the aggregate change in the Company's consolidated normalized

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EBITDA (adjusted for certain non-recurring items) relative to the aggregate change in the consolidated normalized EBITDA reported by companies in the S&P Small Cap 600® Industrials Index (adjusted for non-recurring items) over a three-year performance period. For purposes of determining this aggregate increase, a target dollar increase in adjusted operating income is established for the Company for each year of the three-year performance period based on the annual percentage increase of the S&P 600® Industrials Index adjusted operating income from the base year. The annual target amounts are then aggregated to calculate the cumulative three-year target dollar increase. The actual cumulative growth of the Company's adjusted operating income (in dollars) over the performance period will be compared to the target level of cumulative growth in adjusted operating income based on the increases relative to the companies in the S&P Small Cap 600® Industrials Index over the performance period. The Committee believes that operating income is a relevant benchmark to gauge Company performance over time against a broad index of similarly situated manufacturing firms.

For performance share units granted in 2017, the applicable performance period is January 1, 2017 through December 31, 2019. Performance share units will be earned based on the following:

Performance Level (1)	Aggregate Actual Change for Company Relative to Targeted Change	Number of Performance Share Units Earned (as a % of Target)
Below Threshold	<75%	0%
Threshold	75%	50%
Target	100%	100%
Maximum	125% (or more)	200%

(1) Performance between threshold and target, and target and maximum will be interpolated on a straight-line basis. Earned performance share units will be paid out in shares of Company stock. Any dividends declared during the performance period will accrue and be paid out in cash at the end of the performance period based on the number of performance share units actually earned.

For additional information about the material terms of these awards, see the narrative disclosure under the Summary Compensation Table.

#### Performance Share Units Earned in Fiscal 2017

The three-year performance period for the performance share units awarded in 2015 ended on December 31, 2017. The base year for measuring the aggregate change in the adjusted operating income for both the Company and the S&P 600® Industrials Index in each year of the performance period was 2014. The annual change in adjusted operating income for each year in the performance period for the S&P 600® Industrials Index was 11.4%, 17.6% and 26.8%\*, which represents the respective annual target levels for the Company. The following table provides the threshold, target and maximum performance levels (based on the table above) for the performance period:

	Year 1 Target (Fiscal 2015)	Year 2 Target (Fiscal 2016)	Year 3 Target (Fiscal 2017)
Base Year Company Adjusted OI	\$116.7 million	\$116.7 million	\$116.7 million
Target Change in Adjusted OI (over Base Year)	11.4% (\$13.2 million)	17.6% (\$20.5 million)	26.8% (\$31.3 million)*
Target Level of Adjusted OI for Relevant Period	\$129.9 million	\$137.2 million	\$148.0 million*



As a result, (i) the Company's target level of aggregate adjusted operating income over the performance period was \$415.1\* million (\$129.9 million + \$137.2 million + \$148.0\* million) and (ii) the threshold level was calculated as \$311.3 million (75% of target) and (iii) the maximum level was calculated as \$518.9 million (125% of target). The Company's actual aggregate adjusted operating income for the performance period was \$314.9 million, resulting in an estimated 75.9% attainment of target ( $\$314.9 \div \$415.1$ ) and 51.7% of the targeted level of the performance share units were estimated to be earned.

\*The numbers for 2017 are based on all but two companies in the Index reporting 2017 adjusted operating income. It is expected that final results will not increase the target performance share unit payout past 53.6%. If the Company were to payout the target performance share units at 53.6%, it would result in an aggregate of 604 additional shares earned by the executive officers, of which 518 would be earned by the named executive officers.

#### LTI Award Grant Practices

Equity grants are typically made on an annual basis at the Committee's meeting following the public release of the Company's fiscal year-end results. Stock options are valued as of the date of grant using a modified Black-Scholes methodology. They have an exercise price equal to 100% of the fair market value of the Company's common stock on the date of grant and vest over four years, at 25% per year. Restricted stock, restricted stock units and performance share units are valued based on the closing price of the Company's common stock on the date of grant. The restricted stock and restricted stock units generally vest 100% on the fourth anniversary of the grant date. Performance share units are earned based on the level of performance attainment against the pre-established earnings goal (relative to the S&P Small Cap 600® Industrials Index) set by the Committee over a three-year performance period.

#### Stock Ownership Guidelines

The Company's stock ownership guidelines for its executives require executives to maintain direct ownership in the Company's common stock in amounts as follows:

- CEO: six times annual base salary;
- Senior Vice Presidents: three times annual base salary; and
- Corporate Vice Presidents: one times annual base salary.

Executives have five years from the date appointed to their position to comply with these guidelines. Stock options do not count toward these guidelines. All shares held directly or beneficially, including shares of restricted stock, restricted stock units, shares of stock acquired upon exercise of stock options and shares credited under the Retirement Program, count toward these guidelines. Performance share units do not count toward these guidelines until, and only to the extent, they are settled in actual shares. Until an executive attains the requisite stock ownership, the executive must retain 50% of all shares acquired under the Company's compensation plans. As of the end of 2017, all named executive officers met their respective stock ownership requirements.

The Company's stock ownership guidelines for the non-employee directors require them to maintain direct ownership in the Company's common stock with a value equal to five times their annual retainer. An individual has five years to comply with these guidelines. All shares held directly or beneficially, including stock awards, shares acquired upon exercise of stock options and stock units credited under the Non-Employee Directors' Compensation Plan, count toward these guidelines. Stock options do not count toward these guidelines. As of the end of 2017, all non-employee directors either meet or exceed these guidelines.

#### Incentive Compensation Recoupment Policy

The Company's Incentive Compensation Recoupment Policy permits the Board to recoup from an executive cash or equity-based compensation granted on or after January 1, 2014 in the event that the executive engages in misconduct that results in a restatement of the Company's financial statements or a material loss or damage to the Company.

Recoupment covers any incentive compensation that is awarded or paid or that vests within 36 months following the occurrence of the misconduct. Misconduct includes an act of fraud, dishonesty or recklessness, the material breach of a fiduciary duty, a knowing material violation of a Company policy, or a knowing material violation of a confidentiality, non-solicitation or non-competition covenant.

#### Retirement Plans

The Company has various retirement plans in which certain of the named executive officers currently participate. These plans reflect a redesign of the Company's retirement program in 2011, which was undertaken to increase standardization of retirement plans among salaried U.S. employees and to reduce funding volatility while retaining a competitive retirement program to attract and retain qualified employees. The redesign includes the transition from defined benefit pension plans to defined contribution pension plans and increases to the benefits provided under the defined contribution plans.

#### Pension Plan

##### Basic Retirement Portion

The Basic Retirement portion of the Pension Plan generally covers employees in the U.S. A participant retiring at age 65 is eligible to receive a monthly single life annuity equal to his credited service times a flat dollar amount (\$25 for most U.S. salaried employees). Participants age 55 or older with 10 years of vesting service may retire prior to age 65 with a reduced benefit. Participants who were younger than 50 as of December 31, 2011 (which include Messrs. Stone and Davis) stopped accruing benefits as of such date, and participants 50 or older as of such date (which include Messrs. Sengstack and Kenney) accrued benefits until December 31, 2016. Mr. Haines is not eligible to participate in this portion of the Pension Plan because he was hired after February 21, 2006 when it was closed to all new salaried employees.

##### Cash Balance Portion

The Cash Balance portion of the Pension Plan covers most salaried employees in the U.S. All participants stopped accruing benefits as of December 31, 2011. At termination of employment a participant is eligible to receive the amount credited to his account or a monthly single life annuity based on the amount credited to his account. The account consists of: (i) an opening balance for a participant at December 31, 1999 equal to the present value of the participant's accrued benefit earned at December 31, 1999 under the applicable prior pension plan; (ii) annual Company contributions through 2011 ranging from 3% to 12% of a participant's compensation and transitional credits for certain participants from 2000-2004 equal to 6% of compensation; and (iii) interest credits, which continue until distribution of the account, based on the 30-year Treasury rate (subject to a minimum of 4.5%). All named executive officers participate in the Cash Balance portion.

##### Pension Restoration Plan

In order to provide eligible executives with the portion of their retirement benefits that cannot be paid under the tax-qualified Pension Plan due to IRS limits on compensation, the Company maintains the Pension Restoration Plan. All participants other than Mr. Sengstack (which include Messrs. Haines, Stone and Davis) stopped accruing benefits as of December 31, 2011, and effective as of January 1, 2012, their benefits were transferred to the Supplemental Retirement and Deferred Compensation Plan. Mr. Kenney does not participate in the Pension Restoration Plan because it was frozen before he became an executive officer.

