

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019

OR

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



Franklin Electric

Commission file number 0-362

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

Indiana

(State or other jurisdiction of incorporation or organization)

35-0827455

(I.R.S. Employer Identification No.)

9255 Coverdale Road

Fort Wayne, Indiana

(Address of principal executive offices)

46809

(Zip Code)

(260) 824-2900

(Registrant's telephone number, including area code)

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

Common Stock, \$0.10 par value

(Title of each class)

FELE

(Trading symbol)

NASDAQ Global Select Market

(Name of each exchange on which registered)

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

None

(Title of each class)

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

Yes

No

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

Yes

No

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

Yes

No

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

Yes

No

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

**Large Accelerated
Filer**

Accelerated Filer

Non-Accelerated Filer

**Smaller Reporting
Company**

Emerging Growth Company

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

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

YES

NO

The aggregate market value of the registrant’s common stock held by non-affiliates of the registrant at June 30, 2019 (the last business day of the registrant’s most recently completed second quarter) was \$2,175,331,613. 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 11, 2020:

46,393,240 shares

DOCUMENTS INCORPORATED BY REFERENCE

A portion of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020 (Part III).

FRANKLIN ELECTRIC CO., INC.
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PART I

ITEM 1. BUSINESS

Description of the Business

Franklin Electric Co., Inc. (“Franklin Electric” or the “Company”) is an Indiana corporation founded in 1944 and incorporated in 1946. Named after America’s pioneer electrical engineer, Benjamin Franklin, Franklin Electric manufactured the first water-lubricated submersible motor for water systems, and the first submersible motor for fueling systems. With 2019 revenue of about \$1.3 billion and approximately 5,400 employees, today the Company designs, manufactures and distributes water and fuel pumping systems, composed primarily of submersible motors, pumps, electronic controls and related parts and equipment.

The Company’s water pumping systems move fresh and wastewater for the residential, agricultural, and other industrial end markets. The Company also sells various groundwater equipment products to well installation contractors, including water pumping systems, through its distribution branches located in the U.S. With a growing global footprint, the Company has also evolved into a top supplier of submersible fueling systems at gas stations, making pumps, pipes, electronic controls, and monitoring devices.

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

Franklin Electric’s Key Factors for Success

While maintaining a culture of safety and lean principles, Franklin Electric promises to deliver quality, availability, service, innovation, and cost in every encounter the Company has with stakeholders, including direct or indirect customers, employees, shareholders, and suppliers. These key factors for success are a roadmap for the Company’s growth as a global provider of water and fuel systems, through geographic expansion and product line extensions, leveraging its global platform and competency in system design, all while consistently offering the best value to its customer.

Markets and Applications

The Company’s business consists of three reportable segments based on the principal end market served: Water Systems, Fueling Systems, and Distribution segments. The Company includes unallocated corporate expenses in an “Intersegment Eliminations/Other” segment that, together with the Water Systems, Fueling Systems, and Distribution segments, represent the Company. Segment and geographic information appears in Note 15 - Segment and Geographic Information to the consolidated financial statements.

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. The Company’s Distribution segment sells products primarily to water well contractors.

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, drives, electronic controls, monitoring devices, and related parts and equipment primarily for use in groundwater, water transfer and wastewater.

Water Systems motors, pumps and controls are used principally for pumping clean water and wastewater in a variety of residential, agricultural, municipal 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 electrical surges, over-heating and dry wells or dry 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. Founded in the 1940s, the Company began as a manufacturer of submersible motors for pumps. In 2004, it entered the pump business, and has since grown through internal product development and acquisitions. Highlights of the Water Systems business transformation, from its origins to the present, are as follows:

- 1950s - Domestic submersible motor manufacturer

- 1990s - Global manufacturer of submersible motors, electronic drives and controls selling to pump OEMs
- 2004 - Began to change the business model to include pumps and sell directly to wholesale distributors
- 2006 - Added adjacent pumping systems, acquired Little Giant Pump Company, United States
- 2007 - Expanded globally, acquired Pump Brands (Pty) Limited, South Africa
- 2008 - Continued global expansion, acquired Industrias Schneider SA, Brazil
- 2009 - International acquisition, Vertical, S.p.A., Italy
- 2011 - International acquisition, Impo Motor Pompa Sanayi ve Ticaret A.S., Turkey
- 2012 - Acquired majority interest, 70.5%, in mobile pumping systems company, Pioneer Pump Holdings, Inc. (“PPH”), a United States company with subsidiaries in the United Kingdom and South Africa
- 2014 - International acquisitions, Bombas Leao S.A., Brazil and majority interest, 70%, of Pluga Pumps and Motors Private Limited, India
- 2015 - Acquired remaining 29.5% noncontrolling interest of PPH
- 2017 - Acquired remaining 10% noncontrolling interest of Impo
- 2018 - International acquisition, Industrias Rotor Pump S.A., Argentina
- 2019 - Added water treatment system products, through the acquisition of First Sales, LLC, United States, acquired remaining ownership of Pluga Pumps and Motors Private Limited, India

Water Systems products are sold in highly competitive markets. Water Systems contributes about 60 percent of the Company’s total revenue. Significant portions of segment revenue come from selling groundwater and surface pumps, motors, and controls for residential and commercial buildings, as well as agricultural sales which are more seasonal and subject to commodity price changes. The Water Systems segment generates approximately 40 percent of its revenue in developing markets, which often lack municipal water systems. As those countries install water systems, the Company views those markets as an opportunity. The Company has had 6 to 9 percent compounded annual sales growth in developing regions in recent years. Water Systems competes in each of its targeted markets based on product design, quality of products and services, performance, availability, and price. The Company’s principal competitors in the specialty water products industry are Grundfos Management A/S, Pentair, Inc., and Xylem, Inc.

2019 Water Systems research and development expenditures were primarily related to the following activities:

- Electronic drives and controls for Pump and HVAC applications, including SubDrive Connect Plus, MonoDrive Utility, and Cerus X-Drive
- Greywater pumping equipment, including the new High Temperature Condensate Pump Series and expanded FPS Non-Clog products up to 25 horsepower
- Submersible and surface pumps for residential, commercial, municipal, and agricultural applications including the development of higher efficient systems to meet the DOE requirements
- Submersible motor technology and motor protection, including expanded scope of the MagForce™ HES (High Efficiency Systems) from 1-335HP

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 fueling system applications.

Fueling Systems offers a complete array of components between the tank and the dispenser, including submersible pumps, station hardware, piping, sumps, vapor recovery and electronic controls. The Fueling Systems segment growth has been sustained by a commitment to protecting human health and the environment while delivering the lowest total cost of ownership. Fueling Systems takes steps to ensure its products are installed and maintained properly through robust global certification tools for their third-party contractors. The segment serves other energy markets such as power reliability systems and includes intelligent electronic devices that are designed for online monitoring for the power utility, hydroelectric, and telecommunication and data center infrastructure.

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 Flex-ing, Inc., a manufacturer of fueling equipment including stainless steel flexible hose connectors
- 2016 - Acquired GridSense, Inc., a manufacturer of remote monitoring equipment for distribution transformers and distribution lines
- 2018 - Acquired the assets of the Stationary Power Division (SPD) of Midtronics, Inc., a manufacturer of battery testing and monitoring equipment

Fueling Systems products are sold in highly competitive markets. Rising vehicle use is leading to more investment in fueling stations which, in turn, leads to increased demand for the Company’s Fueling Systems products. The Company believes there is growth opportunity in developing markets. 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 Fortive Corporation and Dover Corporation.

2019 Fueling Systems research and development expenditures were primarily related to the following activities:

- Developed and launched a Corrosion Control System to reduce corrosion in diesel tanks
- Developed and launched a Pressure/Vacuum Vent for controlling pressure to reduce emissions in an underground storage tank
- Developed products to monitor retail fueling sites, including soda dispensing, tank corrosion, and vapor recovery systems

Distribution Segment

The Distribution Segment is operated as a collection of wholly owned leading groundwater distributors known as the Headwater Companies. Headwater Companies deliver quality products and leading brands to the industry, providing contractors with the availability and service they demand to meet their application challenges. The Distribution segment operates within the U.S. professional groundwater market. Highlights of the Distribution Segment are as follows:

- 2017 - Acquired controlling interests in three distributors in the U.S. professional groundwater market, creating the new Distribution Segment
- 2018 - Acquired Valley Farms Supply, Inc., a professional groundwater distributor operating in the mid-west
- 2019 - Acquired Milan Supply Company, a professional groundwater distributor operating in the mid-west

Information Regarding All Reportable Segments

Research and Development

The Company incurred research and development expense as follows:

(In millions)	2019	2018	2017
Research and development expense	\$ 20.8	\$ 22.1	\$ 20.8

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

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

Raw Materials

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

Major Customers

No single customer accounted for over 10 percent of net sales in 2019, 2018, or 2017. No single customer accounted for over 10 percent of gross accounts receivable in 2019 and 2018.

Backlog

The dollar amount of backlog by segment was as follows:

(In millions)	February 11, 2020	February 12, 2019
Water Systems	\$ 53.2	\$ 66.2
Fueling Systems	16.6	18.2
Distribution	4.7	5.9
Consolidated	<u>\$ 74.5</u>	<u>\$ 90.3</u>

The backlog is composed of written orders at prices adjustable on a price-at-the-time-of-shipment basis for products, primarily standard catalog items. All backlog orders are expected to be filled in fiscal 2020. The Company's sales in the first quarter are generally less than its sales in other quarters due to generally less water well drilling and overall product sales during the winter months in the Northern hemisphere. Beyond that, there is no seasonal pattern to the backlog and the backlog has not proven to be a significant indicator of future sales.

Environmental Matters

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

Available Information

The Company's website address is www.franklin-electric.com. 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.

Risks Related to the Industry

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.

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.

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 both of which 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 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 governmental 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. Environmental legislation related to air quality and fuel containment may create demand for certain Fueling Systems products which must be supplied in a relatively short time frame to meet the governmental mandate. 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 the Company's U.S. or foreign earnings could materially affect 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. The Company cannot predict whether any proposed changes in 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 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.

Risks Related to the Business

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, India, China, Turkey and Argentina. 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.

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. 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. 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.

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, India, China, Turkey and Argentina. 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. Changes to these regulations or standards may require the Company to modify its business objectives and incur additional costs to comply. Any liabilities or penalties actually incurred could have a material adverse effect on the Company's earnings and operating results.

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

The Company's operations are dependent on information technology infrastructure and failures could significantly affect its business. The Company depends on information technology infrastructure in order to achieve business objectives. If the Company experiences a problem that impairs this infrastructure, such as a computer virus, a problem with the functioning of an important IT application, or an intentional disruption of IT systems by a third party, the resulting disruptions could impede the Company's ability to record or process orders, manufacture and ship products in a timely manner, or otherwise carry on business in the ordinary course. Any such events could cause the loss of customers or revenue and could cause significant expense to be incurred to eliminate these problems and address related security concerns. The Company is also subject to certain U.S. and international data protection and cybersecurity regulations. Complying with these laws may subject the Company to additional costs or require changes to the Company's business practices. Any inability to adequately address privacy and security concerns or comply with applicable privacy and data security laws, rules and regulations could expose the Company to potentially significant liabilities.

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 over 175 manufacturing and distribution facilities located in over 20 countries. The Global Headquarters is located in Fort Wayne, Indiana, United States and houses sales, marketing, and administrative offices along with a state of the art research and engineering facility. Besides the owned corporate facility, the Company considers the following to be principal properties:

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

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

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Current executive officers of the Company, their ages, current position, and business experience during at least the past five years as of December 31, 2019, are as follows:

Name	Age	Position Held	Period Holding Position
Gregg C. Sengstack	61	Chairman of the Board and Chief Executive Officer	2015 - present
		President and Chief Executive Officer	2014 - 2015
		President and Chief Operating Officer	2011 - 2014
DeLancey W. Davis	54	Vice President and President, Headwater Companies	2017 - present
		Vice President and President, North America Water Systems	2012 - 2017
Donald P. Kenney	59	Vice President and President, Global Water	2019 - present
		Vice President and President, North America Water Systems	2017 - 2019
		Vice President and President, Energy Systems	2014 - 2017
		President, Energy Systems	2013 - 2014
		President, Fueling Systems	1991 - 2013
John J. Haines	56	Vice President, Chief Financial Officer	2008 - present
Julie S. Freigang	52	Vice President, Chief Information Officer	2015 - present
		Chief Information Officer	2014 - 2015
		Vice President, Information Technologies - Eaton Corporation	2011 - 2014
Steven W. Aikman	60	Vice President, Global Water Systems Engineering	2010 - present
Dr. Paul N. Chhabra	46	Vice President, Global Product Supply	2018 - present
		Vice President, Global Supply Chain - Applied Materials	2016 - 2018
		Managing Director, Manufacturing Operations - Applied Materials	2014 - 2016
		Senior Director, Supply Chain - SunPower Corporation	2014 - 2014
		Senior Director, Manufacturing Operations - Applied Materials	2010 - 2013
Jonathan M. Grandon	44	Vice President, Chief Administrative Officer, General Counsel and Secretary	2016 - present
		Vice President, Integration - Zimmer Biomet	2015 - 2016
		Senior Vice President and General Counsel - Biomet	2014 - 2015
		Vice President and Division General Counsel, Associate General Counsel, Corporate - Biomet	2013 - 2014
		Partner - Ropes & Gray LLP	2008 - 2013
Jay J. Walsh	50	Vice President and President, Fueling Systems	2019 - present
		President, Fueling Systems	2017 - 2019
		Executive Vice President, Fueling Systems	2013 - 2017
		Vice President, Business Development, Fueling Systems	2002 - 2013

All executive officers are elected annually by the Board of Directors at the Board meeting held in conjunction with the annual meeting of shareholders. 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 shareholders of record as of February 11, 2020 was 682. The Company's stock is traded on the NASDAQ Global Select Market under the symbol FELE.

Dividends paid per common share as quoted by the NASDAQ Global Select Market for 2019 and 2018 were as follows:

	Dividends per Share	
	2019	2018
1st Quarter	\$.1450	\$.1075
2nd Quarter	.1450	.1200
3rd Quarter	.1450	.1200
4th Quarter	.1450	.1200

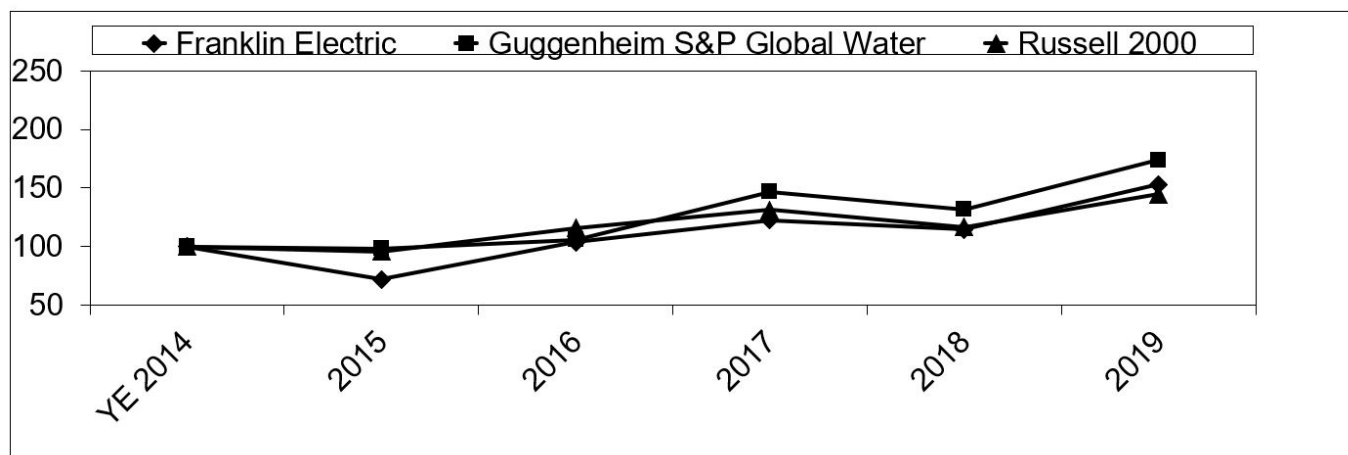
The Company has increased dividend payments on an annual basis for 27 consecutive periods. The payment of dividends in the future will be determined by the Board of Directors and will depend on business conditions, earnings, and other factors.

Issuer Purchases of Equity Securities

In April 2007, the Company's Board of Directors unanimously approved a plan to increase the number of shares remaining for repurchase from 628,692 to 2,300,000 shares. There is no expiration date for this plan. On August 3, 2015, the Company's Board of Directors approved a plan to increase the number of shares remaining for repurchase by an additional 3,000,000 shares. The authorization was in addition to the 535,107 shares that remained available for repurchase as of July 31, 2015. The Company did not repurchase any shares under this plan during the fourth quarter of 2019. The maximum number of shares that may still be purchased under this plan as of December 31, 2019 is 1,255,970.

