FRANKLIN ELECTRIC CO INC
Form 10-K
March 04, 2015

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 3, 2015

OR

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

Commission file number 0-362

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

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

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

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

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

Common Stock, $0.10 par value	NASDAQ Global Select Market
(Title of each class)	(Name of each exchange on which registered)

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

None
(Title of each class)

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

YES o NO x

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

YES o NO x

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

YES x NO o

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

YES x NO o

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

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

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

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

YES o NO x

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant at June 27, 2014 (the last business day of the registrant’s most recently completed second quarter) was $1,886,201,527. The stock price used in this computation was the last sales price on that date, as reported by NASDAQ Global Select Market. For purposes of this calculation, the registrant has excluded shares held by executive officers and directors of the registrant, including restricted shares and except for shares owned by the executive officers through the registrant's 401(k) Plan. Determination of stock ownership by non-affiliates was made solely for the purpose of responding to this requirement and the registrant is not bound by this determination for any other purpose.

Number of shares of common stock outstanding at February 19, 2015:
47,544,617 shares

DOCUMENTS INCORPORATED BY REFERENCE

A portion of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2015 (Part III).

FRANKLIN ELECTRIC CO., INC.

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PART I

ITEM 1. BUSINESS

General

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

The Company designs, manufactures and distributes water and fuel pumping systems, composed primarily of submersible motors, pumps, electronic controls and related parts and equipment. The Company's business consists of two reporting segments based on the principal end market served: the Water Systems segment and the Fueling Systems segment. The Company includes unallocated corporate expenses in an “Other” segment that, together with the Water Systems and Fueling Systems segments, represent the Company.

The Company entered the artificial lift market over the past years leveraging their knowledge of customer needs and technical solutions for pumping groundwater and hydrocarbon liquids out of oil and gas wells. Innovation and superior quality provided the means to successfully install additional test units in North America, China, India, and Africa in 2014. The initial results are providing opportunities within these countries for sustained business in 2015.

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

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

Business Segments and Products

Segment and geographic information appears in Note 18, “Segment and Geographic Information,” to the consolidated financial statements.

Water Systems Segment

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

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

The Water Systems business has grown from a domestic submersible motor manufacturer to a global manufacturer of systems and components for the movement of water and automotive fuels. Highlights of the Water Systems business transformation, from its origins to the present, are as follows:

- 1950s - Domestic submersible motor manufacturer
- 1990s - Global manufacturer of submersible motors, electronic drives and controls selling to pump OEMs
- 2004 - Began to change the business model to include pumps and sell directly to wholesale distributors
- 2006 - Added adjacent pumping systems, acquired Little Giant Pump Company, United States
- 2007 - Expanded globally, acquired Pump Brands (Pty) Limited, South Africa
- 2008 - Continued global expansion, acquired Industrias Schneider SA, Brazil
- 2009 - International acquisition, Vertical, S.p.A., Italy
- 2011 - International acquisition, Impo Motor Pompa Sanayi ve Ticaret A.S., Turkey

- 2012 - Acquired majority interest, about 70%, in mobile pumping systems company, Pioneer Pump Holdings, Inc. ("PPH"), a United States company with subsidiaries in the United Kingdom and South Africa

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- 2014 - International acquisitions, Bombas Leao S.A., Brazil and majority interest, about 70%, of Pluga Pumps and Motors Private Limited, India

Water Systems products are sold in highly competitive markets. Water Systems competes in each of its targeted markets based on product design, quality of products and services, performance, availability, and price. The Company's principal competitors in the specialty water products industry are Grundfos Management A/S, Pentair, Inc., and Xylem, Inc.

2014 Water Systems research and development expenditures were primarily related to the following activities:

- Electronic drives and controls, including the redesigned SubDrive constant pressure controllers with mobile app connectivity
- Submersible non-clog pumps for sewage, effluent, irrigation, and general de-watering applications
- Energy efficiency improvements for vertical multi-stage pumps
- Centrifugal pumps for agricultural applications
- Inline 400 Booster System with integrated electronic control
- Submersible motor technology

Fueling Systems Segment

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

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

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

Fueling Systems products are sold in highly competitive markets. Fueling Systems competes in each of its targeted markets based on product design, quality of products and services, performance, availability, and price. The Company's principal competitors in the petroleum equipment industry are Danaher Corporation and Dover Corporation.