##### Retirement Program

The Retirement Program is a tax-qualified 401(k) plan that covers the majority of all U.S. employees, including the named executive officers. A participant can elect to defer 1-50% of his compensation, in accordance with the Retirement Program plan documents, up to a maximum in 2017 of \$18,000, or \$24,000 if age 50 or over, and the Company will make a matching contribution equal to 100% of the first 2% of the participant's deferral contributions plus 50% of the next 3% of the participant's deferral contributions, for a total of 3.5% of the participant's compensation.

The Company also makes annual service-based contributions to most participants, ranging from 3% to 9% of a participant's compensation, depending on his or her years of service with the Company (3% in the case of hourly employees). The service-based contribution generally is made to all employees. Compensation taken into account under the Retirement Program is limited by the Internal Revenue Code (the limit for 2017 was \$270,000). The Retirement Program also holds employees' accounts that were held in the Company's Employee Stock Ownership Plan, which was merged into the Retirement Program in 2010.

#### Supplemental Retirement and Deferred Compensation Plan

The Company maintains the Supplemental Retirement and Deferred Compensation Plan (the "Supplemental Retirement



Plan”), which provides an additional benefit to attract and retain key executives. The Supplemental Retirement Plan permits executive officers of the Company to elect each year to defer up to 90% of their bonus awards and up to 50% of their salary. Deferred amounts are credited to a bookkeeping account maintained on behalf of the participant.

The Company provides two types of contributions under the Supplemental Retirement Plan to the named executive officers other than Mr. Sengstack, who continues to participate in the Pension Restoration Plan. These contributions include: (i) the portion of the service-based contribution that could not be made under the Retirement Program due to IRS limitations; and (ii) a supplemental contribution of 2% to 4% of a participant’s compensation depending on years of service. In addition, participants who stopped accruing benefits under the Pension Restoration Plan (which includes Messrs. Haines, Stone and Davis) had their benefit transferred to the Supplemental Retirement Plan as of January 1, 2012. A participant’s deferral account, service contribution account and transferred Pension Restoration Account are credited with earnings and losses based on the investment funds made available under the Plan. Earnings on the supplemental contribution account will follow the methodology used in the now-frozen Cash Balance Plan, which credits earnings based on the 30-year Treasury rate, but not less than 4.5%.

A participant’s accounts under the Supplemental Retirement Plan generally will be distributed to him in the seventh month following termination of employment. No named executive officer elected to contribute to the Supplemental Retirement Plan in 2017, and Messrs. Haines, Stone, Davis and Kenney received Company contributions.

#### Perquisites, Other Personal Benefits, and Other Compensation

The Company generally does not provide the named executive officers with perquisites or other personal benefits such as Company vehicles, club memberships, financial planning assistance or tax preparation. The Company offers an executive annual physical program which is available to the named executive officers. The named executive officers other than Mr. Sengstack receive a Medicare tax reimbursement relating to the annual Company contributions in the Supplemental Retirement Plan (in the case of Messrs. Haines, Stone, Davis and Kenney). In connection with his appointment as President, Headwater Companies, Mr. Davis relocated to the Denver, Colorado area. The Company is providing him with relocation benefits for three years and tuition reimbursement for two years. These benefits are further detailed in the Summary Compensation Table of the Proxy Statement.

#### Employment Agreements

The Company has employment agreements with Messrs. Sengstack and Haines. The agreements are three-year agreements, which automatically extend for an additional year unless either party gives notice not to renew. The agreements provide the following:

If the agreement is not renewed by the Company, and the executive terminates his employment, the executive is entitled to a payment equal to 12 months of salary and the target bonus, a bonus pro-rated for the time of employment in the current year, continued participation in the Company’s health and welfare plans for 12 months, a lump sum payment equal to the additional benefits that would have accrued under the Company’s retirement plans for 12 months, and immediate vesting of all stock options and pro-rata vesting of restricted stock, restricted stock units and performance share units (based on actual performance).

If the executive’s employment is terminated prior to a change in control without cause by the Company or for good reason by the executive (as defined in the agreements), Mr. Haines is entitled to the same benefits as described above, and Mr. Sengstack is entitled to severance based on 18 months of continued salary, 1-1/2 times the target bonus, and 18 months of health and welfare plan coverage and retirement plan payment.

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If the executive's employment is terminated without cause by the Company or for good reason by the executive within two years following a change in control of the Company, the executive is entitled to receive a payment equal to 36 months of continued salary, three times the target bonus (24 months of salary and two times bonus for Mr. Haines), a bonus pro-rated for the time of employment in the current year, continued participation in the Company's health and welfare plans for 36 months (24 for Mr. Haines) and a lump sum payment equal to the additional benefits that would have been accrued under the Company's retirement plans (other than the Pension Restoration Plan) for 36 months (24 months for Mr. Haines), and immediate vesting and cash-out of outstanding options and vesting of restricted stock, restricted stock units and performance share units (at target level). With respect to any 280G excise tax, each executive can elect to either (i) receive the full amount of severance benefits and be responsible for paying any excise tax or (ii) receive severance benefits that are reduced to the maximum amount that can be paid without triggering the excise tax.

The employment agreements contain a restrictive covenant that prohibits the executives from competing with the Company and soliciting the Company's customers and employees for 24 months following termination.

#### Employment Security Agreements

The Company has entered into employment security agreements ("ESAs") with Messrs. Stone, Davis and Kenney, as well as certain other executives that provide benefits upon a change in control of the Company, in order to extend these benefits to some executives who are not party to employment agreements.

Each ESA provides that if within two years after a change in control the Company terminates the executive's employment for any reason other than cause, or the executive terminates his employment with the Company for good reason (as defined in the ESA), the executive is entitled to the following:

A lump sum payment equal to the sum of two times the executive's base salary, a pro-rata portion of the executive's target bonus for the current year (based on the termination date), and two times the executive's target bonus for the current year;

A lump sum payment equal to the increase in benefits under the Company's tax-qualified and supplemental retirement plans that results from crediting the executive with additional service for 24 months;

Immediate vesting of all stock-based awards and deemed satisfaction of performance goals at target levels;

Continued coverage under the Company's health and welfare plans for 24 months following termination; and

12 months of executive outplacement services (not to exceed \$50,000) with a professional outplacement firm selected by the Company.

The ESAs contain a restrictive covenant that prohibits the executive from soliciting employees of the Company for 18 months following termination.

The Company determined that these agreements serve the Company's goal of attracting and retaining key executives. By providing these agreements the executives are able to remain focused on the best interests of the shareholders in the event of a potential change-in-control situation. Additionally, these agreements provide benefits which strive to retain the executives during a transitional period.

#### Confidentiality and Non-Compete Agreements

Each named executive officer has signed a confidentiality and non-compete agreement with the Company. Under this agreement, they agree to maintain all confidential information of the Company, and for a period of 18 months after termination of employment from the Company they agree not to, directly or indirectly, participate in the design, development, manufacture, or distribution of electrical submersible motors or related products in competition with the Company. These agreements are in addition to the restrictive covenants set forth in the employment agreements and ESAs.

#### Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code as in effect for 2017 limited the deductibility for federal income tax purposes of executive compensation paid to the CEO and the three other most highly compensated officers other than

the chief financial officer of a public company to \$1,000,000 per year, but contained an exception for certain performance-based compensation. While base salary, time-based restricted stock and restricted stock units, by their nature, do not qualify as performance-based compensation under Section 162(m), the Committee has structured the annual cash incentive awards under the Annual Bonus Plan and the grant of stock options to qualify as performance-based compensation under Section 162(m). The Company expects that all of the compensation paid in 2017 will be deductible by the Company for federal income tax purposes.

The Tax Cuts and Jobs Act of 2017 amended Section 162(m) to cover a public company's chief financial officer and eliminate the performance based exception, beginning in 2018. Accordingly, the annual cash incentive awards, stock options and performance shares granted in 2018 and later years will no longer qualify for this exception. In addition, compensation paid to a covered employee after termination of employment will also be subject to the million dollar limitation. The annual cash

incentive paid for 2017 will still be covered by the performance-based exception. Under a transition rule, outstanding stock options and performance share awards and post-termination compensation will not be subject to Section 162(m) as amended to the extent such compensation is considered paid pursuant to a binding written contract in effect as of November 2, 2017.

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## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following table sets forth compensation information for the Company's Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers ("named executive officers") for the fiscal years ended December 31, 2017, December 31, 2016 and January 2, 2016.