Stock Performance Graph

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



Hypothetical \$100 invested on January 3, 2015 (fiscal year-end 2014) in Franklin Electric common stock (FELE), Guggenheim S&P Global Water Index, and Russell 2000 Index, assuming reinvestment of dividends:

	YE 2014	2015	2016	2017	2018	2019
FELE	\$ 100	\$ 72	\$ 104	\$ 122	\$ 114	\$ 153
Guggenheim S&P Global Water	100	98	106	147	132	174
Russell 2000	100	96	116	131	117	144

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)

	2019	2018	2017	2016	2015
	(e)	(d)	(c)		
Operations:					
Net sales	\$ 1,314,578	\$ 1,298,129	\$ 1,124,909	\$ 949,856	\$ 924,923
Gross profit	428,103	432,366	376,982	331,406	297,608
Interest expense	8,245	9,839	10,322	8,732	10,039
Income tax expense	20,836	14,890	25,994	24,798	12,625
Net income attributable to Franklin Electric Co., Inc.	95,483	105,877	78,180	78,745	72,945
Depreciation and amortization	36,977	38,604	38,506	35,534	35,476
Capital expenditures	22,112	23,417	33,379	37,624	25,933
Balance sheet:					
Working capital (a)(f)	381,680	324,022	343,230	326,058	293,450
Property, plant, and equipment, net	201,328	207,064	215,694	196,137	190,039
Total assets (a) (b)	1,194,743	1,182,365	1,185,353	1,039,905	996,111
Long-term debt (a)	93,141	94,379	125,596	156,544	187,806
Shareholders' equity	796,545	733,872	700,657	613,445	557,700
Other data:					
Net income attributable to Franklin Electric Co., Inc., to sales	7.3 %	8.2 %	7.0 %	8.3 %	7.9 %
Net income attributable to Franklin Electric Co., Inc., to average total assets (b)	8.0 %	8.9 %	7.0 %	7.7 %	7.0 %
Current ratio (g)	3.1	2.3	2.4	3.1	3.0
Number of common shares outstanding	46,391	46,326	46,630	46,376	46,219
Per share:					
Market price range					
High	\$ 57.06	\$ 51.05	\$ 47.10	\$ 44.50	\$ 39.56
Low	\$ 42.05	\$ 39.15	\$ 36.55	\$ 23.93	\$ 26.75
Net income attributable to Franklin Electric Co., Inc., per weighted average common share	\$ 2.04	\$ 2.25	\$ 1.67	\$ 1.67	\$ 1.52
Net income attributable to Franklin Electric Co., Inc., per weighted average common share, assuming dilution	\$ 2.03	\$ 2.23	\$ 1.65	\$ 1.65	\$ 1.50
Book value (h)	\$ 17.04	\$ 15.64	\$ 14.89	\$ 13.12	\$ 11.73
Dividends per common share	\$ 0.5800	\$ 0.4675	\$ 0.4225	\$ 0.3975	\$ 0.3825

- a. In 2016, the Company adopted Financial Accounting Standard Board ("FASB") Accounting Standard Update ("ASU") 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU required retrospective adoption; therefore, year 2015 was restated above to reflect the adoption of the ASU.
- b. In 2019, the Company adopted FASB ASU 2016-02, *Leases (Topic 842)*, ASU 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which requires lessees to present right-of-use assets and lease liabilities on the balance sheet. Balances prior to 2019 were not retrospectively adjusted.
- c. Includes the results of operations of the Company's 100% wholly owned subsidiaries since its acquisition of three groundwater distribution companies (2M Company, Inc. ("2M"), Drillers Service, Inc. ("DSI"), and Western Hydro, LLC

("Western Hydro")) in the second quarter of 2017, and 100% 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 2017.

- d. Includes the results of operations of the Company's 100% wholly owned subsidiaries Industrias Rotor Pump S.A. and Valley Farms Supply, Inc. acquired during the quarters ended September 30, 2018 and March 31, 2018, respectively. In addition, includes substantially all of the assets of the Stationary Power Division ("SPD") of Midtronics, Inc. which were acquired during the quarter ended September 30, 2018.
- e. Includes the results of operations of the Company's 100% wholly owned subsidiaries Milan Supply Company and First Sales, LLC acquired during the quarters ended March 31, 2019 and September 30, 2019, respectively, and 100% of the Company's owned subsidiary, Plugra Pumps and Motors Private Limited since the Company's acquisition of the remaining ownership in the second quarter of 2019.
- f. Working capital = Current assets minus current liabilities.
- g. Current ratio = Current assets divided by current liabilities.
- h. Book value = Shareholders' equity divided by weighted average common shares, assuming full dilution.

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

2019 vs. 2018

OVERVIEW

Sales in 2019 increased by 1 percent from the prior year. The sales increase was led by acquisition related sales, as well as volume and price increases of about 1 percent. The impact of foreign currency translation decreased sales by about 3 percent. The Company's consolidated gross profit was \$428.1 million for 2019, a decrease of \$4.3 million or about 1 percent from 2018. The gross profit as a percent of net sales decreased 70 basis points to 32.6 percent in 2019 from 33.3 percent in 2018. For 2019, diluted earnings per share were \$2.03, down from 2018 diluted earnings per share of \$2.23.

RESULTS OF OPERATIONS

Net Sales

Net sales in 2019 were \$1,314.6 million, an increase of \$16.5 million or about 1 percent compared to 2018 sales of \$1,298.1 million. The incremental impact of sales from acquired businesses was \$38.1 million. Sales revenue decreased by \$34.8 million or about 3 percent in 2019 due to foreign currency translation. The sales change in 2019, excluding acquisitions and foreign currency translation, was an increase of \$13.2 million or about 1 percent.

(In millions)	Net Sales		
	2019	2018	2019 v 2018
Water Systems	\$ 781.5	\$ 800.1	\$ (18.6)
Fueling Systems	293.6	284.6	9.0
Distribution	291.8	269.6	22.2
Eliminations/Other	(52.3)	(56.2)	3.9
Consolidated	<u>\$ 1,314.6</u>	<u>\$ 1,298.1</u>	<u>\$ 16.5</u>

Net Sales-Water Systems

Water Systems sales were \$781.5 million in 2019, a decrease of \$18.6 million or about 2 percent versus 2018. The incremental impact of sales from acquired businesses was \$13 million. Foreign currency translation changes decreased sales \$30.5 million, or about 4 percent, compared to sales in 2018. The Water Systems organic sales change in 2019 was a decrease of \$1.1 million.

Water Systems sales in the U.S. and Canada decreased by about 2 percent compared to 2018. The incremental impact of sales from acquired businesses was \$5.4 million. Sales revenue decreased by \$2.5 million or about 1 percent in 2019 due to foreign currency translation. In 2019, sales of dewatering equipment decreased by about 9 percent when compared to the prior year due to lower sales in rental channels and higher sales in 2018 driven by regulatory demand. Sales of groundwater pumping equipment decreased by about 4 percent on lower residential and agricultural system sales primarily to the Headwater companies, versus 2018. Sales of other surface pumping equipment were flat to prior year.

Water Systems sales in markets outside the U.S. and Canada decreased by about 3 percent compared to 2018. Sales revenue decreased by \$28.0 million or about 8 percent in 2019 due to foreign currency translation. The incremental impact of sales from acquired businesses was \$7.6 million. International Water Systems sales change in 2019, excluding acquisitions and foreign currency translation, was an increase of about 3 percent. International Water Systems sales grew in all three major international markets, Latin American, Asia Pacific and the European, Middle East and African markets.

Net Sales-Fueling Systems

Fueling Systems sales were \$293.6 million in 2019, an increase of \$9.0 million or about 3 percent from 2018. The incremental impact of sales from acquired businesses was \$3.2 million. Foreign currency translation changes decreased sales \$4.3 million or about 2 percent compared to sales in 2018. The Fueling Systems organic sales change in 2019 was an increase of \$10.1 million or about 4 percent.

Fueling Systems sales in the U.S. and Canada grew by about 11 percent during 2019 with most of the sales growth coming from fuel management and pumping systems, piping and service station hardware product lines. Internationally, Fueling Systems revenues declined by about 5 percent due to lower sales in China and Africa partially offset by higher sales in India and other regions. China sales were about \$45 million in 2019 compared to 2018 sales of about \$52 million.

Net Sales-Distribution

Distribution sales were \$291.8 million in 2019, versus 2018 sales of \$269.6 million. The incremental impact of sales from acquired businesses was \$21.9 million. Distribution segment organic sales change was an increase of \$0.3 million compared to 2018.

Cost of Sales

Cost of sales as a percent of net sales for 2019 and 2018 was 67.4 percent and 66.7 percent, respectively. Correspondingly, the gross profit margin was 32.6 percent and 33.3 percent for both years. The Company's consolidated gross profit was \$428.1 million for 2019, down \$4.3 million from the gross profit of \$432.4 million in 2018. The gross profit decline was primarily due to lower sales volumes and subsequent lower gross profit from the Water Systems segment which more than offset higher Fueling Systems and Distribution sales.

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

Selling, general, and administrative expenses were \$298.5 million in 2019 and decreased by \$0.2 million compared to \$298.7 million last year. The increase in SG&A expenses from acquired businesses were \$9.1 million. Excluding the acquired entities, the Company's SG&A expenses in 2019 were \$289.4 million and decreased by \$9.3 million or about 3 percent in 2019 compared to last year, partially due to the effect of foreign currency translation (primarily a stronger U.S. dollar relative to foreign currencies) in 2019 reducing SG&A expenses versus the prior year.

Restructuring Expenses

Restructuring expenses for 2019 were \$2.5 million. Restructuring expenses were \$1.7 million in the Water Systems segment and \$0.8 million in the Distribution segment. Restructuring expenses were primarily from continued miscellaneous manufacturing realignment activities and distribution branch closings and consolidations. Restructuring expenses for 2018 were \$1.7 million. Restructuring expenses for 2018 were \$0.6 million in the Water Systems segment, \$0.3 million in the Fueling Systems segment and \$0.8 million in the Distribution segment. Restructuring expenses for 2018 were primarily from continued miscellaneous manufacturing realignment activities and distribution branch closings and consolidations.

Operating Income

Operating income was \$127.1 million in 2019, down \$4.9 million or 4 percent from \$132.0 million in 2018.

(In millions)	Operating income (loss)		
	2019	2018	2019 v 2018
Water Systems	\$ 103.0	\$ 112.7	\$ (9.7)
Fueling Systems	75.8	70.6	5.2
Distribution	3.6	3.4	0.2
Eliminations/Other	(55.3)	(54.7)	(0.6)
Consolidated	\$ 127.1	\$ 132.0	\$ (4.9)

Operating Income-Water Systems

Water Systems operating income was \$103.0 million in 2019 compared to \$112.7 million in 2018, a decrease of 9 percent. Operating income margin for 2019 was 13.2 percent compared to 2018 operating income margin of 14.1 percent. Operating income decreased in Water Systems primarily from lower sales.

Operating Income-Fueling Systems

Fueling Systems operating income was \$75.8 million in 2019 compared to \$70.6 million in 2018. The operating income margin was 25.8 percent compared to 2018 operating income margin of 24.8 percent. The increase in operating income was primarily due to higher sales.

Operating Income-Distribution

Distribution operating income was \$3.6 million in 2019 and operating income margin was 1.2 percent. Distribution operating income was \$3.4 million in 2018 and operating income margin was 1.3 percent.

Operating Income-Eliminations/Other

Operating income-Eliminations/Other is composed primarily of inter-segment sales and profit eliminations and unallocated general and administrative expenses. The inter-segment profit elimination impact in 2019 compared to 2018 reduced operating income about \$1.3 million. The inter-segment elimination of operating income effectively defers the operating income on sales from Water Systems to Distribution in the consolidated financial results until the transferred product is sold from the Distribution segment to its customer. Unallocated general and administrative expenses were lower by \$0.7 million or about 1 percent.

Interest Expense

Interest expense for 2019 and 2018 was \$8.2 million and \$9.8 million, respectively.

Other Income or Expense

Other income or expense was a loss of \$0.4 million and \$1.0 million, respectively in 2019 and 2018.

Foreign Exchange

Foreign currency-based transactions for 2019 was a loss of \$1.6 million due primarily to the Argentinian Peso weakening relative to the U.S. dollar. Foreign currency-based transactions for 2018 was a loss of \$0.7 million due to movements in several currencies relative to the U.S. dollar, with the Turkish Lira, South African Rand, Argentinian Peso and Mexican Peso being the most significant.

Income Taxes

The provision for income taxes in 2019 and 2018 was \$20.8 million and \$14.9 million, respectively. The effective tax rate for 2019 was about 18 percent and before the impact of discrete events was about 20 percent. The effective tax rate for 2018 was about 12 percent and before the impact of discrete events was about 19 percent. The tax rate was lower than the statutory rate of 21 percent primarily due to foreign earnings taxed at lower statutory rates, as well as recognition of the U.S. deduction for Foreign Derived Intangible Income, and certain incentives and discrete events. Discrete events in 2018 include a net benefit related to the release of valuation allowances on deferred taxes in multiple jurisdictions. In 2020, the Company estimates its effective tax rate will be about 18 to 20 percent.

Net Income

Net income for 2019 was \$96.0 million compared to 2018 net income of \$105.5 million. Net income attributable to Franklin Electric Co., Inc. for 2019 was \$95.5 million, or \$2.03 per diluted share, compared to 2018 net income attributable to Franklin Electric Co., Inc. of \$105.9 million or \$2.23 per diluted share.

2018 vs. 2017

Discussion of fiscal year 2017 items and the year-over-year comparison of changes in the Company's financial condition and results of operation as of and for the fiscal years ended December 31, 2018 and December 31, 2017 can be found in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

CAPITAL RESOURCES AND LIQUIDITY

Sources of Liquidity

The Company's primary sources of liquidity are cash on hand, cash flows from operations, revolving credit agreements, and long-term debt funds available for at least the next twelve months. The Company believes its capital resources and liquidity position at December 31, 2019 is adequate to meet projected needs. The Company expects that ongoing requirements for operations, capital expenditures, pension obligations, dividends, and debt service will be adequately funded from cash on hand, operations, and existing credit agreements.

As of December 31, 2019, the Company had a \$300.0 million revolving credit facility. The facility is scheduled to mature on October 28, 2021. As of December 31, 2019, the Company had \$276.5 million borrowing capacity under the Credit Agreement as \$4.5 million in letters of commercial and standby letters of credit were outstanding and undrawn and \$19.0 million revolver borrowing was drawn and outstanding as of the end of the year.

The Company also has other long-term debt borrowings outstanding as of December 31, 2019. See Note 10 - Debt for additional specifics regarding these obligations and future maturities.

At December 31, 2019, the Company had \$40 million of cash and cash equivalents held in foreign jurisdictions, which the company intends to use to fund foreign operations. There is currently no need to repatriate these funds in order to meet domestic funding obligations or scheduled cash distributions.

Cash Flows

The following table summarizes significant sources and uses of cash and cash equivalents:

(in thousands)	2019	2018	2017
Net cash provided by operating activities	\$ 177.7	\$ 128.4	\$ 66.8
Net cash used in investing activities	(41.8)	(66.3)	(84.7)
Net cash used in financing activities	(126.7)	(66.8)	(22.6)
Impact of exchange rates on cash and cash equivalents	(4.0)	(3.4)	3.4
Change in cash and cash equivalents	\$ 5.2	\$ (8.1)	\$ (37.1)

Cash Flows Provided by Operating Activities

2019 vs. 2018

Net cash provided by operating activities was \$177.7 million for 2019 compared to \$128.4 million for 2018. The increase in cash provided by operating activities was primarily due to a decrease of \$36.4 million in working capital requirements related to a reduction in inventory and more favorable payment terms with vendors. The company also experienced lower income tax payments in the current year. Increases in cash provided by operating activities were partially offset by the decrease in net income from the prior year.

2018 vs. 2017

Discussion of fiscal year 2017 items and the year-over-year comparison of changes in our financial condition and results of operation as of and for the fiscal years ended December 31, 2018 and December 31, 2017 can be found in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Cash Flows Used in Investing Activities

2019 vs. 2018

Net cash used in investing activities was \$41.8 million in 2019 compared to \$66.3 million in 2018. The decrease is primarily attributable to decreased acquisition activity.

2018 vs. 2017

Discussion of fiscal year 2017 items and the year-over-year comparison of changes in our financial condition and results of operation as of and for the fiscal years ended December 31, 2018 and December 31, 2017 can be found in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Cash Flows Used in Financing Activities

2019 vs. 2018

Net cash used in financing activities was \$126.7 million in 2019 compared to \$66.8 million in 2018. The increase in cash used in financing activities was primarily attributable to an increase in debt repayments, up approximately \$72 million in the current year consistent with reduced acquisition activity. Other uses of cash in financing activities include dividend payments, which increased by \$5.1 million in the current year compared to dividends paid in the prior year, and proceeds from common stock issuance, which decreased \$5.8 million compared to prior year. These were offset by a decrease in common stock repurchases of \$23.4 million.

