REGAL BELOIT CORP
Form 10-Q
November 06, 2017

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended September 30, 2017 or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-07283

REGAL BELOIT CORPORATION
(Exact name of registrant as specified in its charter)

Wisconsin	39-0875718
(State of other jurisdiction of incorporation)	(IRS Employer Identification No.)

200 State Street, Beloit, Wisconsin 53511
(Address of principal executive office)
(608) 364-8800
Registrant's telephone number, including area code

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 ý 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ý NO ¨

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

Large Accelerated Filer	ý	Accelerated Filer	¨
Non-accelerated filer	o (Do not check if a smaller reporting company)	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 Exchange Act).
YES ¨ NO ý

As of November 2, 2017 there were 44,304,003 shares of the registrant’s common stock, $.01 par value per share, outstanding.

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CAUTIONARY STATEMENT

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management’s expectations, beliefs, current assumptions, and projections. When used in this Quarterly Report on Form 10-Q, words such as “may,” “will,” “expect,” “intend,” “estimate,” “forecast,” “anticipate,” “believe “should,” “project” or “plan” or the negative thereof or similar words are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond our control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Those factors include, but are not limited to:

- uncertainties regarding our ability to execute our restructuring plans within expected costs and timing;
- increases in our overall debt levels as a result of the acquisition of the Power Transmission Solutions business of Emerson Electric Co. ("PTS") or otherwise and our ability to repay principal and interest on our outstanding debt;
- actions taken by our competitors and our ability to effectively compete in the increasingly competitive global electric motor, drives and controls, power generation and mechanical motion control industries;
- our ability to develop new products based on technological innovation and marketplace acceptance of new and existing products;
- fluctuations in commodity prices and raw material costs;
- our dependence on significant customers;
- issues and costs arising from the integration of acquired companies and businesses including PTS and the timing and impact of purchase accounting adjustments;
- prolonged declines in oil and gas up stream capital spending;
- economic changes in global markets where we do business, such as reduced demand for the products we sell, currency exchange rates, inflation rates, interest rates, recession, government policies, including policy changes affecting taxation, trade, immigration and the like, and other external factors that we cannot control;
- product liability and other litigation, or claims by end users, government agencies or others that our products or our customers’ applications failed to perform as anticipated, particularly in high volume applications or where such failures are alleged to be the cause of property or casualty claims;
- unanticipated liabilities of acquired businesses;
- unanticipated costs or expenses we may incur related to product warranty issues;
- our dependence on key suppliers and the potential effects of supply disruptions;
- infringement of our intellectual property by third parties, challenges to our intellectual property and claims of infringement by us of third party technologies;
- effects on earnings of any significant impairment of goodwill or intangible assets;
- cyclical downturns affecting the global market for capital goods; and
- other risks and uncertainties including but not limited to those described in “Risk Factors” in our Annual Report on Form 10-K and from time to time in our reports filed with US Securities and Exchange Commission.

Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update these statements to reflect subsequent events or circumstances. Additional information regarding these and other risks and factors is included in Part I - Item 1A - Risk Factors in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2017.

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PART I—FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Amounts in Millions, Except Per Share Data)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net Sales	$856.9	$ 809.6	$2,539.6	$ 2,466.4
Cost of Sales	629.9	577.9	1,874.0	1,794.4
Gross Profit	227.0	231.7	665.6	672.0
Operating Expenses	133.0	141.9	413.8	421.5
Income From Operations	94.0	89.8	251.8	250.5
Interest Expense	13.5	14.4	42.6	44.2
Interest Income	0.7	1.1	2.7	3.4
Income Before Taxes	81.2	76.5	211.9	209.7
Provision For Income Taxes	17.6	15.4	46.4	47.5
Net Income	63.6	61.1	165.5	162.2
Less: Net Income Attributable to Noncontrolling Interests	1.4	1.5	4.0	4.4
Net Income Attributable to Regal Beloit Corporation	$62.2	$ 59.6	$161.5	$ 157.8
Earnings Per Share Attributable to Regal Beloit Corporation:				
Basic	$1.40	$ 1.33	$3.62	$ 3.53
Assuming Dilution	$1.39	$ 1.32	$3.59	$ 3.51
Cash Dividends Declared Per Share	$0.26	$ 0.24	$0.76	$ 0.71
Weighted Average Number of Shares Outstanding:				
Basic	44.4	44.8	44.7	44.7
Assuming Dilution	44.8	45.0	45.0	45.0