Name and Principal Position	Year	Salary (\$) <sup>(1)</sup>	Time-Based		Performance-Based		Non-Equity Incentive Plan Compensation (\$) <sup>(6)</sup>	Change in Pension Value & Nonqualified Deferred Compensation Earnings (\$) <sup>(7)</sup>	All Other Compensation (\$) <sup>(8)</sup>	Total (\$)
			Bonus (\$) <sup>(2)</sup>	Stock Awards (\$) <sup>(3)</sup>	Stock Awards (\$) <sup>(3)(4)</sup>	Option Awards (\$) <sup>(5)</sup>				
Gregg C. Sengstack, Chairman & CEO	2017	730,417	—	660,007	660,007	875,850	649,560	1,178,605	56,680	4,811,126
	2016	694,458	—	554,992	554,992	871,415	853,420	177,937	33,179	3,740,393
	2015	668,958	80,000	525,005	525,004	816,098	—	589,151	48,061	3,252,277
John J. Haines VP & CFO	2017	403,685	—	205,514	205,514	273,969	278,906	3,820	78,709	1,450,117
	2016	384,096	—	173,986	173,986	273,203	350,584	2,675	39,004	1,397,534
	2015	365,714	—	165,015	165,015	256,486	33,426	—	50,113	1,035,769
Robert J. Stone Senior VP and President, International Water Systems	2017	384,226	—	143,986	143,986	191,983	145,209	22,771	88,800	1,120,961
	2016	372,935	—	139,497	139,497	219,029	323,642	14,456	54,610	1,263,666
	2015	361,992	33,000	134,983	134,982	209,848	—	—	71,878	946,683
DeLancey W. Davis VP and President, Headwater Companies	2017	357,654	40,000	120,608	320,621	160,779	185,122	11,006	84,416	1,280,206
	2016	347,127	—	116,989	116,989	183,705	299,371	7,060	43,763	1,115,004
	2015	336,838	—	113,384	113,383	176,276	29,945	—	51,570	821,396
Donald P. Kenney VP and President, North America Water Systems	2017	365,005	—	235,983	80,982	107,989	229,214	39,523	89,832	1,148,528
	2016	312,552	—	64,499	64,499	101,273	242,665	30,492	60,669	876,649
	2015	302,835	—	62,083	62,082	96,534	77,405	3,909	76,998	681,846

(1) Salary adjustments for 2017 were effective as of June 1, 2017.

These amounts represent discretionary bonuses paid to Messrs. Sengstack, Stone, and Davis. The Committee approved these discretionary bonuses to Messrs. Sengstack and Stone due in part to their extraordinary

(2) performance in 2015 and to Mr. Davis due in part to his extraordinary performance in 2017. A description of the discretionary adjustment component of the Annual Cash Incentive Award can be found in the "Compensation Discussion and Analysis" section of this Proxy Statement.

These amounts represent the grant date fair value, computed in accordance with FASB Codification Topic 718, of the restricted stock and performance share unit awards granted in 2017 to the named executive officers. The value

(3) of the performance share units is based upon the probable outcome of the performance conditions. See Note 15 of the Company's Annual Report to Shareholders for the fiscal year ending December 31, 2017 for a complete description of the assumptions used for these valuations.

(4)

The grant date value of the performance shares granted in 2017, assuming the performance conditions were met at the maximum level, was: Mr. Sengstack: \$1,320,014; Mr. Haines: \$411,028; Mr. Stone: \$287,973; Mr. Davis: \$641,241; and Mr. Kenney: \$161,964.

(5) These amounts represent the grant date fair value, computed in accordance with FASB Codification Topic 718, of the stock options granted to the named executive officers in 2017. See Note 15 of the Company's Annual Report to Shareholders for the fiscal year ending December 31, 2017 for a complete description of the assumptions used for these valuations.

These amounts represent the bonuses paid to the named executive officers under the Company's performance-based (6) Executive Officer Annual Incentive Cash Bonus Program. A description of this program can be found in the "Compensation Discussion and Analysis" section of this Proxy Statement.

These amounts represent the annual change in the present value of each named executive officer's benefits under (7) the Company's defined benefit pension plans, which calculations use the same assumptions required to be used for financial reporting purposes. Benefits under the pension plans were frozen as of December 31, 2011 for most participants, including Messrs. Haines, Stone and Davis.

These amounts for 2017 represent (i) Company contributions under the Retirement Program: Mr. Sengstack: \$33,750; Mr. Haines: \$22,950; Mr. Stone: \$28,350; Mr. Davis: \$22,950; and Mr. Kenney: \$33,750; (ii) Company contributions under the Supplemental Retirement and Deferred Compensation Plan: Mr. Haines: \$54,384; Mr. (8) Stone: \$58,965; Mr. Davis: \$45,632; and Mr. Kenney: \$54,699; (iii) a Medicare tax reimbursement related to the non-qualified retirement plans: Mr. Sengstack: \$22,864; Mr. Haines: \$1,309; Mr. Stone: \$1,419; Mr. Davis: \$15,768; and Mr. Kenney: \$1,316; and (iv) the Company's life insurance contributions of \$66 for each named executive officer.

#### Restricted Stock/Restricted Stock Unit/Performance Stock Unit Awards

The 2017 restricted awards were granted on February 24, 2017 and February 23, 2017 for Mr. Sengstack and the remaining Named Executive Officers, respectively. The awards consisted of 15,349 restricted stock units and 15,349 performance share units awarded to Mr. Sengstack; 4,870 restricted stock units and 4,870 performance share units awarded to Mr. Haines; 3,412 restricted stock units and 3,412 performance share units awarded to Mr. Stone; 2,858 restricted stock units and 2,858 performance share units awarded to Mr. Davis; and 1,919 restricted stock units and 1,919 performance stock units awarded to Mr. Kenney. In connection with his appointment to President of Headwater Companies, Mr. Davis received an additional grant on April 10, 2017 of 4,785 performance share units. In connection with his appointment to VP and President of North American Water Systems, Mr. Kenney received an additional grant on May 4, 2017 of 4,026 restricted stock units.

The 2016 restricted awards granted on February 25, 2016 consisted of 19,085 restricted stock units and 19,085 performance share units awarded to Mr. Sengstack; 5,983 restricted stock units and 5,983 performance share units awarded to Mr. Haines; 4,797 restricted shares and 4,797 performance share units awarded to Mr. Stone; 4,023 restricted shares and 4,023 performance share units awarded to Mr. Davis; and 2,218 restricted stock units and 2,218 performance stock units awarded to Mr. Kenney.

The 2015 restricted awards granted on February 26, 2015 consisted of 14,317 restricted stock units and 14,317 performance share units awarded to Mr. Sengstack; 4,500 restricted stock units and 4,500 performance share units awarded to Mr. Haines; 3,681 restricted shares and 3,681 performance share units awarded to Mr. Stone; 3,092 restricted shares and 3,092 performance share units awarded to Mr. Davis; and 1,693 restricted stock units and 1,693 performance stock units awarded to Mr. Kenney.

Restricted stock and restricted stock unit awards vest on the fourth anniversary of the grant date (subject to accelerated pro rata vesting upon death, disability, or retirement and accelerated vesting on a change in control). Performance share units granted in 2017 vest at the end of the three-year performance period ending December 31, 2019, depending on the level of achievement of the performance goals (subject to pro rata vesting at the end of the performance period upon death, disability or retirement and accelerated vesting at target level upon a change in control). Dividends are paid on restricted stock awards and dividend equivalents are paid on restricted stock unit awards. Dividend equivalents are paid on performance share unit awards only to the extent the awards vest.

#### Option Awards



The 2017 grants to the named executive officers consisted of options for 70,569 shares to Mr. Sengstack; 22,389 shares to Mr. Haines; 15,689 shares to Mr. Stone; 13,139 shares to Mr. Davis; and 8,825 shares to Mr. Kenney. These grants had an exercise price of \$43.00 and \$42.20 for Mr. Sengstack and the remaining named executive officers, respectively.

The 2016 grants to the named executive officers consisted of options for 94,952 shares to Mr. Sengstack; 29,769 shares to Mr. Haines; 23,866 shares to Mr. Stone; 20,017 shares to Mr. Davis; and 11,035 shares to Mr. Kenney. These grants had an exercise price of \$29.08.

The 2015 grants to the named executive officers consisted of options for 66,144 shares to Mr. Sengstack; 20,788 shares to Mr. Haines; 17,008 shares to Mr. Stone; 14,287 shares to Mr. Davis; and 7,824 shares to Mr. Kenney. These grants had an exercise price of \$36.67.

All of the stock options granted in 2017, 2016 and 2015 vest over four years at 25% per year (subject to accelerated vesting upon death, disability, retirement or a change in control) and expire after ten years.

## Change in Pension Value and Nonqualified Deferred Compensation Earnings

In connection with the redesign of the Company's retirement program, effective as of December 31, 2011, all named executive officers other than Messrs. Sengstack and Kenney stopped accruing benefits under the Pension Plan and/or the Pension Restoration Plan. Descriptions of these retirement plans, as in effect before and after December 31, 2011, and the level of participation by the named executive officers, can be found in the 2017 Pension Benefits Table and accompanying narrative included in this Proxy Statement.