2014 Fueling Systems research and development expenditures were primarily related to the following activities:

- Pumping and containment systems for Diesel Exhaust Fluid (DEF) distribution
- Overfill prevention valve to monitor filling of underground tanks
- New probes and sensors for fuel management monitoring
- Software enhancements to automatic tank gauges
- Low permeation curb hoses and enhancements to curb hose product offering

Research and Development

The Company incurred research and development expense as follows:

(In millions)	2014	2013	2012
Research and development expense	$19.3	$16.8	$9.9

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

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

Raw Materials

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

Employees

The Company employed approximately 4,900 persons at the end of 2014.

Major Customers

No single customer accounted for over 10 percent of net sales in 2014, 2013, or 2012. No single customer accounted for over 10 percent of gross accounts receivable in 2014 and 2013.

Backlog

The dollar amount of backlog by segment was as follows:

(In millions)	February 19, 2015	February 13, 2014
Water Systems	$50.6	$66.8
Fueling Systems	13.5	21.3
Consolidated	$64.1	$88.1

The backlog is composed of written orders at prices adjustable on a price-at-the-time-of-shipment basis for products, primarily standard catalog items. All backlog orders are expected to be filled in fiscal 2015. The Company's sales in the first quarter are generally less than its sales in other quarters due to generally less water well drilling and overall product sales during the winter months in the Northern hemisphere. Beyond that, there is no seasonal pattern to the backlog and the backlog has not proven to be a significant indicator of future sales.

Environmental Matters

The Company believes that it is in compliance with all applicable federal, state, and local laws concerning the discharge of material into the environment, or otherwise relating to the protection of the environment. The Company has not experienced any material costs in connection with environmental compliance, and, subject to the disclosure in Item 3 - Legal Proceedings, does not believe that such compliance will have any material effect upon the financial position, results of operations, cash flows, or competitive position of the Company.

Available Information

The Company's website address is www.franklin-electric.com. The Company makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Additionally, the Company's website includes the Company's corporate governance guidelines, its Board committee charters, and the Company's code of business conduct and ethics. Information contained on the Company's website is not part of this annual report on Form 10-K.

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

- Difficulty in enforcing agreements and collecting receivables through foreign legal systems
- Trade protection measures and import or export licensing requirements

- Inability to obtain raw materials and finished goods in a timely manner from foreign suppliers
- Imposition of tariffs, exchange controls or other restrictions
- Difficulty in staffing and managing widespread operations and the application of foreign labor regulations
- Compliance with foreign laws and regulations
- Changes in general economic and political conditions in countries where the Company operates

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

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

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

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

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

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

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

Demand for Fueling Systems products is impacted by environmental legislation which may cause significant fluctuations in costs and revenues after meeting compliance requirements. Environmental legislation related to air quality and fueling containment may create demand for certain Fueling Systems products which must be supplied in a relatively short time frame to meet the governmental mandate, as occurred in California in the 2007 - 2009 time period. During periods of increased demand the Company’s revenues and profitability could increase significantly, although the Company can also be at risk of not having capacity to meet demand or cost overruns due to inefficiencies during ramp up to the higher production levels. After the Company’s customers have met the compliance requirements, the Company’s revenues and profitability may decrease significantly as the demand for certain products declines substantially. The risk of not reducing production costs in relation to the decreased demand and reduced revenues could have a material adverse impact on gross margins and the Company's results of operations.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Franklin Electric serves customers worldwide with manufacturing and distribution facilities located in over 15 countries. These facilities house innovative solutions for the Water and Fueling system segments in markets around the globe which serve residential, commercial, agricultural, industrial, and municipal needs. The Global Headquarters is located in Fort Wayne, Indiana, United States and houses sales, marketing, and administrative offices along with a state of the art research and engineering facility.