2018 vs. 2017

Discussion of fiscal year 2017 items and the year-over-year comparison of changes in our financial condition and results of operation as of and for the fiscal years ended December 31, 2018 and December 31, 2017 can be found in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

AGGREGATE CONTRACTUAL OBLIGATIONS

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

(In millions)	Total	2020	2021-2022	2023-2024	More than 5 years
Debt	\$ 115.0	\$ 21.8	\$ 2.5	\$ 2.7	\$ 88.0
Debt interest	24.1	4.5	7.3	7.1	5.2
Financing leases	0.1	0.1	—	—	—
Operating leases	30.2	10.8	12.2	4.5	2.7
Purchase obligations	6.1	6.1	—	—	—
Income Taxes-U.S. Tax Cuts and Jobs Act transition tax	\$ 16.3	\$ 1.6	\$ 3.1	\$ 6.8	\$ 4.8
	\$ 191.8	\$ 44.9	\$ 25.1	\$ 21.1	\$ 100.7

The Company has pension and other post-retirement benefit obligations not included in the table above which will result in estimated future payments of approximately \$1 million in 2020. The Company also has unrecognized tax benefits, none of which are included in the table above. The unrecognized tax benefits of approximately \$0.4 million have been recorded as liabilities and the Company is uncertain as to if or when such amounts may be settled. Related to the unrecognized tax benefits, the Company has also recorded a liability for potential penalties and interest of \$0.1 million.

ACCOUNTING PRONOUNCEMENTS

For information regarding recent accounting pronouncements, refer to Note 2 - Accounting Pronouncements, in the Notes to Consolidated Financial Statements in the sections entitled "Adoption of New Accounting Standards" and "Accounting Standards Issued But Not Yet Adopted", included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

CRITICAL ACCOUNTING ESTIMATES

Management's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Management evaluates estimates on an ongoing basis. Estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. There were no material changes to estimates or methodologies used to develop those estimates in 2019.

The Company's critical accounting estimates are identified below:

Inventory Valuation

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

Business Combinations

The Company follows the guidance under FASB Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*. The acquisition purchase price is allocated to the assets acquired and liabilities assumed based upon their respective fair values. The Company shall report in its financial statements provisional amounts for the items for which accounting is incomplete. Goodwill is adjusted for any changes to provisional amounts made within the measurement period. The Company utilizes management estimates and an independent third-party valuation firm to assist in determining the fair values of assets acquired and liabilities assumed. Such estimates and valuations require the Company to make significant assumptions, including projections of future events and operating performance. The Company has not made any material changes to the method of valuing fair values of assets acquired and liabilities assumed during the last three years.

Trade Names and Goodwill

According to FASB ASC Topic 350, *Intangibles - Goodwill and Other*, intangible assets with indefinite lives must be tested for impairment at least annually or more frequently as warranted by triggering events that indicate potential impairment. The Company uses a variety of methodologies in conducting impairment assessments including income and market approaches. For indefinite-lived assets apart from goodwill, primarily trade names for the Company, if the fair value is less than the carrying amount, an impairment charge is recognized in an amount equal to that excess. The Company has not made any material changes to the method of evaluating impairments during the last three years.

In compliance with FASB ASC Topic 350, goodwill is not amortized. Goodwill is tested at the reporting unit level for impairment annually or more frequently as warranted by triggering events that indicate potential impairment. Reporting units are operating segments or one level below, known as components, which can be aggregated for testing purposes. The Company's goodwill is allocated to the North America Water Systems, International Water, and Fueling Systems units, as components within the North America Water Systems and International Water reporting units can be aggregated. In 2017, as a result of the Headwater acquisition, the Company added a Distribution reporting unit. The Distribution reporting unit was subject to qualitative testing in the year of acquisition. In 2018 and 2019, all reporting units were tested using the quantitative valuation approaches listed below. As the Company's business model evolves, management will continue to evaluate its reporting units and review the aggregation criteria.

In assessing the recoverability of goodwill, the Company determines the fair value of its reporting units by utilizing a combination of both the market value and income approaches. The market value approach compares the reporting units' current and projected financial results to entities of similar size and industry to determine the market value of the reporting unit. The income approach utilizes assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. These cash flows consider factors regarding expected future operating income and historical trends, as well as the effects of demand and competition. The Company may be required to record an impairment if these assumptions and estimates change whereby the fair value of the reporting units is below their associated carrying values. Goodwill included on the balance sheet as of the fiscal year ended 2019 was \$256.1 million.

During the fourth quarter of 2019, the Company completed its annual impairment test of goodwill and trade names and determined the fair value of all intangibles were substantially in excess of the respective carrying values. Significant judgment is required to determine if an indication of impairment has taken place. Factors to be considered include the following: adverse changes in operating results, decline in strategic business plans, significantly lower future cash flows, and sustainable declines in market data such as market capitalization. A 10 percent decrease in the fair value estimates used in the impairment test would not have changed this determination. The sensitivity analysis required the use of numerous subjective assumptions, which, if actual experience varies, could result in material differences in the requirements for impairment charges. Further, an extended downturn in the economy may impact certain components of the operating segments more significantly and could result in changes to the aggregation assumptions and impairment determination.

Income Taxes

Under the requirements of FASB ASC Topic 740, *Income Taxes*, the Company records deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company analyzes the deferred tax assets and liabilities for their future realization based on the estimated existence of sufficient taxable income. This analysis considers the following sources of taxable income: prior year taxable income, future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and tax planning strategies that would generate taxable income in the relevant period. If sufficient taxable income is not projected then the Company will record a valuation allowance against the relevant deferred tax assets.

The Company's operations involve dealing with uncertainties and judgments in the application of complex tax regulations in multiple jurisdictions. These jurisdictions have different tax rates, and the Company determines the allocation of income to each of these jurisdictions based upon various estimates and assumptions. In the normal course of business, the Company will undergo tax audits by various tax jurisdictions. Such audits often require an extended period of time to complete and may result in income tax adjustments if changes to the allocation are required between jurisdictions with different tax rates. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in the various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. Although the Company has recorded all income tax uncertainties in accordance with FASB ASC Topic 740, these accruals represent estimates that are subject to the inherent uncertainties associated with the tax audit process, and therefore include uncertainties. Management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities, which, if actual experience varies, could result in material adjustments to tax expense and/or deferred tax assets and liabilities.

Pension and Employee Benefit Obligations

The Company consults with its actuaries to assist with the calculation of discount rates used in its pension and post retirement plans. The discount rates used to determine domestic pension and post-retirement plan liabilities are calculated using a full yield curve approach. Market conditions have caused the weighted-average discount rate to move from 4.28 percent last year to 3.12 percent this year for the domestic pension plans and from 4.18 percent last year to 2.98 percent this year for the postretirement health and life insurance plan. A change in the discount rate selected by the Company of 25 basis points would result in a change of about \$0.1 million to employee benefit expense and a change of about \$3.7 million of liability.

The Company consults with actuaries and investment advisors in making its determination of the expected long-term rate of return on plan assets. Using input from these consultations such as long-term investment sector expected returns, the correlations and standard deviations thereof, and the plan asset allocation, the Company has assumed an expected long-term rate of return on plan assets of 4.90 percent as of the fiscal year ended 2019. A change in the long-term rate of return selected by the Company of 25 basis points would result in a change of about \$0.4 million of employee benefit expense.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated with changes in foreign currency exchange rates, interest rates, and commodity prices. These exposures are actively monitored by management. Exposure to foreign exchange rate risk is due to certain costs, revenue and borrowings being denominated in currencies other than one of the Company's subsidiaries functional currency. Similarly, the Company is exposed to market risk as the result of changes in interest rates which may affect the cost of financing.

Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is mitigated through several means including maintenance of local production facilities in the markets served, invoicing of customers in the currency which the Company is billed for production inputs, prompt settlement of third party and inter-company balances, limited use of foreign currency denominated debt, maintaining minimal foreign currency denominated cash balances, and application of derivative instruments when appropriate. Based on the 2019 mix of foreign currencies, the Company estimates that a hypothetical strengthening of the US Dollar by about 2 percent would have reduced the Company's 2019 sales by about 1 percent.

Interest Rate Risk

The results of operations are exposed to changes in interest rates primarily with respect to borrowings under the Company's revolving credit agreement (the "Credit Agreement"). Borrowings under the Credit Agreement may be made either at (i) a Eurocurrency rate based on LIBOR plus an applicable margin or (ii) an alternative base rate as defined in the Credit Agreement. The Company had \$19.0 million borrowings at year-end 2019 under the Credit Agreement. The Company estimates that a hypothetical increase of 100 basis points in the LIBOR rate would have increased interest expense by \$1 million during 2019. The Company also has exposure to changes in interest rates in the form of the fair value of outstanding fixed rate debt fluctuating in response to changing interest rates.

Additionally, LIBOR, the index administered by the Intercontinental Exchange, will be phased out after 2021. The United States, using the analysis performed by the ARRC (Alternative Reference Rates Committee), elected the Secured Overnight Financing Rate (“SOFR”) as a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury Securities. The New York Fed commenced publishing the SOFR rate daily beginning April 3, 2018. The Company is still analyzing the potential impacts from changing from LIBOR to SOFR based rates.

Commodity Price Exposures

Portions of the Company’s business are exposed to volatility in the prices of certain commodities, such as copper, steel and aluminum, among others. The primary exposure to this volatility resides with the use of these materials in purchased component parts. We generally maintain long-term fixed price contracts on raw materials and component parts; however, the Company is prone to exposure as these contracts expire. Based on the 2019 use of commodities, the Company estimates that a hypothetical 10 percent adverse movement in prices for raw metal commodities would result in about a 1 percent decrease of gross margin as a percent of sales.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

(In thousands, except per share amounts)	2019	2018	2017
Net sales	\$ 1,314,578	\$ 1,298,129	\$ 1,124,909
Cost of sales	886,475	865,763	747,927
Gross profit	428,103	432,366	376,982
Selling, general, and administrative expenses	298,451	298,706	265,447
Restructuring expense	2,519	1,666	4,307
Operating income	127,133	131,994	107,228
Interest expense	(8,245)	(9,839)	(10,322)
Other income/(expense), net	(412)	(1,042)	6,656
Foreign exchange income/(expense)	(1,641)	(706)	1,025
Income before income taxes	116,835	120,407	104,587
Income tax expense	20,836	14,890	25,994
Net income	\$ 95,999	\$ 105,517	\$ 78,593
Less: Net loss/(income) attributable to noncontrolling interests	(516)	360	(413)
Net income attributable to Franklin Electric Co., Inc.	\$ 95,483	\$ 105,877	\$ 78,180
Income per share:			
Basic	\$ 2.04	\$ 2.25	\$ 1.67
Diluted	\$ 2.03	\$ 2.23	\$ 1.65

See Notes to Consolidated Financial Statements.

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

(In thousands)	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income	\$ 95,999	\$ 105,517	\$ 78,593
Other comprehensive income/(loss), before tax:			
Foreign currency translation adjustments	(5,659)	(34,723)	17,937
Employee benefit plan activity:			
Net loss arising during period	(5,006)	(2,241)	(274)
Amortization arising during period	2,913	3,327	3,012
Other comprehensive income/(loss)	<u>(7,752)</u>	<u>(33,637)</u>	<u>20,675</u>
Income tax (expense)/benefit related to items of other comprehensive loss	589	(307)	(534)
Other comprehensive income/(loss), net of tax	<u>(7,163)</u>	<u>(33,944)</u>	<u>20,141</u>
Comprehensive income	88,836	71,573	98,734
Less: Comprehensive income/(loss) attributable to noncontrolling interests	544	(332)	(251)
Comprehensive income attributable to Franklin Electric Co., Inc.	<u>\$ 88,292</u>	<u>\$ 71,905</u>	<u>\$ 98,985</u>

See Notes to Consolidated Financial Statements.

FRANKLIN ELECTRIC CO., INC. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 64,405	\$ 59,173
Receivables, less allowances of \$3,705 and \$4,394, respectively	173,327	172,899
Inventories:		
Raw material	98,286	98,858
Work-in-process	18,392	18,649
Finished goods	183,568	196,542
Total inventories	300,246	314,049
Other current assets	29,466	33,758
Total current assets	567,444	579,879
Property, plant, and equipment, at cost:		
Land and buildings	142,189	144,299
Machinery and equipment	276,541	269,484
Furniture and fixtures	43,631	49,426
Other	29,293	22,795
Property, plant, and equipment, gross	491,654	486,004
Less: Allowance for depreciation	(290,326)	(278,940)
Property, plant, and equipment, net	201,328	207,064
Right-of-Use Asset, net	27,621	—
Deferred income taxes	9,171	8,694
Intangible assets, net	131,127	135,052
Goodwill	256,059	248,748
Other assets	1,993	2,928
Total assets	<u>\$ 1,194,743</u>	<u>\$ 1,182,365</u>

	2019	2018
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 82,593	\$ 76,652
Accrued expenses and other current liabilities	68,444	64,811
Current lease liability	9,838	—
Income taxes	3,010	2,419
Current maturities of long-term debt and short-term borrowings	21,879	111,975
Total current liabilities	185,764	255,857
Long-term debt	93,141	94,379
Long-term lease liability	17,785	—
Income taxes payable non-current	11,965	10,881
Deferred income taxes	27,598	28,949
Employee benefit plans	38,288	38,020
Other long-term liabilities	21,769	17,934
Commitments and contingencies (see Note 16)	—	—
Redeemable noncontrolling interest	(236)	518
Shareholders' equity:		
Common stock (65,000 shares authorized, \$.10 par value) outstanding (46,391 and 46,326, respectively)	4,639	4,632
Additional capital	269,656	257,535
Retained earnings	712,460	654,724
Accumulated other comprehensive loss	(190,210)	(183,019)
Total shareholders' equity	796,545	733,872
Noncontrolling interest	2,124	1,955
Total equity	798,669	735,827
Total liabilities and equity	<u>\$ 1,194,743</u>	<u>\$ 1,182,365</u>

See Notes to Consolidated Financial Statements.

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

(In thousands)	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 95,999	\$ 105,517	\$ 78,593
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	36,977	38,604	38,506
Non-cash lease expense	11,699	—	—
Share-based compensation	8,957	8,450	7,109
Income taxes-U.S. Tax Cuts and Jobs Act	—	—	10,198
Deferred income taxes	(2,566)	(5,164)	(6,311)
Loss on disposals of plant and equipment	891	311	1,572
Gain on equity investment	—	—	(5,165)
Foreign exchange (income)/expense	1,641	706	(1,025)
Changes in assets and liabilities, net of acquisitions:			
Receivables	1,076	(8,194)	9,948
Inventory	17,228	(4,775)	(46,372)
Accounts payable and accrued expenses	6,770	1,677	(11,071)
Operating leases	(11,698)	—	—
Income taxes	6,449	(1,771)	(2,513)
Income taxes-U.S. Tax Cuts and Jobs Act	—	(6,510)	—
Employee benefit plans	(1,443)	(2,291)	(2,529)
Other, net	5,696	1,875	(4,186)
Net cash flows from operating activities	177,676	128,435	66,754
Cash flows from investing activities:			
Additions to property, plant, and equipment	(21,855)	(22,432)	(33,484)
Proceeds from sale of property, plant, and equipment	866	724	211
Cash paid for acquisitions, net of cash acquired	(20,827)	(44,971)	(51,783)
Other, net	10	387	355
Net cash flows from investing activities	(41,806)	(66,292)	(84,701)
Cash flows from financing activities:			
Proceeds from issuance of debt	264,389	232,638	193,358
Repayment of debt	(355,332)	(251,623)	(191,476)
Proceeds from issuance of common stock	3,194	8,999	4,497
Purchases of common stock	(10,741)	(34,188)	(3,621)
Dividends paid	(27,671)	(22,612)	(20,289)
Purchase of redeemable noncontrolling shares	(487)	—	(5,047)
Net cash flows from financing activities	(126,648)	(66,786)	(22,578)
Effect of exchange rate changes on cash	(3,990)	(3,417)	3,427
Net change in cash and equivalents	5,232	(8,060)	(37,098)
Cash and equivalents at beginning of period	59,173	67,233	104,331

(In thousands)	2019	2018	2017
Cash and equivalents at end of period	<u>\$ 64,405</u>	<u>\$ 59,173</u>	<u>\$ 67,233</u>
Cash paid for income taxes, net of refunds	\$ 16,949	\$ 27,025	\$ 25,810
Cash paid for interest	\$ 8,388	\$ 10,792	\$ 9,373
Non-cash items:			
Additions to property, plant, and equipment, not yet paid	\$ 1,509	\$ 1,158	\$ 168
Right-of-Use Assets obtained in exchange for new operating lease liabilities	\$ 4,922	\$ —	\$ —
Payable to sellers of acquired entities	\$ 845	\$ 1,000	\$ —

See Notes to Consolidated Financial Statements.