## 2017 Grant of Plan Based Awards Table

The following table sets forth the plan-based grants made during the fiscal year ended December 31, 2017.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Possible Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units (#) <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/sh) <sup>(4)</sup>	Grant Date Fair Value of Stock and Option Awards (\$) <sup>(5)</sup>
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Gregg C. Sengstack	2/24/2017	241,038	730,417	876,500							
	2/24/2017				7,675	15,349	30,698				
	2/24/2017							15,349	70,569	43.00	2,195,864
John J. Haines	2/23/2017	99,912	302,764	363,317							
	2/23/2017				2,435	4,870	9,740				
	2/23/2017							4,870	22,389	42.20	684,997
Robert J. Stone	2/23/2017	95,096	288,169	345,803							
	2/23/2017				1,706	3,412	6,824				
	2/23/2017							3,412	15,689	42.20	479,956
DeLancey W. Davis	2/23/2017	88,519	268,241	321,889							
	2/23/2017				1,429	2,858	5,716				
	2/23/2017							2,858	13,139	42.20	602,007
Donald P. Kenney	4/10/2017				2,393	4,785	9,570				
	2/23/2017	90,339	273,754	328,505							
	2/23/2017				960	1,919	3,838				
	2/23/2017							1,919	8,825	42.20	269,953
	5/4/2017							4,026	—	38.50	155,001

The amounts in these columns reflect estimated possible payouts for 2017 and were established under the Executive Officer Annual Incentive Bonus Program. The estimated payouts shown in the Table were based on performance in 2017, which has now occurred. Thus, the amounts shown in “threshold”, “target”, and “maximum” columns reflect the range of potential payouts when the performance goals were set in early 2017. Actual amounts paid for 2017 are reflected in the Summary Compensation Table. A description of this program can be found in the “Compensation Discussion and Analysis” section of this Proxy Statement.

(2) The amounts in these columns reflect the estimated possible payouts of shares of common stock that may be issued pursuant to the settlement of performance share units that were granted in 2017. Vesting occurs at the end of the three-year performance period (December 31, 2019), depending on the level of attainment of the performance goals. A pro rata portion is paid at the end of the performance period in the event of the executive's death, disability or retirement, and vesting is accelerated at target level upon a change in control. Dividend equivalents are paid to

the extent the performance share units vest. A description of the performance share units can be found in the "Compensation, Discussion, and Analysis" section of this Proxy Statement.

(3) Restricted stock units were granted to Messrs. Sengstack, Haines, Stone, Davis, and Kenney because they are retirement eligible or will become retirement eligible within the vesting period. The awards vest four years from the grant date if they are still employed with the Company on such date. Vesting is accelerated upon a change in control of the Company and a pro rata portion is accelerated upon death, disability or retirement.

(4) The exercise price for grants of stock options is determined using the closing price of the Company's common stock on the date of grant. The option grants expire after ten years and vest over four years, at 25% per year. Vesting is accelerated upon a change in control of the Company, death, disability or retirement.

(5) The grant date fair value of the target performance share units, restricted stock, restricted stock units and option awards shown in the above table was computed in accordance with FASB Codification Topic 718.

## 2017 Outstanding Equity Awards at Fiscal Year-End Table

The following table sets forth the outstanding equity awards as of December 31, 2017.

Name	Option Awards <sup>(1)</sup>				Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Rights That Have Not Vested (\$) <sup>(7)</sup>	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise price (\$/sh)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$) <sup>(7)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Rights That Have Not Vested (\$) <sup>(7)</sup>
	24,108	0	8.67	3/5/2019				
	25,600	0	14.41	2/22/2020				
	21,460	0	21.72	3/2/2021				
	34,640	0	24.10	5/4/2022				
Gregg C. Sengstack	21,798	0	32.53	3/6/2023	58,603 <sup>(2)</sup>	2,689,878	34,434 <sup>(8)</sup>	1,580,521
	13,167	4,388	43.27	3/4/2024				
	16,538	5,512	37.88	5/6/2024				
	33,072	33,072	36.67	2/26/2025				
	23,738	71,214	29.08	2/25/2026				
	0	70,569	43.00	2/24/2027				
	23,600	0	14.41	2/22/2020				
	20,052	0	21.72	3/2/2021				
John J. Haines	21,650	0	24.10	5/4/2022				
	16,564	0	32.53	3/6/2023	18,924 <sup>(3)</sup>	868,612	10,853 <sup>(9)</sup>	498,153
	10,305	3,435	43.27	3/4/2024				
	10,394	10,394	36.67	2/26/2025				
	7,443	22,326	29.08	2/25/2026				
	0	22,389	42.20	2/23/2027				
	21,038	0	21.72	3/2/2021				
	22,296	0	24.10	5/4/2022				
Robert J. Stone	14,046	0	32.53	3/6/2023				
	8,745	2,914	43.27	3/4/2024	14,920 <sup>(4)</sup>	684,828	8,209 <sup>(10)</sup>	376,793
	8,504	8,504	36.67	2/26/2025				
	5,967	17,899	29.08	2/25/2026				
	0	15,689	42.20	2/23/2027				
DeLancey W. Davis	7,304	2,434	43.27	3/4/2024	12,504 <sup>(5)</sup>	573,934	11,666 <sup>(11)</sup>	535,469
	0	7,143	36.67	2/26/2025				

	0	15,012	29.08	2/25/2026				
	0	13,139	42.20	2/23/2027				
	6,374	0	8.67	3/5/2019				
	3,092	0	14.95	3/23/2020				
	2,334	0	21.72	3/2/2021				
	3,016	0	24.10	5/4/2022				
Donald P. Kenney	3,230	0	32.53	3/6/2023	13,572 <sup>(6)</sup>	622,955	4,137 <sup>(12)</sup>	189,888
	2,011	670	43.27	3/4/2024				
	3,912	3,912	36.67	2/26/2025				
	2,759	8,276	29.08	2/25/2026				
	0	8,825	42.20	2/23/2027				

Each option grant has a ten-year term and vests pro rata over four years beginning on the first anniversary of the grant date. Vesting is accelerated upon death, disability, retirement or a change in control of the Company. Exercise prices are determined using the closing price of the Company's Common Stock on the date of grant.

(1) Of Mr. Sengstack's restricted awards, 15,349 shares vest after four years on February 24, 2021, 19,085 shares vest after four years on February 25, 2020, 14,317 shares vest after four years on February 26, 2019, 5,290 shares vest after four years on May 6, 2018, and 4,562 shares vest after four years on March 4, 2018.

(3) Of Mr. Haines's restricted awards, 4,870 shares vest after four years on February 23, 2021, 5,983 shares vest after four years on February 25, 2020, 4,500 shares vest after four years on February 26, 2019, and 3,571 shares vest after four years on March 4, 2018.

(4) Of Mr. Stone's restricted awards, 3,412 shares vest after four years on February 23, 2021, 4,797 shares vest after four years on February 25, 2020, 3,681 shares vest after four years on February 26, 2019, and 3,030 shares vest after four years on March 4, 2018.

(5) Of Mr. Davis's restricted awards, 2,858 shares vest after four years on February 23, 2021, 4,023 shares vest after four years on February 25, 2020, 3,092 shares vest after four years on February 26, 2019, and 2,531 shares vest after four years on March 4, 2018.

(6) Of Mr. Kenney's restricted awards, 5,945 shares vest after four years on February 23, 2021, 2,218 shares vest after four years on February 25, 2020, 1,693 shares vest after four years on February 26, 2019, and 3,716 shares vest after four years on March 4, 2018.

(7) The market value of the stock and stock unit awards was determined using the closing price of the Company's common stock on December 29, 2017 (\$45.90 per share).

(8) Of Mr. Sengstack's target performance share awards, 15,349 will vest at the end of the performance period that ends on December 31, 2019 and 19,085 will vest at the end of the performance period that ends on December 31, 2018.

(9) Of Mr. Haines' target performance share awards, 4,870 will vest at the end of the performance period that ends on December 31, 2019 and

5,983 will vest at the end of the performance period that ends on December 31, 2018.

(10) Of Mr. Stone's target performance share awards, 3,412 will vest at the end of the performance period that ends on December 31, 2019 and

4,797 will vest at the end of the performance period that ends on December 31, 2018.

(11) Of Mr. Davis' target performance share awards, 4,785 will vest at the end of the performance period that ends on April 10, 2020, 2,858 will vest at the end of the performance period that ends on December 31, 2019 and 4,023 will vest at the end of the performance period that ends on December 31, 2018.