Water Systems Segment
Over 25 facilities are currently home to Franklin Electric Water System operations. The most significant manufacturing and distribution operations are based in Brazil, China, Europe, Mexico, South Africa, Turkey, and the United States.

Fueling Systems Segment
Over 5 facilities are currently home to Franklin Electric Fueling System operations. The most significant manufacturing and distribution operations are based in China, Europe, and the United States.

In the Company’s opinion, its facilities are suitable for their intended use, adequate for the Company’s business needs, and in good condition.

ITEM 3. LEGAL PROCEEDINGS

In August 2010, the California Air Resources Board (“CARB”) and South Coast Air Quality Management District (“SCAQMD”) filed civil complaints in the Los Angeles Superior Court against the Company and Franklin Fueling Systems, Inc. The complaints related to a third-party-supplied component part of the Company's Healy 900 Series nozzle, which is part of the Company's Enhanced Vapor Recovery (“EVR”) Systems installed in California gasoline filling stations. This part, a diaphragm, was the subject of a retrofit during the first half of 2008. As the Company previously reported, in October 2008 CARB issued a Notice of Violation to the Company alleging that the circumstances leading to the retrofit program violated California statutes and regulations.

The claims in the complaints mirrored those that CARB presented to the Company in the Notice of Violation, and included claims that the Company negligently and intentionally sold nozzles with a modified diaphragm without required CARB certification. Those complaints were consolidated into one case in the Superior Court of California, County of Los Angeles (People of the State of California vs. Franklin Fueling Systems, Inc. et al.) which was tried in the later part of December 2012 and early part of January 2013 (“CARB Case”).

On July 25, 2013, the Court issued a Final Statement of Decision (“Decision”) in the CARB Case. In its Decision, the Court found on behalf of the Company and issued a complete defense verdict. Judgment was entered on August 27, 2013. An Amended Judgment awarding the Company $0.1 million in costs was entered by the Court on January 22, 2014. On July 16, 2014, CARB appealed and filed its brief in support of the appeal. The Company filed its response brief on December 23, 2014 and CARB filed its Reply brief on February 2, 2015. The case is now with the California Court of Appeals to either make a ruling on those briefs or schedule an oral argument.

Neither of these suits has had any effect on CARB's certification of the Company's EVR System or any other products of the Company or its subsidiaries, and did not interfere with continuing sales. CARB has never decertified the Company's EVR System and has never proposed to do so.

ITEM 4. MINE SAFETY DISCLOSURES

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Current executive officers of the Company, their ages, current position, and business experience during at least the past five years as of January 3, 2015, are as follows:

Name	Age	Position Held	Period Holding Position
Gregg C. Sengstack	56	President and Chief Executive Officer	2014 - present
		President and Chief Operating Officer	2011 - 2014
		Senior Vice President and President, Fueling and International Water Group	2005 - 2011
Robert J. Stone	50	Senior Vice President and President, International Water Systems	2012 - present
		Senior Vice President and President, Americas Water Systems Group	2007 - 2012
Daniel J. Crose	67	Vice President, Global Water Product Supply	2011 - present
		Vice President, Water Supply	2010 - 2011
		Vice President and Director, North American Operations	2003 - 2010
DeLancey W. Davis	49	Vice President and President, North America Water Systems	2012 - present
		Vice President and President, US/Canada Business Unit	2011 - 2012
		Vice President and President, US/Canada Commercial Business Unit	2010 - 2011
		Vice President and Director of Americas Water Systems	2008 - 2010
Donald P. Kenney	54	Vice President and President, Energy Systems	2014 - present
		President, Energy Systems	2013 - 2014
		President, Fueling Systems	1991 - 2013
John J. Haines	51	Vice President, Chief Financial Officer, and Secretary	2008 - present
Steven W. Aikman	55	Vice President, Global Water Systems Engineering	2010 - present
		Chief Engineer – Fuel Handling Products, Delphi Corporation, a global supplier for the automotive, computing, communications, energy, and consumer accessories markets	2003 - 2010
Thomas J. Strupp	61	Vice President, Global Human Resources	2010 - present
		Vice President and President, Consumer and Specialty Markets Business Unit	2009 - 2010

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

PART II

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

The number of shareowners of record as of February 19, 2015 was 801. The Company's stock is traded on the NASDAQ Global Select Market under the symbol FELE.

