

FRANKLIN ELECTRIC CO INC
Form 10-Q
November 03, 2015

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 3, 2015

OR

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

Commission file number 0-362

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

Indiana
(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)

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

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

YES 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

1

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

YES

NO

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

Class of Common Stock	Outstanding at
\$.10 par value	October 26, 2015
	46,360,031 shares

FRANKLIN ELECTRIC CO., INC.
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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

(In thousands, except per share amounts)	Third Quarter Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales	\$232,485	\$278,053	\$705,640	\$793,940
Cost of sales	155,693	188,902	477,150	527,284
Gross profit	76,792	89,151	228,490	266,656
Selling, general, and administrative expenses	47,722	55,635	159,160	167,621
Restructuring expense	1,304	1,086	2,525	1,517
Operating income	27,766	32,430	66,805	97,518
Interest expense	(2,604)	) (2,744)	) (7,717)	) (8,038)
Other income, net	1,616	355	6,025	1,551
Foreign exchange expense	(96)	) (510)	) (39)	) (602)
Income before income taxes	26,682	29,531	65,074	90,429
Income tax expense	5,656	6,726	7,634	22,745
Net income	\$21,026	\$22,805	\$57,440	\$67,684
Less: Net income attributable to noncontrolling interests	(201)	) (132)	) (656)	) (980)
Net income attributable to Franklin Electric Co., Inc.	\$20,825	\$22,673	\$56,784	\$66,704
Income per share:				
Basic	\$0.44	\$0.46	\$1.18	\$1.37
Diluted	\$0.43	\$0.46	\$1.17	\$1.36
Dividends per common share	\$0.0975	\$0.0900	\$0.2850	\$0.2575

See Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(In thousands)	Third Quarter Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net income	\$21,026	\$22,805	\$57,440	\$67,684
Other comprehensive income/(loss), before tax:				
Foreign currency translation adjustments	(26,305	) (22,791	) (54,500	) (18,112
Employee benefit plan activity	988	740	2,963	2,230
Other comprehensive loss	\$(25,317	) \$(22,051	) \$(51,537	) \$(15,882
Income tax expense related to items of other comprehensive income	(333	) (256	) (1,000	) (770
Other comprehensive loss, net of tax	\$(25,650	) \$(22,307	) \$(52,537	) \$(16,652
Comprehensive income/(loss)	\$(4,624	) \$498	\$4,903	\$51,032
Less: Comprehensive income/(loss) attributable to noncontrolling interest	(47	) (199	) 7	647
Comprehensive income/(loss) attributable to Franklin Electric Co., Inc.	\$(4,577	) \$697	\$4,896	\$50,385

See Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

(In thousands)

	October 3, 2015	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$84,898	\$59,141
Receivables, less allowances of \$3,313 and \$3,212, respectively	131,767	143,787
Inventories:		
Raw material	87,893	88,961
Work-in-process	18,481	19,148
Finished goods	102,817	112,419
Total inventories	209,191	220,528
Deferred income taxes	15,194	8,364
Other current assets	35,179	37,719
Total current assets	476,229	469,539
Property, plant, and equipment, at cost:		
Land and buildings	118,516	127,782
Machinery and equipment	232,187	234,617
Furniture and fixtures	38,894	39,001
Other	19,908	20,539
Property, plant, and equipment, gross	409,505	421,939
Less: Allowance for depreciation	(221,471)	(212,153)
Property, plant, and equipment, net	188,034	209,786
Asset held for sale	1,615	2,405
Deferred income tax	2,563	3,899
Intangible assets, net	143,920	160,314
Goodwill	201,943	208,828
Other assets	21,885	21,116
Total assets	\$1,036,189	\$1,075,887

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	October 3, 2015	January 3, 2015
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$59,865	\$70,806
Deferred tax liability	636	637
Accrued expenses and other current liabilities	59,431	94,782
Income taxes	2,278	788
Current maturities of long-term debt and short-term borrowings	55,088	34,092
Total current liabilities	177,298	201,105
Long-term debt	188,150	143,695
Deferred income taxes	43,719	45,568
Employee benefit plans	50,363	58,709
Other long-term liabilities	16,715	21,407
Commitments and contingencies (see Note 16)	—	—
Redeemable noncontrolling interest	6,436	6,420
Shareowners' equity:		
Common stock (65,000 shares authorized, \$.10 par value) outstanding (46,360 and 47,594, respectively)	4,636	4,759
Additional capital	214,785	207,446
Retained earnings	492,208	492,548
Accumulated other comprehensive loss	(159,801)	(107,913)
Total shareowners' equity	551,828	596,840
Noncontrolling interest	1,680	2,143
Total equity	553,508	598,983
Total liabilities and equity	\$1,036,189	\$1,075,887

See Notes to Condensed Consolidated Financial Statements.

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

(In thousands)	Nine Months Ended	
	October 3, 2015	September 27, 2014
Cash flows from operating activities:		
Net income	\$57,440	\$67,684
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	26,804	27,791
Share-based compensation	4,579	6,314
Deferred income taxes	(5,569)	) 1,165
Loss on disposals of plant and equipment	202	959
Realized gain on share purchase liability	(2,723)) —
Foreign exchange expense	39	602
Excess tax from share-based payment arrangements	(819)	) (1,800)
Changes in assets and liabilities, net of acquisitions:		
Receivables	(527)	) (50,070)
Inventory	(3,366)	) (49,888)
Accounts payable and accrued expenses	(10,345)	) 12,469
Income taxes	9,561	2,276
Employee benefit plans	(4,020)	) (4,326)
Other, net	(10,915)	) (9,695)
Net cash flows from operating activities	60,341	3,481
Cash flows from investing activities:		
Additions to property, plant, and equipment	(15,528)	) (25,094)
Proceeds from sale of property, plant, and equipment	959	