(12) Of Mr. Kenney's target performance share awards, 1,919 will vest at the end of the performance period that ends on December 31, 2019 and 2,218 will vest at the end of the performance period that ends on December 31, 2018.

#### 2017 Option Exercises and Stock Vested Table

The following table sets forth the exercised options and vested awards for the fiscal year ended December 31, 2017.

Name	Option Awards		Stock Awards	
	Number of Shares Acquiredn on Exercise (#)	Value Realized (\$) <sup>(1)</sup>	Number of Shares Acquiredn on Vesting (#) <sup>(2)</sup>	Value Realized (\$) <sup>(3)</sup>
Gregg C. Sengstack	30,600	726,903	13,470	595,518
John J. Haines	—	—	6,939	301,205
Robert J. Stone	39,260	1,223,101	5,814	252,200
DeLancey W. Davis	11,093	84,789	4,403	191,583
Donald P. Kenney	12,000	352,260	5,672	242,360

(1) Represents the difference between the closing price of the stock on the date of exercise and the exercise price, multiplied by the number of shares covered by the options.

(2) Includes shares based on estimated release of performance share units earned in 2017 as follows: Mr. Sengstack, 7,402; Mr. Haines, 2,327; Mr. Stone, 1,904; Mr. Davis, 1,599; and Mr. Kenney 876. See the "Compensation Discussion & Analysis" section for further information.

(3) Represents the value realized by multiplying the closing price of the stock on the date of vesting by the number of shares that vested. Includes vesting of restricted stock/units granted in 2012 and performance share awards granted in 2014. See the "Compensation Discussion & Analysis" section for a discussion of this vesting.

#### Pay Ratio Disclosure

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, the Company is providing the following information about the relationship of the median of the annual total compensation of Company employees and the annual total compensation of Mr. Sengstack:

For 2017, the median of the annual total compensation of all employees of the Company (other than Mr. Sengstack), was \$24,825 and the annual total compensation of Mr. Sengstack was \$4,811,126. The identified median employee is a production assembly worker employed in the Company's manufacturing facility in Brno, Czech Republic. The median employee's base compensation and benefits were converted from Czech Koruna to United States Dollars using the exchange rate in effect on October 31, 2017.

Based on this information, for 2017 the ratio of the median of the annual total compensation of all employees to the annual total compensation of Mr. Sengstack was 1 to 194. This ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of SEC Regulation S-K.

To determine the median of the annual compensation of all employees, to identify the median employee and to determine the annual total compensation of the median employee and Mr. Sengstack, the Company used the following material assumptions, adjustments, and estimates:

- As of October 1, 2017, the Company's employee population consisted of approximately 5,397 individuals working at the Company and its wholly-owned subsidiaries. This population consisted of full-time, part-time, and temporary employees.

- As permitted under SEC rules, the employee population was adjusted to exclude 197 non-U.S. employees (or approximately 3.65% of the employee population) working in India. The Company excluded these employees because the complex compensation structure for employees in India, which includes a number of social and economic benefits commonly provided to such employees, is not easily comparable to that of employees in other jurisdictions. Based on the exclusion of these employees in India, the adjusted employee population was 5,200 employees.

•Each employee’s base salary was determined using fiscal year 2017 payroll records and the median employee was identified from the adjusted employee population based on these records.

In accordance with the SEC rules, the median employee’s annual total compensation was calculated as follows:

\$24,825, which represents the amount of such employee’s compensation for fiscal year 2017 that would have been reported in the Summary Compensation Table in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K if the employee was a named executive officer for 2017.

In accordance with the SEC rules, the annual total compensation of Mr. Sengstack is equal to \$4,811,126, which represents the amount reported in the “Total” column of the Summary Compensation Table beginning on page 30.

#### 2017 Pension Benefits Table

The following table sets forth (i) the years of service currently credited to each named executive officer under the Company’s pension plans and (ii) the present value of the accumulated benefit payable under each pension plan to each of the named executive officers upon retirement.

Named Executive Officer	Plan Name <sup>(1)</sup>	Number of Years of Credited Service #	Present Value of Accumulated Benefit (\$) <sup>(2)(3)</sup>	Payments During Last Fiscal Year (\$)
Gregg C. Sengstack	Basic Retirement Portion	28.0	\$115,852	\$0
	Cash Balance Portion	23.1	\$555,228	\$0
	Pension Restoration Plan	29.1	\$5,476,323	\$0
	Cash Balance Portion	4.0	\$42,261	\$0
John J. Haines	Basic Retirement Portion	19.3	\$55,431	\$0
	Cash Balance Portion	11.5	\$164,498	\$0
	Basic Retirement Portion	6.6	\$18,126	\$0
DeLancey W. Davis	Cash Balance Portion	7.0	\$85,723	\$0
	Basic Retirement Portion	25.5	\$82,587	\$0
Donald P. Kenney	Cash Balance Portion	20.8	\$391,690	\$0

(1) As of December 31, 2011, the Basic Retirement Plan and Cash Balance Pension Plan were merged and renamed the Pension Plan.

(2)



As of December 31, 2011, the named executive officers stopped accruing benefits under all plans except for Mr. Sengstack, who continues to accrue benefits under the Basic Retirement portion of the Pension Plan and the Pension Restoration Plan.

The amounts in this column are based on a retirement age of 65 for Messrs. Haines, Stone, Davis, and Kenney. For (3)Mr. Sengstack, retirement age is 62 for the Basic Retirement portion of the Pension Plan and the Pension Restoration Plan, and age 65 for the Cash Balance portion of the Pension Plan.

#### Pension Plan

In 2011, the Company implemented a redesign of its retirement program. Its two tax-qualified defined benefit pension plans, the Basic Retirement Plan and the Cash Balance Pension Plan, were merged into a single plan called the Pension Plan. As discussed below, as of December 31, 2011, benefit accruals under the Basic Retirement portion of the Pension Plan ceased for all participants younger than age 50 and benefit accruals under the Cash Balance portion of the Pension Plan ceased for all participants. In addition, benefits under the non-qualified Pension Restoration Plan ceased for all participants other than Mr. Sengstack. Participants will instead receive additional benefits under the Company's defined contribution plans (see the discussion in the Compensation Discussion and Analysis and in the 2017 Nonqualified Deferred Compensation Table and narrative in this Proxy Statement).

#### Basic Retirement Plan

The Basic Retirement portion of the Pension Plan covers most U.S. employees of the Company and its affiliates, including the named executive officers, who were hired before February 21, 2006. The Basic Retirement Plan provides each eligible named executive officer with a monthly single life annuity commencing at normal retirement age (age 65) equal to the number of years of credited service times \$25. Participants are eligible to receive benefits after completing five years of vesting service. Participants who terminate employment after age 55 with 10 years of vesting service are eligible to receive early retirement benefits that are reduced to reflect commencement prior to age 65. Participants who terminate employment on or after age 62 with 25 years of

vesting service are eligible to receive early retirement benefits that are unreduced for commencement prior to age 65. Participants with five years of vesting service who terminate employment and are not eligible to receive early retirement benefits are eligible for benefits commencing at age 65. Mr. Sengstack and Mr. Kenney are currently eligible for early retirement benefits. Mr. Haines is not eligible to participate in the Plan because he was hired after February 21, 2006.

The benefit formula calculates the benefit payable in a single life annuity form, which is the normal form of benefit for unmarried participants. The normal form of benefit payment for married participants is a 50% joint and survivor annuity. Participants, with spousal consent, if applicable, can waive the normal form and elect to have benefits paid in various annuity forms, which are the actuarially equivalent of the single life annuity form.

The Basic Retirement Plan was amended in 2011 to provide that participants younger than age 50 as of December 31, 2011 (which includes Messrs. Stone and Davis) stopped earning benefits as of such date, and participants 50 or older as of December 31, 2011 (which includes Messrs. Sengstack and Kenney) stopped earning benefits on December 31, 2016 (or if earlier, their termination of employment).

#### Cash Balance Pension Plan

The Cash Balance portion of the Pension Plan is a tax-qualified pension plan that covers most U.S. employees of the Company and its affiliates who are classified as "exempt" and who are not covered by a collective bargaining agreement, which includes each named executive officer. As of December 31, 2011, the Plan was closed to new participants and all participants stopped accruing further benefits. An account is maintained for each participant under the Plan, which consists of (i) an opening account balance equal to the then present value of the participant's accrued benefit, if any, earned as of December 31, 1999 under one of the Company's prior pension plans; (ii) annual contributions made by the Company as of the end of each calendar year through 2011 that ranged from 3% to 12% of the participant's compensation (based on the participant's credited service); (iii) annual transitional credits made by the Company from 2000-2004 equal to 6% of compensation of each participant whose age and years of vesting service as of December 31, 1999 totaled 45 or more; and (iv) until distribution of the account, annual interest credits made by the Company as of the end of each calendar year, based on the 30-year Treasury security rate for the November preceding each such year (subject to a minimum interest rate of 4.5%). Compensation included wages subject to withholding, excluding income recognized in connection with the Company's stock based plans, reimbursements or other expense allowances, fringe benefits, moving expenses, deferred compensation, and welfare benefits (as limited by applicable Internal Revenue Code limits).