Dividends paid and the price range per common share as quoted by the NASDAQ Global Select Market for 2014 and 2013 were as follows:

	Dividends per Share		Price per Share			
	2014	2013	2014		2013	
			Low	High	Low	High
1st Quarter	$ .0775	$ .0725	$ 37.76	$ 45.42	$ 31.02	$ 34.14
2nd Quarter	.0900	.0775	37.20	43.58	29.95	35.48
3rd Quarter	.0900	.0775	35.17	40.91	34.83	39.46
4th Quarter	.0900	.0775	33.93	39.95	37.21	45.62

Issuer Purchases of Equity Securities

In April 2007, the Company’s Board of Directors unanimously approved a plan to increase the number of shares remaining for
repurchase from 628,692 to 2,300,000 shares. There is no expiration date for this plan. The Company repurchased 40,400
shares for approximately $1.4 million under this plan during the fourth quarter of 2014. The maximum number of shares that may still be purchased under this plan as of January 3, 2015 is 869,693.

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that may yet be Repurchased
September 28 - November 1	20,900	$ 34.41	20,900	889,193
November 2 - November 29	1,100	36.00	1,100	888,093
November 30 - January 3	18,400	35.64	18,400	869,693
Total	40,400	$ 35.01	40,400	869,693

Stock Performance Graph

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

Hypothetical $100 invested on January 2, 2010 (fiscal year-end 2009) in Franklin Electric common stock (FELE), Guggenheim S&P Global Water Index, and Russell 2000 Index, assuming reinvestment of dividends:

	YE 2009	2010	2011	2012	2013	2014
FELE	$100	$136	$154	$219	$315	$267
Guggenheim S&P Global Water	100	113	102	121	150	155
Russell 2000	100	127	122	141	196	206

ITEM 6. SELECTED FINANCIAL DATA

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

Five Year Financial Summary (In thousands, except per share amounts and ratios)	2014	2013	2012	2011	2010
	(a)		(b)	(c)	(d)
Operations:					
Net sales	$1,047,777	$965,462	$891,345	$821,077	$713,792
Gross profit	344,410	331,514	301,664	272,305	230,197
Interest expense	10,735	10,597	10,208	10,502	9,692
Income tax expense	18,851	28,851	32,250	23,412	15,057
Net income attributable to Franklin Electric Co., Inc.	69,806	81,958	82,864	63,099	38,914
Depreciation and amortization	37,210	31,356	28,335	25,295	24,040
Capital expenditures	42,396	67,206	42,062	21,144	12,776
Balance sheet:					
Working capital (e)	$268,434	$333,880	$283,278	$276,386	$269,793
Property, plant, and equipment, net	209,786	208,596	171,975	146,409	143,076
Total assets	1,075,887	1,051,873	976,379	829,530	788,559
Long-term debt	143,695	174,166	150,729	150,000	151,245
Shareowners' equity	596,840	595,707	514,706	448,135	426,494
Other data:					
Net income attributable to Franklin Electric Co., Inc., to sales	6.7 %	8.5 %	9.3 %	7.7 %	5.5 %
Net income attributable to Franklin Electric Co., Inc., to average total assets	6.6 %	8.1 %	9.2 %	7.8 %	5.1 %
Current ratio (f)	2.3	3.4	2.9	3.2	3.5
Number of common shares outstanding	47,594	47,715	47,132	46,677	46,514
Per share:					
Market price range					
High	$45.42	$45.62	$30.98	$26.09	$20.90
Low	$33.93	$29.95	$22.77	$16.41	$12.47
Net income attributable to Franklin Electric Co., Inc., per weighted average common share	$1.43	$1.70	$1.76	$1.36	$0.84
Net income attributable to Franklin Electric Co., Inc., per weighted average common share, assuming dilution	$1.41	$1.68	$1.73	$1.33	$0.83
Book value (g)	$12.38	$12.38	$10.78	$9.45	$9.07
Dividends per common share	$0.3475	$0.3050	$0.2850	$0.2675	$0.2575

(a) Includes the results of operations of the Company's 100% wholly owned subsidiary, Bombas Leao S.A., since its acquisition in the second quarter of 2014, and 90% of the Company's owned subsidiary, Impo Motor Pompa Sanayi ve Ticaret A.S., since the Company's acquisition of an additional 10% in the second quarter of 2014.