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

(In thousands)	Total Shareholders' Equity						
	Common Shares Outstanding	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interest	Redeemable Noncontrolling Interest
Balance as of year end 2016	46,376	\$ 4,638	\$ 228,564	\$ 550,095	\$ (169,852)	\$ 1,643	\$ 7,652
Net income				78,180		661	(248)
Currency translation adjustment					18,601	164	(828)
Minimum pension liability adjustment, net of tax expense of \$534					2,204		
Adjustments to Impo redemption value				27			(27)
Purchase of redeemable noncontrolling shares							(5,047)
Dividends on common stock (\$0.4225/share)				(19,785)			
Noncontrolling dividend						(504)	
Common stock issued	256	25	4,472				
Share-based compensation	86	9	7,100				
Common stock repurchased	(88)	(9)		(3,612)			
Balance as of year end 2017	46,630	\$ 4,663	\$ 240,136	\$ 604,905	\$ (149,047)	\$ 1,964	\$ 1,502
Net income				105,877		701	(1,061)
Currency translation adjustment					(34,751)	(49)	77
Minimum pension liability adjustment, net of tax expense of \$307					779		
Dividends on common stock (\$0.4675/share)				(21,951)			
Noncontrolling dividend						(661)	
Common stock issued	405	40	8,959				
Share-based compensation	103	10	8,440				
Common stock repurchased	(812)	(81)		(34,107)			
Balance as of year end 2018	46,326	\$ 4,632	\$ 257,535	\$ 654,724	\$ (183,019)	\$ 1,955	\$ 518
Net income				95,483		842	(326)
Currency translation adjustment					(5,687)	(31)	59
Minimum pension liability adjustment, net of tax benefit of \$589					(1,504)		
Purchase of redeemable noncontrolling shares							\$ (487)
Dividends on common stock (\$0.5800/share)				(27,029)			
Noncontrolling dividend						(642)	
Common stock issued	152	15	3,179				
Share-based compensation	146	15	8,942				
Common stock repurchased	(233)	(23)		(10,718)			
Balance as of year end 2019	46,391	\$ 4,639	\$ 269,656	\$ 712,460	\$ (190,210)	\$ 2,124	\$ (236)

See Notes to Consolidated Financial Statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Company--“Franklin Electric” or the “Company” shall refer to Franklin Electric Co., Inc. and its consolidated subsidiaries.

Fiscal Year--The financial statements and accompanying notes are as of and for the years ended December 31, 2019, December 31, 2018, and December 31, 2017, and referred to as 2019, 2018, and 2017, respectively.

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

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

Revenue Recognition--Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The promise in a contract to transfer goods or services to a customer represents a performance obligation. The Company typically sells its products to customers by purchase order and does not have any additional performance obligations included in contracts to customers other than the shipment of the products. Therefore, the Company allocates the transaction price based on a single performance obligation. The Company typically ships products FOB shipping at which point control of the products passes to the customers. The Company considers the performance obligation satisfied and recognizes revenue at a point in time, the time of shipment.

The Company’s products may include routine assurance-type warranties which do not qualify as separate performance obligations. In the event that significant post-shipment obligations were to exist for the Company’s products, revenue recognition would be deferred until the performance obligations were satisfied.

The Company records net sales revenues after discounts at the time of sale based on specific discount programs in effect, related historical data, and experience.

Shipping and Handling Costs--Shipping and handling costs are considered activities required to fulfill the Company’s promise to transfer goods, and do not qualify as a separate performance obligation. Shipping and handling costs are recorded as a component of cost of sales.

Research and Development Expense--The Company’s research and development activities are charged to expense in the period incurred. The Company incurred expenses of approximately \$20.8 million in 2019, \$22.1 million in 2018, and \$20.8 million in 2017 related to research and development.

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

Fair Value of Financial Instruments--Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures*, provides guidance for defining, measuring, and disclosing fair value within an established framework and hierarchy. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standard established a fair value hierarchy which requires an entity to maximize the use of observable inputs and to minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value within the hierarchy are as follows:

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

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

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

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

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

Property, Plant, and Equipment--Property, plant, and equipment are stated at historical cost. The Company capitalizes certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use, which are included in property, plant, and equipment. Depreciation of plant and equipment is calculated on a straight line basis over the following estimated useful lives:

Land improvement and buildings	10 - 40 years
Machinery and equipment	5 - 10 years
Software	3 - 7 years
Furniture and fixtures	3 - 7 years

Maintenance, repairs, and renewals of a minor nature are expensed as incurred. Betterments and major renewals which extend the useful lives or add to the productive capacity of buildings, improvements, and equipment are capitalized. The Company reviews its property, plant, and equipment for impairment at the asset group level whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If an indicator is present, the Company compares carrying values to undiscounted future cash flows; if the undiscounted future cash flows are less than the carrying value, an impairment would be recognized for the difference between the fair value and the carrying value.

The Company's depreciation expense was \$27.6 million, \$29.7 million, and \$29.9 million in 2019, 2018, and 2017, respectively.

Leases--The Company determines if an arrangement is a lease, or contains a lease, at the inception of the arrangement and determines whether it is an operating or financing lease. Operating and financing leases result in the Company recording a right-of-use (ROU) asset, current lease liability, and long term lease liability on its balance sheet. The Company has elected to not present leases with an initial term of 12 months or less on the balance sheet. The ROU assets and liabilities are initially recognized based on the present value of lease payments over the lease term. Initial direct costs and lease incentives are not material when measuring the ROU asset present value. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

In determining the present value, the Company utilizes interest rates from lease agreements unless the lease agreement does not provide a readily determinable rate. In these instances, the Company utilizes its incremental borrowing rate based on the Company's borrowing information available at inception. A portion of the Company's leases include renewal options. The Company excludes these renewal options in the expected lease term unless the Company is reasonably certain that the option will be exercised. In addition, the Company has elected not to separate non-lease components from lease components.

Goodwill and Other Intangible Assets--Goodwill is tested at the reporting unit level, which the Company has determined to be the North America Water Systems, International Water, Fueling Systems, and Distribution units. In compliance with FASB ASC Topic 350, *Intangibles - Goodwill and Other*, the Company has evaluated the aggregation criteria and determined that the individual components within the North America Water Systems and International Water reporting units, respectively, can be aggregated in 2019.

In assessing the recoverability of goodwill, the Company determines the fair value of its reporting units by utilizing a combination of both the income and market valuation approaches. The income approach estimates fair value based upon future revenue, expenses, and cash flows discounted to present value. The market valuation approach estimates fair value using

market multipliers of various financial measures compared to a set of comparable public companies. The fair value calculated for each reporting unit is considered a Level 3 measurement within the fair value hierarchy.

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

Beginning in 2017, the Company completed its annual goodwill impairment test during the fourth quarter, using balances as of October 1. Additionally, in 2017 as a result of the Headwater acquisitions, the Company added the Distribution reporting unit. The Distribution reporting unit was subject to qualitative testing in the year of acquisition. The Company did not recognize a goodwill impairment as a result of the qualitative assessment. In 2019, all reporting units were tested using the quantitative valuation approaches described above. The Company will test goodwill for impairment more frequently if warranted by triggering events that indicate potential impairment.

The Company also tests indefinite lived intangible assets, primarily trade names, for impairment on an annual basis during the fourth quarter of each year, using balances as of October 1, or more frequently as warranted by triggering events that indicate potential impairment. In assessing the recoverability of the trade names, the Company determines the fair value using an income approach. The income approach estimates fair value based upon future revenue and estimated royalty rates. The fair value calculated for indefinite lived intangible assets is considered a Level 3 measurement within the fair value hierarchy. An indication of impairment exists if the carrying value of the trade names is higher than the fair value. The Company would record an impairment charge for the difference.

Amortization is recorded and calculated for other definite lived intangible assets on a basis that reflects cash flows over the estimated useful lives. The weighted average number of years over which each intangible class is amortized is as follows:

Patents	17 years
Technology	15 years
Customer relationships	13 - 20 years
Other	5 - 8 years

Warranty Obligations--The Company provides warranties on most of its products. The warranty terms vary but are generally 2 years to 5 years from date of manufacture or 1 year to 5 years from date of installation. Provisions for estimated expenses related to product warranty are made at the time products are sold or when specific warranty issues are identified. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. The Company actively studies trends of warranty claims and takes actions to improve product quality and minimize warranty claims. The Company believes that the warranty reserve is appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserve.

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

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

Earnings Per Common Share--Basic and diluted earnings per share are computed and disclosed in accordance with FASB ASC Topic 260, *Earnings Per Share*. The Company utilizes the two-class method to compute earnings available to common

shareholders. Under the two-class method, earnings are adjusted by accretion amounts to redeemable noncontrolling interests recorded at redemption value. The adjustments represent dividend distributions, in substance, to the noncontrolling interest holder as the holders have contractual rights to receive an amount upon redemption other than the fair value of the applicable shares. As a result, earnings are adjusted to reflect this in substance distribution that is different from other common shareholders. In addition, the Company allocates net earnings to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a non-forfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common shareholders. Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocated to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period, as adjusted for the potential dilutive effect of non-participating share-based awards.

Translation of Foreign Currency Financial Statements--All assets and liabilities of foreign subsidiaries in functional currency other than the U.S. dollar are translated at year end exchange rates with the exception of the non-monetary assets and liabilities in countries with highly inflationary economies, which are translated at historical exchange rates. All revenue and expense accounts are translated at average rates in effect during the respective period with the exception of expenses related to the non-monetary assets and liabilities, which are translated at historical exchange rates. Adjustments for translating longer term foreign currency assets and liabilities in U.S. dollars are included as a component of other comprehensive income except for hyperinflation accounting adjustments. Transaction gains and losses that arise from shorter term exchange rate fluctuations and hyperinflation accounting adjustments are included in the "Foreign exchange income/(expense)" line within the Company's consolidated statements of income, as incurred.

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

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

2. ACCOUNTING PRONOUNCEMENTS

Adoption of New Accounting Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include internal-use software license). The ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption and is effective for interim and annual periods beginning after December 15, 2019 with early adoption permitted. The Company prospectively adopted the standard in the third quarter of 2019, and it did not have a material impact on the consolidated financial position, results of operations, and cash flows.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU was issued following the enactment of the U.S. Tax Cuts and Jobs Act of 2017 ("Tax Act") and permits entities to elect a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. The ASU is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted, and may be applied either at the beginning of the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Act is recognized. The Company adopted the standard effective January 1, 2019 and did not reclassify tax effects stranded in accumulated other comprehensive loss. As such, there is no impact on the Company's consolidated financial position, results of operations, and cash flows as a result of the adoption of the ASU.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance on accounting for leases found in Accounting Standards Codification ("ASC") Topic 840. This ASU requires lessees to present right-of-use ("ROU") assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-10 clarifies certain aspects of Topic 842, including the rate implicit in the lease, impairment of the

net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments, among other things. ASU 2018-11 allows entities adopting ASU 2016-02 to choose an additional (and optional) transition method of adoption, under which an entity initially applies the new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Additionally, ASU 2018-11 allows lessors to not separate non-lease components from the associated lease component if certain conditions are met. The guidance is to be applied using either the transition method prescribed in ASU 2018-11 or a modified retrospective approach at the beginning of the earliest comparative period in the financial statements.

The Company adopted the standard effective January 1, 2019 utilizing the optional transition method prescribed in ASU 2018-11. The Company utilized the transition practical expedients, per ASC 842-10-65-11, that are permitted with the new standard when elected as a package. The Company will also utilize other available practical expedients, including the election not to separate non-lease components and the election to use hindsight when determining the lease terms. Finally, the Company has made an accounting policy election to not present leases with an initial term of 12 months or less (short-term leases) on the balance sheet.

The Company has recorded on the balance sheet ROU assets and lease liabilities. The initial ROU asset at the implementation of the standard was approximately \$32.9million with a corresponding lease liability of the same amount. The Company segregated the lease liabilities between short term and long term based on the related contractual maturities. The Company did not have an adjustment to retained earnings as a result of the adoption of this standard. Additional disclosures regarding the Company's leases can be found in Note 1 - Summary of Significant Accounting Policies and Note 16 - Commitments and Contingencies.

Accounting Standards Issued But Not Yet Adopted

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Topic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments remove disclosures that no longer are considered cost beneficial, including the estimated amounts in accumulated other comprehensive income expected to be recognized as components of net periodic expense over the next fiscal year. The amendments clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant, including the reasons for significant gains and losses related to change in the benefit obligation for the period. The ASU should be applied retrospectively and is effective for interim and annual periods beginning after December 15, 2020. The Company is still determining the date of adoption for this ASU but does not anticipate the adoption to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 removes step two from the goodwill impairment test and instead requires an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. The ASU is effective on a prospective basis for interim and annual periods beginning after December 15, 2019 with early adoption permitted. The Company will adopt this standard effective January 1, 2020, but does not anticipate the adoption to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which modifies the measurement of expected credit losses on certain financial instruments, including trade receivables. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019 with early adoption permitted. Amendments should be applied using a modified retrospective approach except for debt securities, which require a prospective transitions approach. The Company will adopt this standard effective January 1, 2020. Adoption is not expected to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is expected to reduce cost and complexity related to accounting for income taxes. ASU 2019-12 eliminates the need for the Company to analyze whether certain exceptions apply and improves financial statement preparers' application of income tax-related guidance. ASU 2019-12 is effective for interim and annual periods beginning after December 15, 2020 with early adoption permitted. Amendments related to franchise taxes that are partially based on income should be applied on either a retrospective or modified retrospective basis. All other amendments should be applied on a prospective basis. The Company is still determining the date of adoption of this ASU. Adoption is not expected to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

3. ACQUISITIONS

During the third quarter ended September 30, 2019, the Company acquired 100 percent of the ownership interests of First Sales, LLC, an Indiana manufacturer of water treatment and filtration equipment for the residential and commercial markets, which are sold through some of the same channels as other Company products in the Water Systems segment, for a purchase price of approximately \$15.5 million after working capital adjustments. Goodwill resulting from the acquisition consists primarily of complementary product offerings. The operating results from the date of acquisition through December 31, 2019 were not material to the Company as a whole. Annual net sales are estimated to be less than two percent of consolidated net sales and the fair value of the acquired assets are estimated to be less than one percent of consolidated total assets. The Company has not presented separate results of operations since closing or combined pro forma financial information of the Company and the acquired interest since the beginning of 2019, as the results of operations for this acquisition is immaterial. The fair value of the assets acquired and liabilities assumed are preliminary as of December 31, 2019.

During the second quarter ended June 30, 2019, the Company acquired the remaining interest in Plugra Pumps and Motors Private Limited, India, increasing the Company's ownership to 100 percent. The redemption of this interest was immaterial.

During the first quarter ended March 31, 2019, the Company acquired 100 percent of the ownership interests of Mt. Pleasant, Michigan-based Milan Supply Company ("Milan Supply"), for a purchase price of approximately \$6.1 million after working capital adjustments. Milan Supply is a professional groundwater distributor operating six locations in the State of Michigan. Milan Supply is part of the Company's Distribution Segment, which is a collection of professional groundwater equipment distributors. The Company has not presented separate results of operations since closing or combined pro forma financial information of the Company and the acquired interest since the beginning of 2019, as the results of operations for this acquisition is immaterial. The fair value of the assets acquired and liabilities assumed are preliminary as of December 31, 2019.

During the third quarter ended September 30, 2018, the Company acquired, in separate transactions, substantially all of the assets of the Stationary Power Division ("SPD") of Midtronics, Inc., and 100 percent of the ownership interest in Industrias Rotor Pump S.A. ("Industrias Rotor Pump"), located in the United States and Argentina, respectively. Neither of the acquisitions were material individually or in the aggregate, and the final combined purchase price was \$37 million. The operating results of the two businesses from their respective dates of acquisition through December 31, 2018 were not material to the Company as a whole. SPD offers a variety of products to users in the electrical substation monitoring, data center and mobile telecommunications markets. Annual net sales for SPD are approximately one percent of consolidated net sales and the fair value of the acquired assets are less than one percent of consolidated total assets. Industrias Rotor Pump is the leading provider of water pumping equipment in Argentina. Annual net sales for Industrias Rotor Pump are less than one percent of consolidated net sales and the fair value of the acquired assets are estimated to be less than three percent of consolidated total assets.

The identifiable intangible assets recognized in the separate transactions were \$17 million, and consist primarily of customer relationships, which will be amortized utilizing the straight-line method over 15 - 20 years.

The goodwill of \$14.2 million resulting from the separate acquisitions consists primarily of the benefits of complementary product offerings and expanded geographical presence. Goodwill was recorded in the Fueling and Water segments (see Note 6 - Goodwill and Other Intangible Assets), and only a portion (\$4.1 million) is expected to be deductible for tax purposes. The fair value of assets acquired and liabilities assumed for both acquisitions were considered final as of the third quarter of 2019.

The Company has not presented separate results of operations since closing or combined pro forma financial information of the Company and the acquired interests since the beginning of 2018, as the results of operations for these acquisitions are immaterial.

Prior to the acquisition of the Argentina entity the economy in Argentina was classified as highly inflationary. Beginning from the date of acquisition, the Company will apply the requisite accounting for highly inflationary economies, and the functional currency of the entity will be the U.S. dollar. Monetary assets and liabilities will be remeasured into U.S. dollars using exchange rates as of the latest balance sheet date while non-monetary assets and liabilities will be remeasured using historical exchange rates. Remeasurement adjustments will be included in foreign exchange gain / (loss) on the consolidated statements of income.

During the first quarter ended March 31, 2018, the Company acquired 100 percent of the ownership interests of Lansing, Michigan-based Valley Farms Supply, Inc. ("Valley Farms"). The fair value of assets acquired and liabilities assumed were considered final in the first quarter of 2019, and the final purchase price was \$9.5 million after working capital adjustments. Valley Farms is a professional groundwater distributor operating four locations in the State of Michigan and one in the State of Indiana. Valley Farms was acquired to serve customers in this region of the United States as part of the Company's

Distribution Segment, which is a collection of professional groundwater equipment distributors. The Company has not presented separate results of operations since closing or combined pro forma financial information of the Company and the acquired interest since the beginning of 2018, as the results of operations for this acquisition is immaterial.