Participants are eligible to receive benefits after completing three years of service. They can elect to receive their benefits upon termination of employment or they can defer receipt of benefits until age 65. Any accounts remaining in the Cash Balance Plan will continue to be credited with interest until the account is paid. The normal form of benefit payment for unmarried participants is a single life annuity, and the normal form of benefit payment for married participants is a 50% joint and survivor annuity. Participants, with spousal consent, if applicable, can waive the normal form and elect to have benefits paid in various annuity forms, which are the actuarially equivalent of the normal form, or in a lump sum.

#### Pension Restoration Plan

The Pension Restoration Plan is an unfunded, non-qualified pension plan that is intended to provide an employee with the portion of his benefits that cannot be paid under the Pension Plan or the Contributory Retirement Plan (the predecessor to the Cash Balance portion of the Pension Plan) due to Internal Revenue Code limitations on the amount of compensation that can be taken into account in determining benefits under, and the amount of benefits that can be paid from, tax-qualified pension plans.

The benefits of Mr. Sengstack are based on the formula in effect under the Contributory Retirement Plan on December 31, 1999, but without regard to the Internal Revenue Code limits. This formula is based on the employee's credited service and final three-year average compensation, with an offset for benefits provided by the Basic Retirement portion of the Pension Plan, the Cash Balance portion of the Pension Plan and Social Security. There is a minimum benefit whereby if the monthly benefit amount paid to the employee under the Pension Plan, Pension Restoration Plan and Social Security is less than a designated percentage of the employee's three-year final average compensation, the difference is paid from the Pension Restoration Plan. The current designated percentage (which is based on years of service at retirement) for Mr. Sengstack is 50% (assuming retirement at age 62).

The benefits of Messrs. Haines, Stone and Davis were determined by applying the formula in the Cash Balance portion of the Pension Plan for all eligible compensation (including compensation in excess of the Code limits), offset for the benefits provided by the Cash Balance portion of the Pension Plan. All participants other than Mr. Sengstack stopped earning benefits as of December 31, 2011 and instead participate in the Supplemental Retirement and Deferred Compensation Plan, under which they

receive additional Company contributions. The value of their frozen benefit under the Pension Restoration Plan was transferred to the Supplemental Retirement and Deferred Compensation Plan as of January 1, 2012.

The benefit accrued under the Pension Restoration Plan is paid upon termination of employment as follows: (i) if the lump sum value is less than \$1,000,000, it will be paid in a lump sum within 90 days following termination; (ii) if the lump sum value is more than \$1,000,000 but less than \$2,000,000, one-half of the benefit will be paid within 90 days following termination, the remaining benefit will be paid as a single life annuity over the first 12 months following termination, and the benefit remaining at the end of the 12-month period will be paid in a lump sum on the first anniversary of termination; (iii) if the lump sum value is \$2,000,000 or more, one-third will be paid within 90 days following termination, the remaining benefit will be paid as a single life annuity over the first 12 months following termination, one-half of the benefit remaining at the end of the 12-month period will be paid in a lump sum on the first anniversary of termination, the remaining benefit will be paid as a single life annuity over the second 12-month period following termination and the benefit remaining at the end of the second 12-month period will be paid in a lump sum on the second anniversary of termination. If the participant is deemed to be a "key employee" as defined in Section 409A of the Internal Revenue Code, any distribution that is payable due to termination of employment will be delayed for six months following the date of such termination. Notwithstanding the foregoing, upon a change in control of the Company, all participants become fully vested in their benefits, all benefits will be paid in a lump sum within 60 days after the change in control and active participants will have three years of additional age and service credits in determining benefits.

#### Pension Plan Assumptions

The assumptions used in calculating the present value of the accumulated pension benefits are set forth in Footnote 8 of the audited financial statements contained in the Company's Annual Report to Shareholders for the year ended December 31, 2017. The Company does not grant additional years of credited service under its pension plans.

#### 2017 Nonqualified Deferred Compensation

The following table sets forth (i) the contributions made by each named executive officer and the Company in fiscal 2017, (ii) the earnings on the account balances as of December 31, 2017 and (iii) the account balances as of December 31, 2017 under the Company's Supplemental Retirement and Deferred Compensation Plan.

Name	Executive Contribution in Last Fiscal Year (\$) <sup>(1)</sup>	Company Contribution in Last Fiscal Year (\$) <sup>(2)</sup>	Aggregate Earnings in Last Fiscal Year (\$) <sup>(3)</sup>	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Fiscal Year End (\$) <sup>(4)(5)</sup>
Gregg C. Sengstack	—	—	95,844	—	534,931
John J. Haines	—	54,384	29,938	—	285,416
Robert J. Stone	—	58,965	9,423	—	427,894
DeLancey W. Davis	—	45,632	6,054	—	252,239
Donald P. Kenney	—	54,699	3,507	—	200,913

(1) This amount is reported in the "Salary" column of the Summary Compensation table in this Proxy Statement.

(2) The Company contributions are reflected in the "All Other Compensation" column of the Summary Compensation table of this Proxy Statement.

(3) The earnings reported in this column are not included in the Summary Compensation table.

(4) The aggregate balance reflects amounts previously reported in the Summary Compensation table except for the following earnings: Mr. Sengstack: \$187,102; Mr. Haines: \$57,078; Mr. Stone: \$34,194; Mr. Davis: \$20,395; and

Mr. Kenney: \$7,509.

For Messrs. Haines, Stone and Davis, the aggregate balances also include the cash balance accounts under the (5) Pension Restoration Plan that were transferred to this Plan as of January 1, 2012: Mr. Haines: \$18,714; Mr. Stone: \$87,153; and Mr. Davis: \$34,477.

The Supplemental Retirement and Deferred Compensation Plan permits executive officers of the Company to elect each year to defer up to 90% of their bonus awards and up to 50% of their salary. Deferred amounts are credited to a notional account maintained on behalf of the participant, which is adjusted for earnings and losses based on investment funds made available by the Management Organization and Compensation Committee.

Beginning in 2012, the Company provides two types of contributions to participants who do not continue to accrue benefits under the Pension Restoration Plan. The Company provides the portion of the service-based contribution that could not be made under the Retirement Program due to IRS limitations (the service-based contribution ranges from 3% to 9% of a participant's compensation depending on years of service). The Company also provides a supplemental contribution of 2% to 4% of a participant's total compensation depending on years of service. In addition, participants who stopped accruing benefits under the Pension

Restoration Plan had their benefit transferred to the Plan as of January 1, 2012. A participant's deferral account, service contribution account and transferred Pension Restoration Plan account will be credited with earnings and losses based on the investment funds made available by the Management Organization and Compensation Committee. Earnings on the supplemental contribution account will follow the methodology used in the now-frozen Cash Balance portion of the Pension Plan, which credits earnings based on the 30-year Treasury rate, but not less than 4.5%.

A participant's accounts under the Plan will generally be distributed to him as soon as practicable after the first of the month following termination of employment (provided that distribution to a "key employee" as defined in Section 409A of the Internal Revenue Code will be deferred for six months). The Named Executive Officers did not contribute to the plan in 2017, although Messrs. Haines, Stone, Davis, and Kenney received Company contributions.

#### Potential Payments upon Termination or Change in Control of the Company

The Company provides benefits to certain of the named executive officers upon certain terminations of employment from the Company. These benefits are in addition to the benefits to which the executives would be entitled upon a termination of employment generally (i.e., vested retirement benefits accrued as of the date of termination, stock-based awards that are vested as of the date of termination and the right to elect continued health coverage pursuant to COBRA). The incremental benefits payable to the executives are described as follows:

#### Employment Agreements

The employment agreements of Messrs. Sengstack and Haines have three-year terms that automatically renew for an additional year unless either party provides advance written notice of an election not to extend the term. The agreements provide the following severance benefits under the described termination scenarios:

Termination – Nonrenewal of Employment Agreement. If the executive terminates his employment at any time during the term of the agreement after receipt of notice from the Company of its decision to not extend the term, he is entitled to (i) an immediate payment equal to a pro rata portion of the target bonus paid for the year of termination (or, in the case of Mr. Sengstack, later payment of a pro rata portion of the bonus payable for the year of termination), (ii) an immediate payment equal to 12 months of his then current salary and one times the target bonus for the year of termination, (iii) immediate vesting of all outstanding stock options, immediate pro rata vesting of time-based restricted stock and units, and pro rata vesting of performance-based restricted stock and units at the end of the performance period based on actual performance, (iv) continued participation in the Company's health and welfare plans for 12 months, and (v) a lump sum payment equal to the benefits that would have accrued under the Company's retirement plans for 12 months.