(b) Includes the results of operations of the Company's 70.5% owned subsidiary, Pioneer Pump Holdings, Inc., since the Company's acquisition of an additional 39.5% in the first quarter of 2012, 100% of the wholly owned subsidiary, Cerus Industrial Corporation, since its acquisition in the third quarter of 2012, and 100% of the wholly owned subsidiary, Flex-ing, Incorporated, since the Company's acquisition in the fourth quarter of 2012.

(c) Includes the results of operations of the Company's 80% owned subsidiary, Impo Motor Pompa Sanayi ve Ticaret A.S., since its acquisition in the second quarter of 2011, and 100% of the wholly owned subsidiary, Vertical S.p.A., since the Company's acquisition of the remaining 25% in the fourth quarter of 2011.

(d) Includes the results of operations of the Company’s wholly owned subsidiary, PetroTechnik Limited, since its acquisition in the third quarter of 2010.
(e) Working capital = Current assets minus current liabilities.
(f) Current ratio = Current assets divided by current liabilities.
(g) Book value = Shareowners’ equity divided by weighted average common shares, assuming full dilution.

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

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2014 vs. 2013

OVERVIEW

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

RESULTS OF OPERATIONS

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

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

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

Water Systems sales in the U.S. and Canada were 39 percent of consolidated sales and grew by about 5 percent compared to 2013. Foreign currency translation rate changes decreased sales by about 1 percent compared to sales in 2013. The sales change in 2014, excluding acquisitions and foreign currency translation, was an increase of $23 million or about 6 percent. Leading the Company's growth in the U.S. and Canada were sales of Pioneer branded mobile pumping equipment which increased by about 70 percent in 2014 compared to the prior year. Sales of surface water pumping equipment grew by 8 percent in the year. These sales increases in the U.S and Canada were partially offset by lower sales of groundwater pumping equipment which declined about 10 percent in 2014 due, in part, to weaker demand in the agriculture sector as a result of less favorable weather and to a lesser extent, distributor changes the Company made in its primary groundwater distribution channel.

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

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

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

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

Net Sales-Fueling Systems

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

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

Cost of Sales

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

Selling, General and Administrative (“SG&A”)

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

Restructuring Expenses

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

Operating Income

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

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

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

In 2014 they were as follows:

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

In 2013 they were as follows:

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

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

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

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

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

Operating Income-Water Systems

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

Operating Income-Fueling Systems

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

Operating Income-Other

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

Interest Expense

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

Other Income or Expense

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

Foreign Exchange

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

Income Taxes

The provision for income taxes in 2014 and 2013 was $18.9 million and $28.9 million, respectively. The tax rate for 2014 was 21.0 percent and 2013 was 25.9 percent. The tax rate declined in 2014 from the tax rate for 2013 primarily due to a reversal of deferred tax liabilities associated with earnings of certain foreign subsidiaries which have been realigned within the Company's organization. The realignment of certain foreign entities results in their unremitted earnings being indefinitely reinvested. The effective tax rate differs from the statutory rate primarily due to the indefinite reinvestment of foreign earnings taxed at rates below the U.S. statutory rate as well as recognition of foreign tax credits. The Company has the ability to indefinitely reinvest these foreign earnings based on the earnings and cash projections of its other operations as well as cash on hand and available credit.