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

During the second quarter of 2017, the Company acquired controlling interests in three distributors (2M Company, Inc. ("2M"), Drillers Service, Inc. ("DSI"), and Western Hydro, LLC ("Western Hydro"), collectively referred to below as the "Headwater acquisitions") in the U.S. professional groundwater market for a combined purchase price of approximately \$57.4 million, subject to certain terms and conditions. The Company had previously prepaid a \$3.0 million portion of the purchase price at the time of original investment. The Company funded the Headwater acquisitions with cash on hand and short-term borrowings from the Company's Revolver (see Note 10 - Debt). The Headwater acquisitions are reported within a new "Distribution" segment (see Note 15 - Segment Information). The Headwater acquisitions provide the Company with a robust groundwater distribution channel throughout the United States.

The Company previously held equity interests in these entities, each of which was less than 50 percent, and accounted for by the equity method of accounting. The Company's total interest in each of the entities is now 100 percent and the entities are included in the Company's consolidated results effective from the date of acquisition. The original equity interests in the acquired entities were remeasured to their fair values as of the acquisition date (which aggregated was \$20.6 million) based on the income approach, which utilized management estimates and consultation with an independent third-party valuation firm. Inputs included an analysis of the enterprise value based on financial projections and ownership percentages.

Intangible assets recognized due to the Headwater acquisitions were \$5.7 million, and consist of customer relationships, which will be amortized utilizing the straight-line method over 15 years. The fair value of the identifiable intangible assets has been estimated using an income approach, a valuation method that values an intangible asset by discounting the future incremental earnings that may be achieved by the subject intangible asset.

The goodwill of \$33.9 million resulting from the Headwater acquisitions consists primarily of the benefits of forward channel integration opportunities and broadened product offerings. All of the goodwill was recorded as part of the Distribution segment, and only a portion (\$7.8 million) is expected to be deductible for tax purposes.

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

(In millions)	
Cash	\$ 2.7
Receivables	29.9
Inventory	56.0
Other current assets	5.1
Total current assets	93.7
Property, plant, and equipment	9.8
Intangible assets	5.7
Goodwill	33.9
Other assets	0.2
Total assets	143.3
Accounts payable	(19.6)
Accrued liabilities and other current liabilities	(11.4)
Current maturities of long-term debt	(31.6)
Total current liabilities	(62.6)
Long-term debt	(2.0)
Other long-term liabilities	(0.7)
Total liabilities	(65.3)
Total	78.0
Less: Fair value of original equity interest	(20.6)
Total purchase price	\$ 57.4

The fair values of the assets acquired and liabilities assumed related to the Headwater acquisitions were final as of June 30, 2018. The Company utilized management estimates and consultation with an independent third-party valuation firm to assist in the valuation process.

The following unaudited proforma financial information for the year ended December 31, 2019, December 31, 2018 and December 31, 2017 gives effect to the Headwater acquisitions as if the acquisitions had occurred as of January 1, 2017. These unaudited proforma condensed consolidated financial statements are prepared for informational purposes only and are not necessarily indicative of actual results or financial position that would have been achieved had the acquisitions been consummated on the dates indicated and are not necessarily indicative of future operating results or financial position of the consolidated companies. The unaudited proforma condensed consolidated financial statements do not give effect to any cost savings or incremental costs that may result from the integration of the Headwater acquisitions.

FRANKLIN ELECTRIC CO., INC.
PROFORMA CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)	2019	2018	2017
Revenue:			
As reported	\$ 1,314.6	\$ 1,298.1	\$ 1,124.9
Proforma	1,314.6	1,298.1	1,184.8
Net income attributable to Franklin Electric Co., Inc.:			
As reported	\$ 95.5	\$ 105.9	\$ 78.2
Proforma	95.5	105.9	79.4
Basic earnings per share:			
As reported	\$ 2.04	\$ 2.25	\$ 1.67
Proforma	2.04	2.25	1.70
Diluted earnings per share:			
As reported	\$ 2.03	\$ 2.23	\$ 1.65
Proforma	2.03	2.23	1.68

Transaction costs for all acquisition related activity were expensed as incurred under the guidance of FASB ASC Topic 805, *Business Combinations*. Transaction costs included in selling, general, and administrative expense in the Company's consolidated statements of income were \$0.2 million, \$0.4 million, and \$0.6 million for the years ended 2019, 2018, and 2017, respectively.

4. FAIR VALUE MEASUREMENTS

As of December 31, 2019 and December 31, 2018, the assets measured at fair value on a recurring basis were as set forth in the table below:

(In millions)	December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 4.0	\$ 4.0	\$ —	\$ —

(In millions)	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 2.5	\$ 2.5	\$ —	\$ —

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

The Company has no assets measured on a recurring basis classified as Level 2 or Level 3 excluding the recurring fair value measurements in the Company's pension and other retirement plans as discussed in Note 7 - Employee Benefit Plans.

Total debt, including current maturities, have carrying amounts of \$115.0 million at December 31, 2019 and \$206.3 million at December 31, 2018. The estimated fair value of all debt was \$121 million and \$205 million at December 31, 2019 and December 31, 2018, respectively. In the absence of quoted prices in active markets, considerable judgment is required in developing estimates of fair value. Estimates are not necessarily indicative of the amounts the Company could realize in a current market transaction. In determining the fair value of its debt, the Company uses estimates based on rates currently available to the Company for debt with similar terms and remaining maturities. Accordingly, the fair value of debt is classified as Level 2 within the valuation hierarchy.

5. FINANCIAL INSTRUMENTS

The Company's deferred compensation stock program is subject to variable plan accounting and, accordingly, is adjusted for changes in the Company's stock price at the end of each reporting period. The Company has entered into share swap transaction agreements ("the swap") to mitigate the Company's exposure to these fluctuations in the Company's stock price. The swap has not been designated as a hedge for accounting purposes and is cancellable with 30 days written notice by either party. As of December 31, 2019, the swap has a notional value based on 255,000 shares. For the years ended December 31, 2019, December 31, 2018, and December 31, 2017, the swap resulted in a gain of \$3.4 million, a loss of \$1.0 million, and a gain of \$1.4 million, respectively. Gains and losses resulting from the swap were primarily offset by gains and losses on the fair value of the deferred compensation stock liability. All gains or losses and expenses related to the swap are recorded in the Company's consolidated statements of income within the "Selling, general, and administrative expenses" line.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

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

(In millions)	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizing intangibles:				
Patents	\$ 7.4	\$ (7.0)	\$ 7.5	\$ (6.9)
Technology	7.5	(6.8)	7.5	(6.4)
Customer relationships	155.4	(71.4)	151.0	(63.8)
Other	3.8	(2.8)	2.8	(2.5)
Total	\$ 174.1	\$ (88.0)	\$ 168.8	\$ (79.6)
Unamortizing intangibles:				
Trade names	45.0	—	45.9	—
Total intangibles	\$ 219.1	\$ (88.0)	\$ 214.7	\$ (79.6)

Amortization expense related to intangible assets for fiscal years 2019, 2018, and 2017, was \$9.4 million, \$8.9 million, and \$8.6 million, respectively.

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

(In millions)	2020	2021	2022	2023	2024
	\$ 9.4	\$ 9.0	\$ 8.8	\$ 8.7	\$ 8.5

The change in the carrying amount of goodwill by reportable segment for 2019 and 2018, is as follows:

(In millions)	2019		2018	
	Water Systems	Fueling Systems	Distribution	Consolidated
Balance as of December 31, 2017	\$ 139.3	\$ 63.6	\$ 33.9	\$ 236.8
Acquisitions	10.1	4.1	1.8	16.0
Foreign currency translation	(3.9)	(0.2)	—	(4.1)
Balance as of December 31, 2018	\$ 145.5	\$ 67.5	\$ 35.7	\$ 248.7
Acquisitions	6.4	—	1.8	8.2
Foreign currency translation	(0.9)	0.1	—	(0.8)
Balance as of December 31, 2019	\$ 151.0	\$ 67.6	\$ 37.5	\$ 256.1

7. EMPLOYEE BENEFIT PLANS

Defined Benefit Plans - As of December 31, 2019, the Company maintained two domestic pension plans and three German pension plans. The Company used a December 31, 2019 measurement date for these plans. One of the Company's domestic pension plans covers one active management employee, while the other domestic plan covers all eligible employees (plan was frozen as of December 31, 2011). The two domestic and three German plans collectively comprise the 'Pension Benefits' disclosure caption.

Other Benefits - The Company's other post-retirement benefit plan provides health and life insurance to domestic employees hired prior to 1992. The Company effectively capped its cost for those benefits through plan amendments made in 1992, freezing Company contributions for insurance benefits at 1991 levels for current and future beneficiaries with actuarially reduced benefits for employees who retire before age 65. The disclosures surrounding this plan are reflected in the "Other Benefits" caption.

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

(In millions)	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Accumulated benefit obligation, end of year	\$ 176.5	\$ 164.9	\$ 8.3	\$ 9.1
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 168.9	\$ 185.1	\$ 9.1	\$ 10.3
Service cost	0.7	0.6	—	—
Interest cost	5.8	5.4	0.3	0.3
Actuarial (gain)/loss	17.0	(9.5)	(0.2)	(0.5)
Settlements paid	(0.7)	(0.3)	—	—
Benefits paid	(10.3)	(11.4)	(0.9)	(1.0)
Foreign currency exchange	(0.5)	(1.0)	—	—
Benefit obligation, end of year	\$ 180.9	\$ 168.9	\$ 8.3	\$ 9.1
Change in plan assets:				
Fair value of assets, beginning of year	\$ 140.1	\$ 153.3	\$ —	\$ —
Actual return on plan assets	20.0	(3.8)	—	—
Company contributions	2.0	2.5	0.9	1.0
Settlements paid	(0.5)	(0.3)	—	—
Benefits paid	(10.3)	(11.4)	(0.9)	(1.0)
Foreign currency exchange	(0.1)	(0.2)	—	—
Plan assets, end of year	\$ 151.2	\$ 140.1	\$ —	\$ —
Funded status	\$ (29.7)	\$ (28.8)	\$ (8.3)	\$ (9.1)
Amounts recognized in balance sheet:				
Current liabilities	\$ (0.5)	\$ (0.4)	\$ (0.8)	\$ (1.0)
Noncurrent liabilities	(29.2)	(28.4)	(7.5)	(8.1)
Net liability, end of year	\$ (29.7)	\$ (28.8)	\$ (8.3)	\$ (9.1)
Amount recognized in accumulated other comprehensive income/(loss):				
Prior service cost	\$ —	\$ —	\$ —	\$ —
Net actuarial loss	49.0	47.5	0.4	0.6
Settlement	0.6	0.4	—	—
Total recognized in accumulated other comprehensive income/(loss)	\$ 49.6	\$ 47.9	\$ 0.4	\$ 0.6

The following table sets forth other changes in plan assets and benefit obligation recognized in other comprehensive income for 2019 and 2018:

(In millions)	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Net actuarial (gain)/loss	\$ 5.2	\$ 2.8	\$ (0.2)	\$ (0.5)
Amortization of:				
Net actuarial gain	(2.2)	(2.5)	(0.1)	(0.2)
Prior service credit	—	—	—	(0.1)
Settlement recognition	(0.6)	(0.5)	—	—
Deferred tax asset	(0.6)	0.1	0.1	0.2
Foreign currency exchange	(0.1)	(0.1)	—	—
Total recognized in other comprehensive income	\$ 1.7	\$ (0.2)	\$ (0.2)	\$ (0.6)

Weighted-average assumptions used to determine domestic benefit obligations:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Discount rate	3.12 %	4.28 %	2.98 %	4.18 %
Rate of increase in future compensation	— %	— %	3.00 - 8.00% (Graded)	3.00 - 8.00% (Graded)

*No rate of increases in future compensation were used in the assumptions for 2019 and 2018, as the cash balance component of the domestic Pension Plan was frozen and the other domestic Pension Plan components do not base benefits on compensation.

Assumptions used to determine domestic periodic benefit cost:

	Pension Benefits			Other Benefits		
	2019	2018	2017	2019	2018	2017
Discount rate	4.31 %	3.64 %	4.13 %	4.18 %	3.51 %	3.91 %
Rate of increase in future compensation	— %*	— %*	— %*	3.00 - 8.00% (Graded)	3.00 - 8.00% (Graded)	3.00 - 8.00% (Graded)
Expected long-term rate of return on plan assets	5.75 %	5.90 %	6.25 %	— %	— %	— %

*No rate of increases in future compensation were used in the assumptions for 2019, 2018, and 2017, as the cash balance component of the domestic Pension Plan was frozen and the other domestic Pension Plan components do not base benefits on compensation.

For the fiscal year ended December 31, 2019, the Company used the RP-2014 aggregate table adjusted to back out estimated mortality improvements from 2006 to the measurement date using Scale MP-2014, and then projected forward using Scale MP-2018 released by the Society of Actuaries during 2018 to estimate future mortality rates based upon current data. For the fiscal year ended December 31, 2018, the Company used the RP-2014 aggregate table adjusted to back out estimated mortality improvements from 2006 to the measurement date using Scale MP-2014, and then projected forward using Scale MP-2017 released by the Society of Actuaries during 2017 to estimate future mortality rates.

The following table sets forth the aggregated net periodic benefit cost for all defined benefit plans for 2019, 2018, and 2017:

(In millions)	Pension Benefits			Other Benefits		
	2019	2018	2017	2019	2018	2017
Service cost	\$ 0.7	\$ 0.6	\$ 0.7	\$ —	\$ —	\$ —
Interest cost	5.8	5.4	5.6	0.3	0.3	0.3
Expected return on assets	(8.1)	(8.5)	(9.0)	—	—	—
Amortization of:						
Transition obligation	—	—	—	—	—	—
Settlement cost	—	—	—	—	—	—
Prior service cost	—	—	—	—	0.1	0.3
Actuarial loss	2.6	2.9	2.8	0.1	0.2	0.1
Settlement cost	—	—	—	—	—	—
Net periodic benefit cost	<u>\$ 1.0</u>	<u>\$ 0.4</u>	<u>\$ 0.1</u>	<u>\$ 0.4</u>	<u>\$ 0.6</u>	<u>\$ 0.7</u>

The estimated net actuarial (gain)/loss and prior service cost/(credit) that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2020 are \$3.5 million and \$0.0 million, respectively, for the pension plans and \$0.0 million and \$0.0 million, respectively, for all other benefits.

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

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

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

Risk management and continuous monitoring requirements are met through monthly investment portfolio reports, quarterly Employee Benefits Committee meetings, annual valuations, asset/liability studies, and the annual assumption process focusing primarily on the return on asset assumption and the discount rate assumption. As of December 31, 2019 and December 31, 2018, funds were invested in equity, fixed income, and other investments as follows:

Asset Category	Target Percentage at Year-End 2019	Plan Asset Allocation at Year-End	
		2019	2018
Equity securities	19 %	19 %	21 %
Fixed income securities	77 %	77 %	75 %
Other	4 %	4 %	4 %
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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

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

Asset class assumptions are set using a combination of empirical and forward-looking analysis for long-term rate of return on plan assets. A variety of models are applied for filtering historical data and isolating the fundamental characteristics of asset classes. These models provide empirical return estimates for each asset class, which are then reviewed and combined with a qualitative assessment of long-term relationships between asset classes before a return estimate is finalized. This provides an additional means for correcting for the effect of unrealistic or unsustainable short-term valuations or trends, opting instead for return levels and behavior that are more likely to prevail over long periods. With that, the Company has assumed an expected long-term rate of return on plan assets of 4.90 percent for the 2020 net periodic benefit cost, down from 5.75 percent in the prior year. This decrease in the assumed long-term rate of return is primarily due to a higher percentage of assets in fixed income securities.

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

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

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

The fair values of the Company's pension plan assets for 2019 and 2018 by asset category are as follows:

(In millions)	2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity				
International equity mutual funds	\$ 29.1	\$ 29.1	\$ —	\$ —
Fixed income				
U.S. treasury and government agency securities	17.5	—	17.5	—
Fixed income mutual funds	99.3	99.3	—	—
Other				
Insurance contracts	4.5	—	4.5	—
Cash and equivalents	0.8	0.8	—	—
Total	\$ 151.2	\$ 129.2	\$ 22.0	\$ —

(In millions)	2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity				
International equity mutual funds	\$ 28.9	\$ 28.9	\$ —	\$ —
Fixed income				
U.S. treasury and government agency securities	20.4	—	20.4	—
Fixed income mutual funds	85.1	85.1	—	—
Other				
Insurance contracts	4.9	—	4.9	—
Cash and equivalents	0.8	0.8	—	—
Total	\$ 140.1	\$ 114.8	\$ 25.3	\$ —

The Company estimates total contributions to the plans of about \$1 million in 2020.