Termination – Prior to a Change in Control. If a Change in Control of the Company (as defined in the agreements) has not occurred and the executive's employment is terminated by the Company for other than "Good Cause" or the executive terminates his employment for "Good Reason," he is entitled to (i) an immediate payment equal to a pro rata portion of the target bonus paid for the year of termination (or, in the case of Mr. Sengstack, later payment of pro rata portion of the bonus payable for the year of termination), (ii) an immediate payment equal to 18 months of his then current salary and one and one-half times the target bonus for the year of termination (12 months and one times the target bonus for Mr. Haines), (iii) immediate vesting of all outstanding stock options, immediate pro rata vesting of time-based restricted stock and units and pro rata vesting of performance-based restricted stock and units at the end of the performance period based on actual performance, (iv) continued participation in the Company's health and welfare plans for the applicable severance period, and (v) a lump sum payment equal to the benefits that would have been earned under the Company's retirement plans during the applicable severance period.

Termination – Following a Change in Control. If following a Change in Control of the Company (as defined in the agreements) the executive’s employment is terminated within two years of the Change in Control by the Company for other than “Good Cause” or by the executive for “Good Reason”, he is entitled to an immediate payment equal to (i) a pro rata portion of the target bonus paid for the year of termination, (ii) an immediate payment equal to 36 months of his then current salary and three times the target bonus for the year of termination (24 months and two times the target bonus for Mr. Haines), (iii) immediate vesting and cash out of all outstanding stock options and immediate vesting of all other restricted stock and units (with performance-based awards vesting at target level), (iv) continued participation in the Company’s health and welfare plans for the applicable severance period, and (v) a lump sum payment equal to the benefits that would have accrued under the Company’s retirement plans (other than the Pension Restoration Plan) during the applicable service period. With respect to any excise tax, each executive can elect to either (i) receive the full amount of severance benefits and be responsible for paying any excise tax or (ii) receive severance benefits that are reduced to the maximum amount that can be paid without triggering the excise tax.

The employment agreements contain a restrictive covenant that prohibits the executives from competing with the Company and soliciting the Company's customers and employees for 24 months following termination. The agreements provide that an amount of severance equal to one times salary and one times the prior year's bonus serves as consideration for this restrictive covenant as well as the separate confidentiality and non-compete agreement each executive has executed.

For purposes of the employment agreements:

“Good Cause” means the executive’s death or disability, his fraud, misappropriation of, or intentional material damage to the property or business of the Company, his commission of a felony likely to result in material harm or injury to the Company, or his willful and continued material failure to perform his obligations.

“Good Reason” exists if (a) there is a change in the executive’s title or a significant change in the nature or the scope of his authority, (b) there is a reduction in the executive’s salary or retirement benefits or a material reduction in the executive’s compensation and benefits in the aggregate, (c) the Company changes the principal location in which the executive is required to perform services to more than fifty miles away, (d) the executive reasonably determines that, as a result of a change in circumstances significantly affecting his position, he is unable to exercise the authority or duties attached to his positions, or (e) any purchaser of substantially all of the assets of the Company declines to assume the obligations under the employment agreement.

#### Employment Security Agreements

Certain executives, including Messrs. Stone, Davis and Kenney, are parties to employment security agreements (ESA) with the Company that provides benefits upon a Change in Control (as defined in the ESA). Each ESA provides that if within two years after a Change in Control the Company terminates the executive’s employment for any reason other than “Good Cause”, or the executive terminates his employment with the Company for “Good Reason” (as defined in the ESA), the executive is entitled to the following:

- (i) a lump sum payment equal to the sum of two times the executive’s base salary, a pro-rata portion of the executive’s target bonus for the current year (based on the termination date), and two times the executive’s target bonus for the current year;
- (ii) a lump sum payment equal to the increase in benefits under the Company’s tax-qualified and supplemental retirement plans that results from crediting the executive with additional service for 24 months;
- (iii) immediate vesting of all stock-based awards and deemed satisfaction of all performance-based awards at target level;
- (iv) continued coverage under the Company’s health and welfare plans for 24 months following termination;
- (v) 12 months of executive outplacement services (not to exceed \$50,000) with a professional outplacement firm selected by the Company; and
- (vi) with respect to any excise tax, each executive can elect to either receive the full amount of severance benefits and be responsible for paying any excise tax, or receive severance benefits that are reduced to the maximum amount that can be paid without triggering the excise tax.

For purposes of the ESAs:

- “Good Cause” means the executive’s intentional and material misappropriation of, or damage to, the property or business of the Company, his conviction of a criminal violation involving fraud or dishonesty or of a felony that causes material harm or injury to the Company, or his willful and continuous failure to perform his obligations under the ESA that is not cured.



“Good Reason” means a material reduction in the executive’s salary or retirement benefits or a material reduction in his compensation and benefits in the aggregate, or any purchaser of substantially all of the assets of the Company declines to assume all of the Company’s obligations under the ESA.

The ESAs contain a restrictive covenant that prohibits the executive from soliciting employees of the Company for 18 months following termination. The agreements provide that an amount of severance equal to one times salary and one times the prior year’s bonus serves as consideration for this restrictive covenant as well as the separate confidentiality and non-compete agreement each executive has executed.

#### Pension Restoration Plan

The Pension Restoration Plan, in which Mr. Sengstack participates, provides that upon a Change in Control of the Company (as defined in the Plan), (i) all participants will become 100% vested in their benefits, which will be paid in an immediate lump

sum within 60 days, and (ii) active participants will have three years of additional credit for age and service in determining their benefits under the Plan.

#### Stock Plan

Awards under the Company's stock plans fully vest, and performance measures are deemed met at the target level, upon a Change in Control (as defined in the applicable stock plan) of the Company. Stock Option Agreements provide for full vesting upon a termination of employment due to death, disability or retirement. Restricted Stock Agreements and the Restricted Stock Unit Agreements provide for pro-rata vesting upon termination of employment due to death, disability or retirement. Performance Share Unit Agreements provide for pro-rata vesting at the end of the performance period upon termination due to death, disability or retirement.

The tables set forth below quantify the additional benefits described above that would be paid to each named executive officer pursuant to the arrangements described above under the following termination scenarios: assuming a non-renewal of the employment agreement, termination of employment and/or change in control occurred on December 31, 2017.

#### Termination – Nonrenewal of Employment Agreement

Name	Salary (\$) <sup>(1)</sup>	Non-Equity Plan Compensation (\$) <sup>(2)</sup>	Accelerated Vesting of Options (\$) <sup>(3)</sup>	Accelerated Vesting of Restricted Stock/Units/Performance Share Units (\$) <sup>(4)</sup>	Additional Retirement Plan Credits (\$)	Continued Benefit Plan Coverage (\$)
Gregg C. Sengstack	750,000	1,379,977	1,763,471	2,216,715	1,831,002	16,518
John J. Haines	412,016	605,528	563,333	721,406	135,585	14,848
Robert J. Stone	—	—	—	—	—	—
DeLancey W. Davis	—	—	—	—	—	—
Donald P. Kenney	—	—	—	—	—	—

#### Termination – No Change in Control

Name	Salary (\$) <sup>(1)</sup>	Non-Equity Plan Compensation (\$) <sup>(2)</sup>	Accelerated Vesting of Options (\$) <sup>(3)</sup>	Accelerated Vesting of Restricted Stock/Units/Performance Share Units (\$) <sup>(4)</sup>	Additional Retirement Plan Credits (\$)	Continued Benefit Plan Coverage (\$)
Gregg C. Sengstack	1,125,000	1,745,185	1,763,471	2,216,715	1,850,033	24,777
John J. Haines	412,016	605,528	563,333	721,406	135,585	14,848
Robert J. Stone	—	—	—	—	—	—
DeLancey W. Davis	—	—	—	—	—	—
Donald P. Kenney	—	—	—	—	—	—

## Termination – Change in Control

Name	Salary (\$) <sup>(1)</sup>	Non-Equity Plan Compensation (\$) <sup>(2)</sup>	Accelerated Vesting of Options (\$) <sup>(3)</sup>	Accelerated Vesting of Restricted Stock/Units/ Share Units (\$) <sup>(4)</sup>	Performance Credits (\$)	Additional Retirement Plan Credits (\$)	Continued Benefit Plan Coverage (\$)	Outplacement Services (\$)	Forfeiture (\$) <sup>(5)</sup>
Gregg C. Sengstack	2,250,000	2,921,667	1,763,471	4,270,398		2,847,896	49,555	—	—
John J. Haines	824,031	908,292	563,333	1,366,764		279,290	29,696	—	—
Robert J. Stone	778,016	864,508	445,266	1,061,621		310,461	30,206	50,000	—
DeLancey W. Davis	724,096	804,722	373,447	1,109,403		242,488	29,444	50,000	—
Donald P. Kenney	730,000	821,262	209,725	812,843		304,429	25,578	50,000	—

(1) Based on salary rates effective June 1, 2017.