Net Income

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

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

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

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

2013 vs. 2012

OVERVIEW

Sales in 2013 increased from the prior year. Net sales in 2013 were $965.5 million, an increase of about 8 percent compared to 2012 sales of $891.3 million. The sales increase was primarily from sales volume and price increases, as well the Company's acquisitions. Sales increases were partially offset by the negative impact of foreign currency translation. The Company's consolidated gross profit was $331.5 million for 2013, an increase of $29.8 million or about 10 percent from 2012. The gross profit as a percent of increased 50 basis points to 34.3 percent in 2013 from 33.8 percent in 2012. The gross profit margin improvement was due to leveraging fixed costs on higher sales, lower labor and burden costs, partially offset by higher other variable costs; primarily freight and obsolescence. Direct materials as a percentage of sales was unchanged compared to last year. For 2013, diluted earnings per share were $1.68, a decrease of 3 percent compared to 2012 diluted earnings per share of $1.73. Adjusted earnings per share were $1.72, an increase of 10 percent versus the $1.57 adjusted earnings per share in 2012 (see the table below for a reconciliation of the GAAP EPS to the adjusted EPS). The Company completed a 2-for-1 stock split on March 18, 2013 and all EPS amounts are presented on a post-split basis.

RESULTS OF OPERATIONS

Net Sales

Net sales in 2013 were $965.5 million, an increase of $74.2 million or about 8 percent compared to 2012 sales of $891.3 million. The incremental impact of sales from acquired businesses was $30.1 million or about 3 percent. Sales revenue decreased by $14.7 million or about 2 percent in 2013 due to foreign currency translation. The sales change in 2013, excluding acquisitions and foreign currency translation, was an increase of $58.8 million or about 7 percent.

	Net Sales		
(In millions)	2013	2012	2013 v 2012
Water Systems	$766.4	$715.0	$51.4
Fueling Systems	199.1	176.3	22.8
Consolidated	$965.5	$891.3	$74.2

Net Sales-Water Systems

Water Systems sales were $766.4 million in 2013, an increase of $51.4 million or 7 percent versus 2012. The incremental impact of sales from acquired businesses was $19.0 million or about 3 percent. Foreign currency translation rate changes decreased sales $16.0 million, or about 2 percent, compared to sales in 2012. The sales change in 2013, excluding acquisitions and foreign currency translation, was an increase of $48.4 million or about 7 percent.

Water Systems sales in the U.S. and Canada were 40 percent of consolidated sales and grew by about 11 percent compared to 2012. Acquisition related sales during 2013 were about $17.2 million. Foreign currency translation rate changes decreased sales $0.9 million compared to sales in 2012. The sales change in 2013, excluding acquisitions and foreign currency translation, was an increase of $22.3 million or about 6 percent. There were three primary drivers for the sales growth in the U.S. and Canada; dewatering equipment, groundwater pumps and drives and controls.

Water Systems sales in Latin America were about 13 percent of consolidated sales for 2013 and grew by about 4 percent compared to the prior year. Foreign currency translation rate changes decreased sales $6.3 million, or about 5 percent, compared to sales in 2012. Excluding foreign currency translation, sales in Latin America grew by about 9 percent during 2013. Most of the sales growth in Latin America occurred in Brazil, and most of the growth in Brazil came from continued growth in demand for the line of 4 inch groundwater pumps and motors that the company launched in Brazil two years ago. In total, sales in Brazil grew organically by 21 percent excluding foreign exchange. The new factory being built in Brazil to support additional growth, as well as quality and productivity improvements, is scheduled to open in second quarter 2014.

Water Systems sales in the Middle East and Africa were about 12 percent of consolidated sales and increased by about 3 percent compared to 2012. Water Systems sales in the Middle East and Africa were reduced by $7.2 million or about 6 percent in the year due to foreign currency translation. Excluding acquisitions and the impact of foreign currency translation, sales were up about 9 percent compared to 2012. Sales in the Gulf region increased by about 17 percent as the governments in both Saudi Arabia and the UAE are supporting investments in groundwater based irrigation projects. Sales in Turkey increased by about 10 percent as growing demand for the value line of Impo branded groundwater pumps and motors, produced in the Company’s Turkish factory, accounted for much of the growth during 2013. Sales in local currency were up in South Africa and Zambia in 2013 offsetting lower sales in Botswana.