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

(In millions)	Pension Benefits	Other Benefits
2020	\$ 11.3	\$ 0.8
2021	11.0	0.8
2022	10.8	0.7
2023	10.6	0.7
2024	15.7	0.7
Years 2025 through 2029	51.8	2.7

Defined Contribution Plans - The Company maintained two defined contribution plans during 2019, 2018, and 2017. The Company's cash contributions are allocated to participant's accounts based on investment elections.

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

(In millions)	2019	2018	2017
Company contributions to the plans	\$ 7.4	\$ 6.8	\$ 6.7

8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of:

(In millions)	2019	2018
Salaries, wages, and commissions	\$ 28.6	\$ 30.7
Product warranty costs	9.1	9.0
Insurance	2.6	2.5
Employee benefits	9.9	9.5
Other	18.2	13.1
	\$ 68.4	\$ 64.8

9. INCOME TAXES

Income before income taxes consisted of the following:

(In millions)	2019	2018	2017
Domestic	\$ 55.5	\$ 54.7	\$ 47.1
Foreign	61.3	65.7	57.5
	<u>\$ 116.8</u>	<u>\$ 120.4</u>	<u>\$ 104.6</u>

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

(In millions)	2019	2018	2017
Current:			
Federal	\$ 6.9	\$ 4.6	\$ 29.7
Foreign	15.1	14.3	10.2
State	1.4	1.2	1.1
Total current	<u>23.4</u>	<u>20.1</u>	<u>41.0</u>
Deferred:			
Federal	(0.6)	3.6	(10.7)
Foreign	(2.5)	(2.6)	(4.5)
State	0.5	(6.2)	0.2
Total deferred	<u>\$ (2.6)</u>	<u>\$ (5.2)</u>	<u>\$ (15.0)</u>
	<u>\$ 20.8</u>	<u>\$ 14.9</u>	<u>\$ 26.0</u>

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

	2019	2018	2017
U.S. Federal statutory rate	21.0 %	21.0 %	35.0 %
State income taxes, net of federal benefit	1.1	1.1	1.0
Foreign operations	(1.0)	(3.5)	(10.2)
R&D tax credits	(0.8)	(0.7)	(0.9)
Uncertain tax position adjustments	(0.6)	(0.5)	(0.5)
Deferred tax adjustments - restructuring and rate adjustments	—	—	(1.2)
Valuation allowance on state and foreign deferred tax	0.4	(2.4)	(1.2)
Purchase of noncontrolling interest	—	—	(2.3)
Share-based compensation	(0.8)	(1.3)	(1.9)
Realized foreign currency loss	(0.4)	(0.1)	(1.5)
Other items	0.9	0.9	(1.3)
Impact of the Tax Act			
Transition tax	—	0.5	18.1
Deferred tax effects	—	(0.3)	(8.3)
Foreign Derived Intangible Income	(2.0)	(2.3)	—
Effective tax rate	<u>17.8 %</u>	<u>12.4 %</u>	<u>24.8 %</u>

The effective tax rate continues to be lower than the statutory rate of 21 percent primarily due to foreign earnings taxed at rates below the U.S. statutory rate, as well as recognition of the U.S. deduction for Foreign Derived Intangible Income, and certain incentives and discrete events.

The Company recorded discrete excess tax benefits from share-based compensation of \$1.3 million in the twelve-month period ended December 31, 2019 pursuant to ASU 2016-09. ASU 2016-09 can add variability to the Company's provision for income taxes, mainly due to the timing of stock option exercises, vesting of restricted stock, and the stock price.

During the twelve-month period ended December 31, 2018, the Company recorded a net discrete benefit related to the release of valuation allowances on deferred taxes of \$4.2 million in domestic and foreign jurisdictions.

The U.S. Tax Cuts and Jobs Act (Tax Act) was enacted on December 22, 2017 and introduced significant changes to U.S. income tax law. Effective in 2018, the Tax Act reduced the U.S. statutory tax rate from 35 percent to 21 percent, modified existing provisions, and created new provisions including a U.S. based foreign export incentive referred to as Foreign Derived Intangible Income.

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

(In millions)	2019	2018
Deferred tax assets:		
Accrued expenses and reserves	\$ 10.1	\$ 9.4
Compensation and employee benefits	17.7	16.2
Net operating losses, tax credit carryforwards, and other	18.8	18.1
Lease liability	7.0	—
Valuation allowance on state and foreign deferred tax	(6.4)	(6.8)
Total deferred tax assets	47.2	36.9
Deferred tax liabilities:		
Accelerated depreciation on fixed assets	11.9	12.2
Amortization of intangibles	46.5	45.0
Right-of-Use asset, net	7.0	—
Other items	0.2	—
Total deferred tax liabilities	65.6	57.2
Net deferred tax liabilities	\$ (18.4)	\$ (20.3)

The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss for certain state and foreign income tax purposes incurred over the 3-year period ended December 31, 2019. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of December 31, 2019, a valuation allowance of \$6.4 million has been recorded to recognize only the portion of the deferred tax assets that are more likely than not to be realized. The Company has foreign income tax net operating loss ("NOL") and credit carryforwards of \$12.0 million and state income tax NOL and credit carryforwards of \$6.8 million, which will expire on various dates as follows:

(In millions)		
2020-2024	\$	2.6
2025-2029		4.2
2030-2034		1.9
2035-2039		0.6
Unlimited		9.5
	\$	18.8

The Company believes that it is more likely than not that the benefit from certain foreign NOL carryforwards as well as certain state credit carryforwards will not be realized. In recognition of this risk, the Company has provided a valuation allowance of \$4.6 million on the deferred tax assets related to these foreign NOL carryforwards and a valuation allowance of \$1.8 million on the deferred tax assets related to these state credit carryforwards.

As of December 31, 2019, the Company has accumulated undistributed earnings generated by our foreign subsidiaries of approximately \$438.1 million. Any taxes due with respect to such earnings or the excess of the amount for financial reporting over the tax basis of our foreign investments would generally be limited to foreign and state taxes. The Company intends, however, to indefinitely reinvest these earnings and expects future U.S. cash generation to be sufficient to meet future U.S. cash needs. The Company, therefore, has not recorded a deferred tax liability of \$4.8 million.

As of the beginning of fiscal year 2019, the Company had gross unrecognized tax benefits of \$1.1 million, excluding accrued interest and penalties. The unrecognized tax benefits increased due to uncertain tax positions identified in the current year based on evaluations made during 2019. The Company had gross unrecognized tax benefits, excluding accrued interest and penalties, of \$0.4 million as of December 31, 2019.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for 2019, 2018, and 2017 (excluding interest and penalties) is as follows:

(In millions)	2019	2018	2017
Beginning balance	\$ 1.1	\$ 1.3	\$ 1.3
Additions for tax positions of the current year	—	—	0.4
Additions for tax positions of prior years	—	0.3	0.2
Reductions for tax positions of prior years	(0.4)	—	—
Statute expirations	(0.3)	(0.5)	(0.6)
Settlements	—	—	—
Ending balance	<u>\$ 0.4</u>	<u>\$ 1.1</u>	<u>\$ 1.3</u>

If recognized, each annual effective tax rate would be affected by the net unrecognized tax benefits of \$0.4 million, \$1.0 million, and \$1.3 million as of year-end 2019, 2018, and 2017, respectively.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. In 2019, interest and penalties decreased \$0.2 million, for prior year tax positions. The Company has accrued interest and penalties as of December 31, 2019, December 31, 2018, and December 31, 2017 of approximately \$0.1 million, \$0.3 million, and \$0.6 million, respectively.

The Company is subject to taxation in the United States and various state and foreign jurisdictions. With few exceptions, as of December 31, 2019, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2016 and is no longer subject to foreign or state income tax examinations by tax authorities for years before 2014.

It is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months as a result of an audit or due to the expiration of a statute of limitation. Based on the current audits in process and pending statute expirations, the payment of taxes as a result could be up to \$0.5 million.

10. DEBT

Debt consisted of the following:

(In millions)	2019	2018
New York Life Agreement	\$ 75.0	\$ 75.0
Credit Agreement	19.0	76.3
Prudential Agreement	—	30.0
Tax increment financing debt	18.7	19.8
Financing leases	0.1	0.1
Foreign subsidiary debt	2.3	5.4
Less: unamortized debt issuance costs	(0.1)	(0.2)
	<u>115.0</u>	<u>206.4</u>
Less current maturities	(21.9)	(112.0)
Long-term debt	<u>\$ 93.1</u>	<u>\$ 94.4</u>

Debt outstanding at December 31, 2019, excluding unamortized debt issuance costs, matures as follows:

(In millions)	Total	2020	2021	2022	2023	2024	Thereafter
Debt	\$ 115.0	\$ 21.8	\$ 1.2	\$ 1.3	\$ 1.3	\$ 1.4	\$ 88.0
Financing leases	0.1	0.1	—	—	—	—	—
	<u>\$ 115.1</u>	<u>\$ 21.9</u>	<u>\$ 1.2</u>	<u>\$ 1.3</u>	<u>\$ 1.3</u>	<u>\$ 1.4</u>	<u>\$ 88.0</u>

New York Life Agreement

On May 27, 2015, the Company entered into an uncommitted and unsecured private shelf agreement with NYL Investors LLC, an affiliate of New York Life, and each of the undersigned holders of Notes (the “New York Life Agreement”) for \$150.0 million maximum aggregate principal borrowing capacity. On October 28, 2016, the Company entered into the First Amendment to the Note Purchase and Private Shelf Agreement. The Amendment was intended to make the covenants within the New York Life Agreement consistent with the covenants that were modified in the Third Amended and Restated Credit Agreement (the “Credit Agreement”). On September 26, 2018 the Company entered into the Second Amendment to the Note Purchase and Private Shelf Agreement which increased the aggregate borrowing capacity to \$200.0 million and authorized the issuance of \$75.0 million of fixed rate senior noted due September 26, 2025. These senior notes bear an interest rate of 4.04 percent with interest-only payments due semi-annually. The proceeds from the issuance of the notes were used to pay off existing variable rate indebtedness with New York Life. As of December 31, 2019, there was \$125.0 million remaining borrowing capacity under the New York Life Agreement.

Project Bonds

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

Prudential Agreement

On April 9, 2007, the Company entered into the Amended and Restated Note Purchase and Private Shelf Agreement (the “Prudential Agreement”) in the amount of \$175.0 million. Under the Prudential Agreement, the Company issued notes in an aggregate principal amount of \$110.0 million on April 30, 2007 (the “B-1 Notes”) and \$40.0 million on September 7, 2007 (the “B-2 Notes”). The B-1 Notes and B-2 Notes bear a coupon of 5.79 percent and had at issuance an average life of 10 years with a final maturity in 2019. On July 22, 2010, the Company entered into Amendment No. 3 to the Prudential Agreement to increase its borrowing capacity by \$25.0 million. On December 14, 2011, the Company entered into Amendment No. 4 to the Second Amended and Restated Note Purchase and Private Shelf Agreement to redefine the debt to EBITDA ratio covenant in order to be equivalent to that under the Agreement. On December 31, 2012, the Company and Prudential Insurance Company of America entered into an amendment to the Second Amended and Restated Note Purchase and Private Shelf Agreement to extend the effective date to December 31, 2015. On May 5, 2015, the Company entered into Amendment No. 6 to the Second Amended and Restated Note Purchase and Private Shelf Agreement. This amendment provided for debt repayment guarantees from certain Company subsidiaries and waived certain non-financial covenants related to subsidiary guarantees. On May 28, 2015, the Company entered into a Third Amended and Restated Note Purchase and Private Shelf Agreement with Prudential to increase the total borrowing capacity from \$200.0 million to \$250.0 million. On October 28, 2016, the Company entered into Amendment No. 1 to the Third Amended and Restated Note Purchase and Private Shelf Agreement. This amendment was intended to make the covenants within the Prudential Agreement consistent with the covenants that were modified in the Credit Agreement (below). As of December 31, 2019, the Company has \$150.0 million borrowing capacity available under the Prudential Agreement.

Credit Agreement

On October 28, 2016, the Company entered into the Third Amended and Restated Credit Agreement (the “Credit Agreement”). The Credit Agreement extended the maturity date of the Company’s previous credit agreement to October 28, 2021 and increased the commitment amount from \$150.0 million to \$300.0 million. The Credit Agreement provides that the Borrowers may request an increase in the aggregate commitments by up to \$150.0 million (not to exceed a total commitment of \$450.0 million) subject to the conditions contained therein. All of the Company’s present and future material domestic subsidiaries unconditionally guaranty all of the Borrowers’ obligations under and in connection with the Credit Agreement. Additionally, the Company unconditionally guaranties all of the obligations of Franklin Electric B.V. under the Credit Agreement. Under the Credit Agreement, the Borrowers are required to pay certain fees, including a facility fee of 0.100% to 0.275% (depending on the Company’s leverage ratio) of the aggregate commitment, payable quarterly in arrears. Borrowings may be made either at (i) a Eurocurrency rate based on LIBOR plus an applicable margin of 0.75% to 1.60% (depending on the Company’s leverage ratio) or (ii) an alternative base rate as defined in the Credit Agreement.

As of December 31, 2019, the Company had \$19.0 million outstanding borrowings, \$4.5 million in letters of credit outstanding, and \$276.5 million of available capacity under the Credit Agreement. As of December 31, 2018, the Company had \$76.3 million outstanding borrowings, \$5.5 million in letters of credit outstanding, and \$218.2 million of available capacity under the Credit Agreement.

Covenants

The Company’s credit agreements contain customary financial covenants. The Company’s most significant agreements and restrictive covenants are in the New York Life Agreement, the Project Bonds, the Prudential Agreement, and the Credit Agreement; each containing both affirmative and negative covenants. The affirmative covenants relate to financial statements, notices of material events, conduct of business, inspection of property, maintenance of insurance, compliance with laws and most favored lender obligations. The negative covenants include limitations on loans, advances and investments, and the granting of liens by the Company or its subsidiaries, as well as prohibitions on certain consolidations, mergers, sales and transfers of assets. The covenants also include financial requirements including a maximum leverage ratio of 3.50 to 1.00 and a minimum interest coverage ratio of 3.00 to 1.00. Cross default is applicable with the Credit Agreement, the Prudential Agreement, the Project Bonds, and the New York Life Agreement, but only if the Company is defaulting on an obligation exceeding \$10.0 million. The Company was in compliance with all financial covenants as of December 31, 2019.

11. SHAREHOLDERS’ EQUITY

Authorized Shares

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

Share Repurchases

During 2019, 2018, and 2017, pursuant to a stock repurchase program authorized by the Company’s Board of Directors, the Company repurchased and retired the following amounts and number of shares:

(In millions, except share amounts)	2019	2018	2017
Repurchases	\$ 6.6	\$ 31.4	\$ —
Shares	150,778	749,614	—

The Company retired shares in the amount of 82,601, 62,908, and 87,679 in 2019, 2018, and 2017, respectively, that were received from employees as payment for the exercise price of their stock options and taxes owed upon the exercise of their stock options and release of their restricted awards. The company also retired shares in the amount of 5,345, 8,775, and 14,033, in 2019, 2018, and 2017, respectively that had been previously granted as stock awards to employees but were forfeited upon not meeting the required restriction criteria or termination.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

Changes in accumulated other comprehensive income/(loss), net of tax, by component are summarized below:

(In millions)	Foreign Currency Translation Adjustments	Pension and Post- Retirement Plan Benefit Adjustments ⁽²⁾	Total
Balance, December 31, 2016	\$ (118.4)	\$ (51.5)	\$ (169.9)
Other comprehensive income/(loss) before reclassifications	18.7	—	18.7
Amounts reclassified from accumulated other comprehensive income/(loss) ⁽¹⁾	—	2.2	2.2
Net other comprehensive income/(loss)	18.7	2.2	20.9
Balance, December 31, 2017	\$ (99.7)	\$ (49.3)	\$ (149.0)
Other comprehensive income/(loss) before reclassifications	(34.8)	—	(34.8)
Amounts reclassified from accumulated other comprehensive income/(loss) ⁽¹⁾	—	0.8	0.8
Net other comprehensive income/(loss)	(34.8)	0.8	(34.0)
Balance, December 31, 2018	\$ (134.5)	\$ (48.5)	\$ (183.0)
Other comprehensive income/(loss) before reclassifications	(5.7)	—	(5.7)
Amounts reclassified from accumulated other comprehensive income/(loss) ⁽¹⁾	—	(1.5)	(1.5)
Net other comprehensive income/(loss)	(5.7)	(1.5)	(7.2)
Balance, December 31, 2019	\$ (140.2)	\$ (50.0)	\$ (190.2)

(1) This accumulated other comprehensive income/(loss) component is included in the computation of net periodic pension cost (refer to Note 7 - Employee Benefit Plans for additional details) and is included in the “Selling, general, and administrative expenses” line of the Company’s consolidated statements of income.

(2) Net of tax (benefit)/expense of \$(0.6) million, \$0.3 million and \$0.5 million for 2019, 2018, and 2017, respectively.

Amounts related to noncontrolling interests were not material.