(2) Reflects target annual bonus based on salary rates effective during 2017 and actual bonus payments to Mr. Sengstack in the case of termination due to nonrenewal of agreement or prior to a change in control.

(3) Based on the difference between the exercise price of the unvested stock options multiplied by \$45.90, the closing price of the stock on December 29, 2017.

(4) Based on the unvested awards (the target number in the case of performance-based awards) multiplied by the \$45.90 closing price of the stock on December 29, 2017.

(5) The employment agreements give the executive the choice of receiving full benefits or having them reduced so as not to trigger the excise tax. The severance benefits of the named executive officers other than Mr. Sengstack were below the amount that would trigger the excise tax. Mr. Sengstack's benefits exceeded the triggering amount and receipt of full benefits with payment of the excise tax resulted in a better after-tax situation than forfeiture of benefits in excess of the triggering amount.

## DIRECTOR COMPENSATION

Compensation for non-employee directors is determined by the Board of Directors, upon recommendation of the Corporate Governance Committee. Management makes recommendations to the Corporate Governance Committee with respect to non-employee director compensation. The Management Organization and Compensation Committee, pursuant to the Company's Stock Plan, makes the actual stock-based award. Director Compensation is determined by compiling the compensation data for each of the Peer Group companies listed in the Compensation Discussion and Analysis and comparing such compensation to the current pay for the Company's directors.

The following table sets forth the compensation received by the Company's non-employee directors for the year ended December 31, 2017.

Name	Fees Earned or Paid in Cash (\$) <sup>(1)</sup>	Stock Awards (\$) <sup>(2)</sup>	Option Awards (\$) <sup>(3)</sup>	All Other Compensation (\$)	Total (\$)
David T. Brown	85,000	110,000	—	—	195,000
Renee J. Peterson	75,000	110,000	—	—	185,000
David A. Roberts	75,000	110,000	—	—	185,000
Jennifer L. Sherman	85,000	110,000	—	—	195,000
David M. Wathen	95,000	110,000	—	—	205,000
Thomas R. VerHage	85,000	110,000	—	—	195,000

(1) Fees deferred into the Non-Employee Directors' Deferred Compensation Plan were: Ms. Peterson \$75,000, Ms. Sherman \$85,000, Mr. Wathen \$95,000, and Mr. VerHage \$85,000.

(2) The amounts in this column are the grant date fair values of the stock awards granted to the non-employee directors, computed in accordance with FASB Codification Topic 718. Each director received an award of 2,857 shares, and Messrs. Brown, Peterson, Sherman, Wathen, Roberts, and VerHage elected to defer their stock awards into the Non-Employee Directors' Deferred Compensation Plan.

(3) No options were granted to non-employee directors in 2017 and no non-employee director holds any outstanding options.

## Retainer and Fees

Non-employee directors are paid an annual retainer of \$65,000. The Audit Committee chairman receives an additional fee of \$20,000 and Audit Committee members receive an additional fee of \$10,000. The Governance Committee chairman and Compensation Committee chairman each receive an additional fee of \$15,000, and members of each committee receive an additional fee of \$5,000. The Lead Independent Director receives an additional fee of \$20,000. Directors who are employees of the Company receive no additional compensation for serving on the Board or Board committees during their employment.

## Stock Awards

On May 4, 2017, each non-employee director received an award of 2,857 shares of the Company's common stock, which vested immediately upon grant and had a market value of \$110,000 on the date of grant.

## Deferred Compensation

Non-employee directors may participate in the Non-Employee Directors' Deferred Compensation Plan (the "Deferred Compensation Plan"). Under the Deferred Compensation Plan, each non-employee director may elect to defer, for each

calendar year, all of their annual retainer, fees and stock award until his service on the Board terminates. At the time the director makes the deferral election, they must elect to have the deferred retainer and fees either (i) credited with interest on a monthly basis at the rate in effect for the Wells Fargo Stable Return fund or (ii) converted into stock units, with credits equal to the cash that would have been paid had the units been actual shares of common stock owned by the director. Deferred stock awards will also be converted into stock units and credited with dividends.

## Stock Ownership Guidelines

The Company's stock ownership guidelines for the non-employee directors require them to maintain direct ownership in the Company's common stock with a value equal to five times their annual retainer. An individual has five years to comply with these guidelines. All shares held directly or beneficially, including stock awards, shares acquired upon exercise of stock options and stock units credited under the Non-Employee Directors' Compensation Plan, count toward these guidelines. Stock options do not count toward these guidelines. All non-employee directors either meet or exceed these guidelines.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth information about the Company's equity compensation plans as of March 2, 2018.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants & Rights	Weighted-Average Exercise Price of Outstanding Warrants & Rights (\$)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (b))
Equity Compensation Plans Approved by Security Holders <sup>(1)</sup>	1,612,846	30.53	1,989,883 <sup>(2)</sup>
Equity Compensation Plans Not Approved by Security Holders <sup>(3)</sup>	217,564	n/a	60,781

This Plan category includes the following plans: Franklin Electric 2009 Amended & Restated Stock Plan (72,972 shares remain available for issuance) Franklin Electric 2012 Stock Plan (516,911 shares remain available for (1)issuance) and Franklin Electric 2017 Stock Plan (1,400,000 shares remain available for issuance). As of March 2, 2018 (i) outstanding stock options had a weighted average exercise price of \$30.53 and a weighted average remaining term of 6.02 years and (ii) there were 577,563 granted but unvested restricted stock awards/units.

Amount of shares remaining available for future issuance assumes a 100% target payout for outstanding (2)performance-based share units. Pursuant to the terms of the performance-based share units, actual payout can range from 0% to 200%.

This Plan category consists of the Non-Employee Directors' Deferred Compensation Plan, adopted in 2000 and described above under the caption Director Compensation. The information included in this column represents (3)shares underlying stock units, payable on a one-for-one basis, credited to the directors' respective stock unit accounts as of March 2, 2018. Non-employee directors may elect to receive the distribution of stock units in cash or in shares of the Company's common stock.

## AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors, which is composed solely of independent directors, is responsible, under guidelines established in the Audit Committee Charter (a copy of which is available on the Company's website at [www.franklin-electric.com](http://www.franklin-electric.com) under "Governance", for overseeing the risk management of the Company, accounting and financial reporting processes of the Company and the audits of the financial statements by reviewing: (i) the quality and integrity of the consolidated financial statements prepared by management; (ii) the performance of the internal audit function; and (iii) the qualifications, independence and performance of the Company's independent registered public accounting firm.

In accordance with SEC rules the Audit Committee of the Company states that:

The Audit Committee has reviewed and discussed with management and Deloitte & Touche LLP, the Company's independent registered public accounting firm, the Company's audited financial statements for the fiscal year ended December 31, 2017.

The Audit Committee discussed with Deloitte & Touche LLP, the Company's independent registered public accounting firm, the matters required to be discussed by Auditing Standard No. 16, Communications with Audit Committees, as adopted by the PCAOB.

The Audit Committee has received the written disclosures and the letter from Deloitte & Touche LLP required by the applicable independence rules of the PCAOB, and has discussed with Deloitte & Touche LLP the independent registered public accounting firm's independence.

Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for filing with the SEC.

This report is submitted on behalf of all of the members of the Audit Committee:

Thomas R. VerHage (Chairman)  
David M. Wathen  
Renee J. Peterson

**PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP  
AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
FOR THE 2018 FISCAL YEAR**

The Audit Committee has appointed the firm of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2018 fiscal year. Although shareholder ratification is not legally required, the Audit Committee believes it advisable to submit its decision to the shareholders. If the shareholders fail to ratify Deloitte & Touche LLP as the Company's independent registered public accounting firm, the Audit Committee will reassess its appointment. Deloitte & Touche LLP has acted as independent auditors for the Company since 1988.

Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting with the opportunity to make a statement if they desire to do so, and to be available to respond to questions relating to their examination of the Company's financial statements.

The affirmative vote of the holders of a majority of the votes cast at the Annual Meeting is required to approve the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2018 fiscal year.

**Audit Fees**

The aggregate fees for professional services rendered by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte") for the