Water Systems sales in Europe were about 8 percent of consolidated sales and grew by about 6 percent compared to the prior year. Acquisition related sales during 2013 were about $1 million in Europe. Foreign currency translation rate changes had no impact on sales compared to sales in 2012. Excluding acquisitions and foreign currency translation, European sales grew by about 5 percent during 2013.

Water Systems sales in the Asia Pacific region were 6 percent of consolidated sales and grew by about 2 percent compared to the prior year. Acquisition related sales during 2013 increased sales by about 1 percent in Asia. Foreign currency translation rate changes decreased sales in 2013 in the Asia Pacific region by about 3 percent. Excluding acquisitions and foreign currency translation sales grew by about 4 percent during 2013. The year-on-year sales increased 22 percent in the Southeast Asia and China, with strong sales in Singapore, Thailand, Philippines and Indonesia. This growth more than offset a modest decline in sales in the more mature Asian markets including Japan, Korea, and Australia.

Net Sales-Fueling Systems
Fueling Systems sales which represented 21 percent of consolidated sales were $199.1 million in 2013, an increase of $22.8 million or about 13 percent versus 2012. The incremental impact of sales from acquired businesses was $11.1 million or about 6 percent. Foreign currency translation rate changes increased sales $1.3 million, or about 1 percent, compared to sales in 2012. The sales change in 2013, excluding acquisitions and foreign currency translation, was an increase of $10.4 million or about 6 percent.

Fueling Systems revenue growth was primarily in developing regions where there is an ongoing need for investment in new filling station infrastructure to support the growing number of passenger vehicles on the road. Developing regions represented 30 percent of the Company’s Fueling Systems sales and grew by about 26 percent. Solid sales gains were achieved in fuel containment product lines across most developing regions and for fuel dispensing product lines in China. Fueling Systems sales in more developed markets; like the U.S., Canada and Europe grew by about 8 percent driven primarily by the Flexing acquisition and continuing demand growth for pressure pumping systems.

Cost of Sales
Cost of sales as a percent of net sales for 2013 and 2012 was 65.7 percent and 66.2 percent, respectively. Correspondingly, the gross profit margin increased to 34.3 percent from 33.8 percent, a 50 basis point improvement.

The gross profit margin improvement was due to leveraging fixed costs on higher sales, lower labor and burden costs, partially offset by higher other variable costs; primarily freight and obsolescence. Direct materials as a percentage of sales was unchanged compared to last year. The Company's consolidated gross profit was $331.5 million for 2013, up $29.8 million from 2012.

Selling, General and Administrative (“SG&A”)

Selling, general, and administrative (SG&A) expenses were $204.0 million in 2013 and increased by $15.5 million or about 8 percent in 2013 compared to last year. In 2013, increases in SG&A attributable to acquisitions were about $9 million. Additional year over year changes in SG&A costs were increases in marketing and selling-related expenses attributable to sales volume and higher research, development, and engineering expenses.

Restructuring Expenses
Restructuring expenses for 2013 were $3.7 million and reduced diluted earnings per share by approximately $0.05. Restructuring expenses in 2013 included asset write-downs, severance costs and expenses related to relocation to the new corporate headquarters and engineering center in Fort Wayne, Indiana. There were $0.2 million of restructuring expenses in 2012.

Operating Income
Operating income was $123.8 million in 2013, up $10.8 million from $113.0 million in 2012.

	Operating income (loss)		
(In millions)	2013	2012	2013 v 2012
Water Systems	$ 131.3	$ 124.1	$ 7.2
Fueling Systems	42.6	36.6	6.0
Other	(50.1)	(47.7)	(2.4)
Consolidated	$ 123.8	$ 113.0	$ 10.8

There were specific items in 2013 and 2012 that impacted operating income that were not operational in nature. In 2013 there were three such items: $3.7 million of restructuring charges, a $1.0 million net benefit from the reversal of a $1.6 million reserve for legal claims established in prior years offset by $0.6 million of legal fees related to the claim and $0.9 million of acquisition related expenses, primarily professional fees. 2012 included $1.3 million of acquisition related expenses, primarily professional fees, $0.4 million for certain legal matters and $0.2 million for restructuring expenses.

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

Operating Income and Margins