13. EARNINGS PER SHARE

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

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

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

(In millions, except per share amounts)	2019	2018	2017
Numerator:			
Net income attributable to Franklin Electric Co., Inc.	\$ 95.5	\$ 105.9	\$ 78.2
Less: Earnings allocated to participating securities	0.7	0.8	0.6
Net income available to common shareholders	<u>\$ 94.8</u>	<u>\$ 105.1</u>	<u>\$ 77.6</u>
Denominator:			
Basic weighted average common shares outstanding	46.4	46.6	46.5
Effect of dilutive securities:			
Non-participating employee stock options and performance awards	0.4	0.4	0.5
Diluted weighted average common shares outstanding	<u>46.8</u>	<u>47.0</u>	<u>47.0</u>
Basic earnings per share	\$ 2.04	\$ 2.25	\$ 1.67
Diluted earnings per share	\$ 2.03	\$ 2.23	\$ 1.65

There were 0.2 million, 0.1 million, and 0.3 million stock options outstanding as of 2019, 2018, and 2017, respectively, that were excluded from the computation of diluted earnings per share, as their inclusion would be anti-dilutive.

14. SHARE-BASED COMPENSATION

The Franklin Electric Co., Inc. 2017 Stock Plan (the “2017 Stock Plan”) is a stock-based compensation plan that provides for discretionary grants of stock options, stock awards, stock unit awards, and stock appreciation rights (“SARs”) to key employees and non-employee directors. The number of shares that may be issued under the Plan is 1,400,000. Stock options and SARs reduce the number of available shares by one share for each share subject to the option or SAR, and stock awards and stock unit awards settled in shares reduce the number of available shares by 1.5 shares for every one share delivered.

The Company also maintains the Franklin Electric Co., Inc. 2012 Stock Plan (the “2012 Stock Plan”), which is a share-based compensation plan that provides for discretionary grants of stock options, stock awards and stock unit awards to key employees and non-employee directors.

The 2012 Stock Plan authorized 2,400,000 shares for issuance as follows:

2012 Stock Plan	Authorized Shares
Stock Options	1,680,000
Stock/Stock Unit Awards	720,000

The Company also maintains the Amended and Restated Franklin Electric Co., Inc. Stock Plan (the “2009 Stock Plan”) which, as amended in 2009, provided for discretionary grants of stock options and stock awards. The 2009 Stock Plan authorized 4,400,000 shares for issuance as follows:

2009 Stock Plan	Authorized Shares
Stock Options	3,200,000
Stock Awards	1,200,000

All options in the 2009 Stock Plan have been awarded.

The Company currently issues new shares from its common stock balance to satisfy option exercises and the settlement of stock awards and stock unit awards made under the outstanding stock plans.

The total share-based compensation expense recognized in 2019, 2018, and 2017 was \$8.9 million, \$8.4 million, and \$7.1 million, respectively.

Stock Options:

Under the above plans, the exercise price of each option equals the market price of the Company's common stock on the date of grant, and the options expire 10 years after the date of the grant. Options granted to employees in 2019 vest at 33 percent a year and become fully vested and fully exercisable after 3 years. Options granted prior to 2019 vest at 25 percent a year and become fully vested and fully exercisable after 4 years. Vesting is accelerated upon death or disability. Subject to the terms of the plans, in general, the aggregate option exercise price and any applicable tax withholding may be satisfied in cash or its equivalent, by the plan participant's delivery of shares of the Company's common stock having a fair market value at the time of exercise equal to the aggregate option exercise price and/or the applicable tax withholding or by having shares otherwise subject to the award withheld by the Company or via cashless exercise through a broker-dealer.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model with a single approach and amortized using a straight-line attribution method over the option's vesting period. Options granted to retirement eligible employees are immediately expensed. The Company uses historical data to estimate the expected volatility of its stock, the weighted average expected life, the period of time options granted are expected to be outstanding, and its dividend yield. The risk-free rates for periods within the contractual life of the option are based on the U.S. Treasury yield curve in effect at the time of the grant.

The table below provides the weighted average grant-date fair values and key assumptions used for the Black-Scholes model to determine the fair value of options granted during 2019, 2018, and 2017:

	2019	2018	2017
Risk-free interest rate	2.53 %	2.69 %	1.89 %
Dividend yield	1.05 %	1.05 %	0.94 %
Volatility factor	29.38 %	28.71 %	31.19 %
Expected term	5.5 years	5.6 years	5.5 years
Weighted average grant-date fair value of options	\$ 15.61	\$ 11.40	\$ 12.30

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

(Shares in thousands)

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (000's)
Outstanding at beginning of 2019	1,229	\$ 33.25		
Granted	190	55.16		
Exercised	(152)	20.96		
Forfeited	(5)	45.04		
Outstanding at end of 2019	1,262	\$ 37.99	5.88 years	\$ 24,397
Expected to vest after applying forfeiture rate	1,258	\$ 37.96	5.88 years	\$ 24,356
Vested and exercisable at end of period	772	\$ 33.41	4.44 years	\$ 18,464

(In millions)

	2019	2018	2017
Intrinsic value of options exercised	\$ 4.6	\$ 10.2	\$ 6.2
Cash received from the exercise of options	3.2	9.0	4.5
Fair value of shares vested	2.6	2.2	2.1
Tax benefit of options exercised	1.1	2.6	2.1

As of December 31, 2019, there was \$1.2 million of total unrecognized compensation cost related to non-vested stock options granted under the 2012 Stock Plan. That cost is expected to be recognized over a weighted-average period of 1.44 years.

Stock/Stock Unit Awards:

Under the 2009 Stock Plan, non-employee directors and employees may be granted stock awards. Under the 2012 Stock Plan and the 2017 Stock Plan, non-employee directors and employees may be granted stock awards and stock units.

Stock awards to non-employee directors are generally fully vested when made. Stock/stock unit awards to employees cliff vest over 3 or 4 years (subject to accelerated vesting of a pro rata portion in the case of retirement, death or disability) and may be contingent on the attainment of certain performance goals. Dividends are paid to the recipient prior to vesting, except that dividends on performance-based stock awards under the 2012 Stock Plan and the 2017 Stock Plan will be paid only to the extent the performance goals are met.

Stock/stock unit awards granted to retirement eligible employees are expensed over the vesting period. Compensation cost for the performance stock/stock unit awards is accrued based on the probable outcome of specified performance conditions.

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

(Shares in thousands)

Restricted Stock/Stock Unit Awards	Shares	Weighted-Average Grant- Date Fair Value
Non-vested at beginning of 2019	498	\$ 37.27
Awarded	139	51.47
Vested	(153)	34.33
Forfeited	(21)	40.32
Non-vested at end of 2019	463	\$ 42.36

The weighted-average grant date fair value of restricted stock/stock unit awards granted in 2019, 2018, and 2017, is \$51.47, \$40.48, and \$42.23, respectively.

As of December 31, 2019, there was \$7.6 million of total unrecognized compensation cost related to non-vested stock/stock unit awards granted under the 2012 Stock Plan and the 2009 Stock Plan. That cost is expected to be recognized over a weighted-average period of 1.40 years.

15. SEGMENT AND GEOGRAPHIC INFORMATION

The Company's business consists of the Water Systems, Distribution, and Fueling Systems reportable segments, based on the principal end market served. Within the Water Systems segment, North America Water Systems and International Water Systems have been identified as operating segments. For reportable segment purposes, the Company aggregates North America Water Systems and International Water Systems into the Water Systems segment, as they meet the aggregation criteria in FASB ASC 280. The Company includes unallocated corporate expenses and inter-company eliminations in an "Intersegment Eliminations/Other" segment that together with the Water Systems, Distribution, and Fueling Systems segments, represent the Company.

The Water Systems segment designs, manufactures and sells motors, pumps, electronic controls and related parts and equipment primarily for use in submersible water and other fluid system applications. The Fueling Systems segment designs, manufactures and sells pumps, electronic controls and related parts and equipment primarily for use in submersible fueling system applications. The Fueling Systems segment integrates and sells motors and electronic controls produced by the Water Systems segment. The Company reports these product transfers between Water and Fueling as inventory transfers since a significant number of the Company's manufacturing facilities are shared across segments for scale and efficiency purposes. The Distribution segment sells to and provides presale support and specifications to the installing contractors. The Distribution segment sells products produced by the Water Systems segment. The Company reports intersegment transfers from Water Systems to Distribution as intersegment revenue at market prices to properly reflect the commercial arrangement of vendor to customer that exists between the Water System and Distribution segments.

Segment operating income is a key financial performance measure. Operating income by segment is based on net sales less identifiable operating expenses and allocations and includes profits recorded on sales to other segments of the Company. During the first quarter of 2019, the Company changed management reporting for transfers of certain products between the Water and Fueling segments. This reclassification resulted in \$3.6 million and \$0.9 million of sales for the years ended December 31, 2018 and December 31, 2017, respectively, being reclassified between the Fueling Systems segment and Water

Systems segment. Additionally, \$0.2 million of operating income for the year ended December 31, 2018 was reclassified between the Fueling Systems segment and Water Systems segment. There was no change to operating income for the year ended December 31, 2017. The changes to management reporting had an impact on how the Company reviews and summarizes sales of geographical components within a segment. The Company has updated the sales of geographic components of the Water Systems segment from the prior year to align with current management reporting. The changes resulted in sales reclassifications from Latin America, Asia Pacific, and Europe, Middle East, and Africa (“EMEA”) to the U.S. and Canada for the years ended December 31, 2018 and December 31, 2017. This resulted in \$14.3 million and \$12.5 million of sales to be reclassified to the U.S. and Canada for the years ended December 31, 2018 and December 31, 2017, respectively. There is no impact on the Company’s previously reported consolidated financial position, results of operations, or cash flows.

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

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

Net Sales			
(In millions)	2019	2018	2017
Water Systems			
External sales			
United States & Canada	\$ 367.6	\$ 372.0	\$ 321.9
Latin America	124.2	120.2	129.4
Europe, Middle East & Africa	155.6	170.9	165.8
Asia Pacific	81.8	80.8	86.3
Intersegment sales			
United States & Canada	52.3	56.2	40.8
Total sales	781.5	800.1	744.2
Distribution			
External sales			
United States & Canada	291.8	269.6	176.7
Intersegment sales			
Total sales	291.8	269.6	176.7
Fueling Systems			
External sales			
United States & Canada	173.5	156.9	144.5
All other	120.1	127.7	100.3
Intersegment sales			
Total Sales	293.6	284.6	244.8
Intersegment Eliminations/Other	(52.3)	(56.2)	(40.8)
Consolidated	<u>\$ 1,314.6</u>	<u>\$ 1,298.1</u>	<u>\$ 1,124.9</u>
Operating income (loss)			
	2019	2018	2017
Water Systems	\$ 103.0	\$ 112.7	\$ 102.0
Distribution	3.6	3.4	3.7
Fueling Systems	75.8	70.6	60.0
Intersegment Eliminations/Other	(55.3)	(54.7)	(58.5)
Consolidated	<u>\$ 127.1</u>	<u>\$ 132.0</u>	<u>\$ 107.2</u>

	Total assets			Depreciation		
	2019	2018	2017	2019	2018	2017
Water Systems	\$ 658.3	\$ 679.7	\$ 695.4	\$ 19.0	\$ 20.4	\$ 20.9
Distribution	180.2	165.1	153.1	2.8	2.2	1.3
Fueling Systems	283.8	275.7	265.7	2.1	2.2	2.2
Other	72.4	61.9	71.2	3.7	4.9	5.5
Consolidated	<u>\$ 1,194.7</u>	<u>\$ 1,182.4</u>	<u>\$ 1,185.4</u>	<u>\$ 27.6</u>	<u>\$ 29.7</u>	<u>\$ 29.9</u>

	Amortization			Capital expenditures		
	2019	2018	2017	2019	2018	2017
Water Systems	\$ 6.9	\$ 6.5	\$ 6.2	\$ 15.1	\$ 18.2	\$ 19.1
Distribution	0.5	0.5	0.4	3.9	2.0	1.1
Fueling Systems	1.9	1.8	1.9	1.9	2.2	11.0
Other	0.1	0.1	0.1	1.2	1.0	2.2
Consolidated	<u>\$ 9.4</u>	<u>\$ 8.9</u>	<u>\$ 8.6</u>	<u>\$ 22.1</u>	<u>\$ 23.4</u>	<u>\$ 33.4</u>

Cash and property, plant and equipment are the major asset groups in "Other" of total assets for the fiscal year ended December 31, 2019. Property, plant and equipment is the major asset group in "Other" of total assets for the fiscal years ended December 31, 2018, and December 31, 2017.

Financial information by geographic region is as follows:

(In millions)	Net sales			Long-lived assets		
	2019	2018	2017	2019	2018	2017
United States	\$ 776.6	\$ 752.5	\$ 609.1	\$ 394.7	\$ 372.6	\$ 326.1
Foreign	538.0	545.6	515.8	223.4	221.2	261.2
Consolidated	<u>\$ 1,314.6</u>	<u>\$ 1,298.1</u>	<u>\$ 1,124.9</u>	<u>\$ 618.1</u>	<u>\$ 593.8</u>	<u>\$ 587.3</u>

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

The Company offers a large array of products and systems to multiple markets and customers. Product sales information is tracked regionally and products are categorized differently between regions based on local needs and reporting requirements. However, net sales by segment are representative of the Company's sales by major product category. The Company sells its products through various distribution channels including wholesale and retail distributors, specialty distributors, industrial and petroleum equipment distributors, as well as major oil and utility companies and original equipment manufacturers.

No single customer accounted for more than 10 percent of the Company's consolidated sales in 2019, 2018, or 2017. No single customer accounted for more than 10 percent of the Company's gross accounts receivable in 2019 or 2018.

16. COMMITMENTS AND CONTINGENCIES

The Company is defending various claims and legal actions which have arisen in the ordinary course of business. In the opinion of management, based on current knowledge of the facts and after discussion with counsel, these claims and legal actions can be defended or resolved without a material effect on the Company's financial position, results of operations, and net cash flows.

At December 31, 2019, the Company had \$6.1 million of commitments primarily for capital expenditures and the purchase of raw materials to be used in production.

The changes in the carrying amount of the warranty accrual, as recorded in the "Accrued expenses and other current liabilities" line of the Company's consolidated balance sheets for 2019 and 2018, are as follows:

(In millions)	2019	2018
Beginning balance	\$ 9.0	\$ 9.5
Accruals related to product warranties	10.7	10.1
Additions related to acquisitions	0.1	0.1
Reductions for payments made	(10.7)	(10.7)
Ending balance	<u>\$ 9.1</u>	<u>\$ 9.0</u>

The Company maintains certain warehouses, distribution centers, office space, and equipment operating leases. The Company also has lease agreements that are classified as financing. However, these financing leases are immaterial to the Company.

The components of the Company's operating lease portfolio as of December 31, 2019 are as follows:

Lease Cost (In millions)	
Operating lease cost	\$ 11.7
Short-term lease cost	0.5
Other Information:	
Weighted-average remaining lease term	4 years
Weighted-average discount rate	3.7 %

Total rent expense charged to operations for operating leases including contingent rentals was \$17.4 million, and \$15.1 million in 2018, and 2017, respectively, under Topic 840.

The future minimum rental payments for non-cancellable operating leases as of December 31, 2019, are as follows:

(In millions)	Total	2020	2021	2022	2023	2024	Thereafter
Undiscounted future minimum rental payments	\$ 30.2	\$ 10.8	\$ 8.1	\$ 4.1	\$ 2.9	\$ 1.6	\$ 2.7
Less: Imputed Interest	\$ 2.6						
Present value of lease liabilities	<u>\$ 27.6</u>						

The future minimum rental payments for non-cancellable operating leases as of December 31, 2018, under Topic 840 were reported as follows:

(In millions)	2019	2020	2021	2022	2023	Thereafter
Undiscounted future minimum rental payments	\$ 8.9	\$ 5.9	\$ 3.5	\$ 2.0	\$ 1.1	\$ 5.7

17. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Unaudited quarterly financial information for 2019 and 2018, is as follows:

(In millions, except per share amounts)

	Net Sales	Gross Profit	Net Income	Net Income Attributable to Franklin Electric Co., Inc.	Basic Earnings Per Share	Diluted Earnings Per Share
2019						
1st quarter	\$ 290.7	\$ 89.5	\$ 9.1	\$ 9.1	\$ 0.19	\$ 0.19
2nd quarter	355.4	119.7	32.8	32.7	0.70	0.70
3rd quarter	348.4	117.6	34.1	33.9	0.73	0.72
4th quarter	320.1	101.3	20.0	19.8	0.42	0.42
	<u>\$ 1,314.6</u>	<u>\$ 428.1</u>	<u>\$ 96.0</u>	<u>\$ 95.5</u>	<u>\$ 2.04</u>	<u>\$ 2.03</u>
2018						
1st quarter	\$ 295.6	\$ 99.0	\$ 21.2	\$ 21.2	\$ 0.45	\$ 0.45
2nd quarter	344.0	116.1	30.0	30.5	0.65	0.64
3rd quarter	341.9	113.0	30.0	30.0	0.64	0.63
4th quarter	316.6	104.3	24.3	24.2	0.51	0.51
	<u>\$ 1,298.1</u>	<u>\$ 432.4</u>	<u>\$ 105.5</u>	<u>\$ 105.9</u>	<u>\$ 2.25</u>	<u>\$ 2.23</u>

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Franklin Electric Co., Inc.
Fort Wayne, Indiana

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Franklin Electric Co., Inc. and subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill — Distribution Reporting Unit — Refer to Notes 1 and 6 to the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The Company determines the fair value of its reporting units by utilizing a combination of both the income and market valuation approaches. The income approach estimates fair value based upon future revenue, expenses, and cash flows discounted to present value. The market valuation approach estimates fair value using market multipliers of various financial measures compared to a set of comparable public companies. The determination of the fair value by the income approach using the discounted cash flow analysis requires management to make significant assumptions and estimates related to forecasts of future revenues and operating margins and discount rates. The Company may be required to record an impairment if these assumptions and estimates change whereby the fair value of the reporting units is below their associated carrying values. The Company's goodwill balance was \$256.1 million at December 31, 2019, including \$37.5 million of goodwill associated with the Distribution Reporting Unit ("Distribution"). The fair value of the Distribution reporting unit exceeded its carrying value as of the measurement date and, therefore, no impairment was recognized.

We identified goodwill of the Distribution reporting unit is a critical audit matter because of the significant judgments made by management when developing the fair value measurement of the Distribution reporting unit. This led to a high degree of auditor judgment and an increased extent of effort when performing audit procedures and evaluating audit evidence obtained relating to management's forecasts of future revenue and operating margin and determination of the discount rate used in the income approach for determining fair value of the Distribution reporting unit.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's forecasts of future revenues and operating margins and the Company's determination of the discount rate for the Distribution reporting unit included the following, among others:

- We tested the effectiveness of internal controls over goodwill, including those over management’s forecasts of future revenues and operating margins, and the determination of the discount rate.
- We evaluated management’s ability to accurately forecast future revenues and operating margins by comparing actual results to management’s historical forecasts.
- We evaluated the reasonableness of management’s revenue and operating margin forecasts by comparing the forecasts to:
 - Historical revenues and operating margins.
 - Internal communications to management and the Board of Directors.
 - Forecasted information included in Company’s press releases as well as in analyst and industry reports for the Company and certain of its peer companies.
 - Publicly available information about companies considered to be comparable.
- We evaluated the impact of changes in management’s forecasts from the October 1, 2019, annual measurement date to December 31, 2019.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the discount rate by:
 - Testing the source information underlying the determination of the discount rate and the mathematical accuracy of the calculation.
 - Developing a range of independent estimates and comparing those to the discount rate determined by management.

/s/DELOITTE & TOUCHE LLP
Chicago, Illinois
February 25, 2020

We have served as the Company’s auditor since 1988.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

In the third quarter of 2016, the Company began the process of a multi-year implementation of a global enterprise resource planning (“ERP”) system. The new ERP system was designed to better support the Company’s business needs in response to the changing operating environment and for many business units within the Company is an update to a legacy system product. The implementation of a worldwide ERP system affects the processes that constitute the Company’s internal control over financial reporting and requires testing for effectiveness as the implementation progresses. The Company expects that the new ERP system will enhance the overall system of internal controls over financial reporting through further automation and integration of business processes, although it is not being implemented in response to any identified deficiency in the Company’s internal controls over financial reporting. The Conversion will happen in two stages. The first stage involved converting the primary legacy ERP system. As of the first quarter of 2018, all business units previously on the primary legacy system have converted to the new ERP system. The second stage will convert those companies that remained on their local ERP system after the date of acquisition. The second stage is ongoing as of December 31, 2019.

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

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in the *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management excluded Milan Supply and First Sales, LLC (Note 3 - Acquisitions) from its assessment of internal controls over financial reporting as these acquisitions occurred in 2019. This exclusion is in accordance with the general guidance from the Staff of the Securities and Exchange Commission that an assessment of a recently acquired business may be omitted from the scope of management’s assessment of internal control over financial reporting for one year following the acquisition. The net sales and total assets of current year acquisitions represented was approximately 2.1 percent and 2.1 percent, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2019. Based on its evaluation, management concluded that the Company’s system of internal control over financial reporting was effective as of December 31, 2019.

Our independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. This report appears on page 65.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Franklin Electric Co., Inc.
Fort Wayne, Indiana

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Franklin Electric Co., Inc. and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 25, 2020, expressed, an unqualified opinion on those financial statements.

As described in Management’s Report on Internal Control over Financial Reporting, management excluded Milan Supply Co. (“Milan Supply”) and First Sales LLC (“First Sales”) from its assessment of internal control over financial reporting as these acquisitions occurred in 2019. The combined net sales and total assets of these acquisitions represented approximately 2.1 percent and 2.1 percent, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2019. Accordingly, our audit did not include the internal control over financial reporting at these acquired companies.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
February 25, 2020

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning directors and director nominees required by this Item 10 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020, under the headings of "ELECTION OF DIRECTORS" and "INFORMATION CONCERNING NOMINEES AND CONTINUING DIRECTORS," and is incorporated herein by reference.

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

The information concerning Regulation S-K, Item 405 disclosures of delinquent Form 3, 4, or 5 filers required by this Item 10 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020, under the heading of "DELINQUENT SECTION 16(a) REPORTS" and is incorporated herein by reference.

The information concerning the procedures for shareholders to recommend nominees to the Company's board of directors, the Audit Committee of the board of directors, and the Company's code of conduct and ethics required by this Item 10 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020 under the heading "INFORMATION ABOUT THE BOARD AND ITS COMMITTEES," and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020, under the headings of "INFORMATION ABOUT THE BOARD AND ITS COMMITTEES," "MANAGEMENT ORGANIZATION AND COMPENSATION COMMITTEE REPORT," "COMPENSATION, DISCUSSION AND ANALYSIS," "SUMMARY COMPENSATION TABLE," "GRANT OF PLAN BASED AWARDS TABLE," "OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE," "OPTION EXERCISES AND STOCK VESTED TABLE," "PENSION BENEFITS TABLE," "NON-QUALIFIED DEFERRED COMPENSATION," "POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL OF THE COMPANY," and "DIRECTOR COMPENSATION," and is incorporated herein by reference.

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

The information required by Item 12 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020, under the headings of "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS," "SECURITY OWNERSHIP OF MANAGEMENT" and "SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS," and is incorporated herein by reference.

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

The information required by Item 13 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020, under the heading "INFORMATION ABOUT THE BOARD AND ITS COMMITTEES," and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is set forth in the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2020, under the heading "PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE 2020 FISCAL YEAR," and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

Documents filed as part of this report:	Form 10-K Annual Report (page)
<hr/>	
1. Financial Statements - Franklin Electric Co., Inc.	
<u>Consolidated Statements of Income for the three years ended December 31, 2019</u>	24
<u>Consolidated Statements of Comprehensive Income for the three years ended December 31, 2019</u>	25
<u>Consolidated Balance Sheets as of December 31, 2019 and December 31, 2018</u>	26
<u>Consolidated Statements of Cash Flows for the three years ended December 31, 2019</u>	28
<u>Consolidated Statements of Equity for the three years ended December 31, 2019</u>	30
<u>Notes to Consolidated Financial Statements</u>	31
2. Financial Statement Schedule - Franklin Electric Co., Inc.	
<u>Schedule II - Valuation and Qualifying Accounts</u>	68
Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is disclosed elsewhere in the financial statements and related notes.	
3. Exhibits	
<u>Exhibits are set forth in the attached Exhibit Index.</u>	71
Management Contract, Compensatory Plan, or Arrangement is denoted by an asterisk (*).	

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

(In millions)	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions (a)	Other (b)	Balance at End of Period
2019					
Allowance for doubtful accounts	\$ 4.4	\$ 0.1	\$ 0.9	\$ 0.1	\$ 3.7
Allowance for deferred taxes	6.8	—	0.4	—	6.4
2018					
Allowance for doubtful accounts	\$ 4.4	\$ (0.1)	\$ —	\$ 0.1	\$ 4.4
Allowance for deferred taxes	9.8	2.3	5.3	—	6.8
2017					
Allowance for doubtful accounts	\$ 3.6	\$ (0.1)	\$ 0.2	\$ 1.1	\$ 4.4
Allowance for deferred taxes	9.8	2.4	2.4	—	9.8

(a) Charges for which allowances were created.

(b) Primarily related to acquisitions

SIGNATURES

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

FRANKLIN ELECTRIC CO., INC.

Registrant

Date: February 25, 2020

By /s/ Gregg C. Sengstack

Gregg C. Sengstack, Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 25, 2020.

By /s/ Gregg C. Sengstack

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

/s/ John J. Haines

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

/s/ David T. Brown

David T. Brown
Director

/s/ Victor Grizzle

Victor Grizzle
Director

/s/ Renee J. Peterson

Renee J. Peterson
Director

/s/ David A. Roberts

David A. Roberts
Director

/s/ Jennifer L. Sherman

Jennifer L. Sherman
Director

/s/ Thomas R. VerHage

Thomas R. VerHage
Director

/s/ David M. Wathen

David M. Wathen
Director

FRANKLIN ELECTRIC CO., INC.
EXHIBIT INDEX TO THE ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

Number	Description
3.1	<u>Amended and Restated Articles of Incorporation of Franklin Electric Co., Inc. (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on May 7, 2019)</u>
3.2	<u>Amended and Restated Bylaws of Franklin Electric Co., Inc., as amended January 27, 2020 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on January 30, 2020)</u>
10.1	<u>Franklin Electric Co., Inc. Stock Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement for the Annual Meeting held on April 29, 2005)*</u>
10.2	<u>Franklin Electric Co., Inc. Amended and Restated Stock Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement for the Annual Meeting held on April 24, 2009)*</u>
10.3	<u>Franklin Electric Co., Inc. 2012 Stock Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement for the Annual Meeting held on May 4, 2012)*</u>
10.4	<u>Franklin Electric Co., Inc. Non-employee Directors' Deferred Compensation Plan, as amended and restated*</u>
10.5	<u>Amended and Restated Franklin Electric Co., Inc. Pension Restoration Plan (incorporated by reference to Exhibit 10.4 of the Company's Form 10-K filed for the fiscal year ended January 3, 2009)*</u>
10.6	<u>First Amendment to the Franklin Electric Co., Inc. Pension Restoration Plan dated December 20, 2012 (incorporated by reference to Exhibit 10.8 of the Company's Form 10-K for the fiscal year ended December 29, 2012)*</u>
10.7	<u>Second Amendment to the Franklin Electric Co., Inc. Pension Restoration Plan (incorporated by reference to Exhibit 10.10 of the Company's Form 10-K for the fiscal year ended January 3, 2015)*</u>
10.8	<u>Franklin Electric Co., Inc. Supplemental Retirement and Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the fiscal quarter ended September 29, 2012)*</u>
10.9	<u>First Amendment to the Franklin Electric Co., Inc. Supplemental Retirement and Deferred Compensation Plan dated December 20, 2012 (incorporated by reference to Exhibit 10.10 of the Company's Form 10-K for the fiscal year ended December 29, 2012)*</u>
10.10	<u>Second Amendment to the Franklin Electric Co., Inc. Supplemental Retirement and Deferred Compensation Plan (incorporated by reference to Exhibit 10.13 of the Company's Form 10-K for the fiscal year ended January 3, 2015)*</u>
10.11	<u>Third Amendment to the Franklin Electric Co., Inc. Supplemental Retirement and Deferred Compensation Plan (incorporated by reference to Exhibit 10.14 of the Company's Form 10-K for the fiscal year ended January 3, 2015)*</u>
10.12	<u>Employment Agreement between the Company and Gregg C. Sengstack (incorporated by reference to Exhibit 10.13 of the Company's Form 10-K for the fiscal year ended December 29, 2012)*</u>
10.13	<u>Employment Agreement between the Company and John J. Haines (incorporated by reference to Exhibit 10.14 of the Company's Form 10-K for the fiscal year ended December 29, 2012)*</u>
10.14	<u>Form of Confidentiality and Non-Compete Agreement between the Company and Gregg C. Sengstack, John J. Haines, Steven W. Aikman, Daniel J. Crose, DeLancey W. Davis, Julie S. Freigang, Donald P. Kenney, Jonathan M. Grandon, Dr. Paul N. Chhabra, and Jay J. Walsh (incorporated by reference to Exhibit 10.15 of the Company's Form 10-K for the fiscal year ended January 1, 2005)*</u>
10.15	<u>Form of Employment Security Agreement between the Company and Steven W. Aikman, DeLancey W. Davis, Julie S. Freigang, and Donald P. Kenney (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 7, 2013)*</u>
10.16	<u>Form of Employment Security Agreement between the Company and Jonathan M. Grandon (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on November 1, 2016)*</u>
10.17	<u>Form of Employment Security Agreement between the Company and Dr. Paul N. Chhabra (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q filed on May 8, 2018)*</u>

Number	Description
10.18	Form of Employment Security Agreement between the Company and Jay J. Walsh*
10.19	Description of the Executive Officer Annual Incentive Cash Bonus Program (incorporated by reference to Exhibit 10.19 of the Company's Form 10-K for the fiscal year ended January 2, 2016)*
10.20	Franklin Electric Co., Inc. Management Incentive Plan (incorporated by reference to Exhibit A of the Company's Proxy Statement for the Annual Meeting of Shareholders held May 8, 2015)*
10.21	Form of Non-Qualified Stock Option Agreement for Non-Director Employees (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on March 12, 2013)*
10.22	Form of Non-Qualified Stock Option Agreement for Director Employees (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on March 12, 2013)*
10.23	Form of Restricted Stock Unit Agreement for Non-Director Employees (incorporated by reference to Exhibit 10.5 of the Company's Form 8-K filed on March 12, 2013)*
10.24	Form of Restricted Stock Unit Agreement for Director Employees (incorporated by reference to Exhibit 10.4 of the Company's Form 8-K filed on March 12, 2013)*
10.25	Form of Restricted Stock Agreement for Non-Director Employees (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed on March 12, 2013)*
10.26	Form of Restricted Stock Award Agreement for Director Employees (incorporated by reference to the Company's Form 8-K filed on May 4, 2012)*
10.27	Form of Performance Stock Unit Award Agreement for Non-Director Employees (incorporated by reference to Exhibit 10.6 of the Company's Form 8-K filed on March 12, 2013)*
10.28	Form of Performance Stock Unit Award Agreement for Director Employees (incorporated by reference to Exhibit 10.7 of the Company's Form 8-K filed on March 12, 2013)*
10.29	Third Amended and Restated Note Purchase and Private Shelf Agreement by and among the Company, Prudential Investment Management, Inc., and the purchasers named therein (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on June 2, 2015)
10.30	Amendment No. 1 to Third Amended and Restated Note Purchase and Private Shelf Agreement, dated October 28, 2016, by and among the Company, Prudential Investment Management, Inc., and the purchasers named therein (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q filed on November 1, 2016)
10.31	Amendment No. 2 to Third Amended and Restated Note Purchase and Private Shelf Agreement, dated July 30, 2018, by and among the Company, PGIM, Inc. (formerly known as Prudential Investment Management, Inc., and the purchasers named therein (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on July 31, 2018)
10.32	Bond Purchase and Loan Agreement, dated December 31, 2012, among the Company, The Board of Commissions of the County of Allen, Indiana, and the Bondholders referred to therein (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on January 2, 2013)
10.33	Amendment No. 1 to Bond Purchase and Loan Agreement and Waiver, dated May 5, 2015, among the Company, The Board of Commissioners of the County of Allen, and the Bondholders referred to therein (incorporated by reference to the Company's Form 10-Q filed on May 6, 2015)
10.34	Third Amended and Restated Credit Agreement, dated October 28, 2016, by and among Franklin Electric Co., Inc., Franklin Electric B.V., JP Morgan Chase, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and the lenders identified therein (incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q filed on November 1, 2016)
10.35	Note Purchase and Private Shelf Agreement by and among the Company, NYL Investors LLC, and the purchasers named therein (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on June 2, 2015)
10.36	First Amendment to Note Purchase and Private Shelf Agreement, dated October 28, 2016, by and among the Company, NYL Investors LLC, and the purchasers named therein (incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on November 1, 2016)

Number	Description
10.37	Second Amendment to Note Purchase and Private Shelf Agreement, dated July 30, 2018, by and among the Company, NYL Investors LLC, and the purchasers named therein (incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q filed on July 31, 2018)
10.38	Issuance of Series B Notes Pursuant to the New York Life Agreement dated May 27, 2015 (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on October 1, 2018)
10.39	Stock Redemption Agreement, dated April 15, 2015, between the Company and Ms. Patricia Schaefer and Ms. Diane Humphrey (incorporated by reference to Exhibit 99.1 of the Company's Form 8-K filed on April 20, 2015)
10.40	Franklin Electric Co., Inc. 2017 Stock Plan (incorporated by reference to Exhibit A of the Company's 2017 Proxy Statement filed on March 21, 2017)*
10.41	Retirement Agreement and General Release between the Company and Robert J. Stone dated December 24, 2018 (incorporated by reference to Exhibit 10.43 of the Company's Form 10-K filed on February 28, 2019)*
18.1	Franklin Electric Co., Inc. and Subsidiaries Preferability Letter from Independent Registered Public Accounting Firm (incorporated by reference to Exhibit 18.1 of the Company's Form 10-Q for the fiscal quarter ended April 2, 2011)
21	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Forward-Looking Statements
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Management Contract, Compensatory Plan or Arrangement