See accompanying Notes to Condensed Consolidated Financial Statements

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in Millions)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net Income	$63.6	$ 61.1	$165.5	$ 162.2
Other Comprehensive Income (Loss) Net of Tax:				
Foreign Currency Translation Adjustments	24.6	(2.4)	93.1	(9.2)
Hedging Activities:				
Increase (Decrease) in Fair Value of Hedging Activities, Net of Tax Effects of $5.5 Million and $(3.8) Million for the Three Months ended September 30, 2017 and October 1, 2016 and $23.5 Million and $(9.2) Million for the Nine Months ended September 30, 2017 and October 1, 2016 Respectively	8.8	(6.3)	38.2	(15.1)
Reclassification of Losses included in Net Income, Net of Tax Effects of $(0.2) Million and $4.6 Million for the Three Months ended September 30, 2017 and October 1, 2016 and $6.0 Million and $14.3 Million for the Nine Months ended September 30, 2017 and October 1, 2016 Respectively	(0.1)	7.7	9.9	23.4
Pension and Post Retirement Plans:				
Reclassification Adjustments for Pension and Post Retirement Benefits included in Net Income, Net of Tax Effects of $0.2 Million and $0.3 Million for the Three Months Ended September 30, 2017 and October 1, 2016 and $0.6 Million and $0.9 Million for the Nine Months Ended September 30, 2017 and October 1, 2016, Respectively	0.4	0.5	1.2	1.8
Other Comprehensive Income (Loss)	33.7	(0.5)	142.4	0.9
Comprehensive Income	97.3	60.6	307.9	163.1
Less: Comprehensive Income Attributable to Noncontrolling Interests	2.0	1.6	5.6	4.0
Comprehensive Income Attributable to Regal Beloit Corporation	$95.3	$ 59.0	$302.3	$ 159.1

See accompanying Notes to Condensed Consolidated Financial Statements

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in Millions, Except Per Share Data)

	September 30, 2017	December 31, 2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 186.6	$ 284.5
Trade Receivables, Less Allowances of $10.2 Million in 2017 and $11.5 Million in 2016	527.3	462.2
Inventories	734.9	660.8
Prepaid Expenses and Other Current Assets	181.4	124.5
Total Current Assets	1,630.2	1,532.0
Net Property, Plant and Equipment	633.7	627.5
Goodwill	1,475.2	1,453.2
Intangible Assets, Net of Amortization	682.4	711.7
Deferred Income Tax Benefits	28.7	22.4
Other Noncurrent Assets	13.8	11.7
Total Assets	$ 4,464.0	$ 4,358.5
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	$ 417.2	$ 334.2
Dividends Payable	11.5	10.7
Current Hedging Obligations	9.1	49.0
Accrued Compensation and Employee Benefits	78.8	70.1
Other Accrued Expenses	117.7	137.0
Current Maturities of Long-Term Debt	100.6	100.6
Total Current Liabilities	734.9	701.6
Long-Term Debt	1,113.8	1,310.9
Deferred Income Taxes	158.6	97.7
Noncurrent Hedging Obligations	0.6	17.6
Pension and Other Post Retirement Benefits	102.8	106.5
Other Noncurrent Liabilities	50.9	46.0
Commitments and Contingencies (see Note 12)		
Equity:		
Regal Beloit Corporation Shareholders' Equity:		
Common Stock, $.01 par value, 100.0 Million Shares Authorized, 44.3 Million and 44.8 Million Shares Issued and Outstanding in 2017 and 2016, Respectively	0.4	0.4
Additional Paid-In Capital	874.5	904.5
Retained Earnings	1,571.5	1,452.0
Accumulated Other Comprehensive Loss	(177.3)	(318.1)
Total Regal Beloit Corporation Shareholders' Equity	2,269.1	2,038.8
Noncontrolling Interests	33.3	39.4
Total Equity	2,302.4	2,078.2
Total Liabilities and Equity	$ 4,464.0	$ 4,358.5

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(Dollars in Millions, Except Per Share Data)

	Common Stock $.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
Balance as of January 2, 2016	$ 0.4	$ 900.8	$ 1,291.1	$ (255.0)	$ 45.5	$ 1,982.8
Net Income	—	—	157.8	—	4.4	162.2
Other Comprehensive Income (Loss)	—	—	—	1.3	(0.4)	0.9
Dividends Declared ($0.71 Per Share)	—	—	(31.7)	—	—	(31.7)
Stock Options Exercised, Including Income Tax Benefit and Share Cancellations	—	(2.1)	—	—	—	(2.1)
Dividends Declared to Noncontrolling Interests	—	—	—	—	(0.3)	(0.3)
Share-based Compensation	—	10.1	—	—	—	10.1
Purchase of Subsidiary Shares from Noncontrolling Interest	—	(7.2)	—	(2.7)	(9.7)	(19.6)
Balance as of October 1, 2016	$ 0.4	$ 901.6	$ 1,417.2	$ (256.4)	$ 39.5	$ 2,102.3

	Common Stock $.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Total Equity
Balance as of December 31, 2016	$ 0.4	$ 904.5	$ 1,452.0	$ (318.1)	$ 39.4	$ 2,078.2
Net Income	—	—	161.5	—	4.0	165.5
Other Comprehensive Income	—	—	—	140.8	1.6	142.4
Dividends Declared ($0.76 Per Share)	—	—	(33.9)	—	—	(33.9)
Stock Options Exercised	—	(3.3)	—	—	—	(3.3)
Stock Repurchase	—	(37.0)	(8.1)	—	—	(45.1)
Dividends Declared to Noncontrolling Interests	—	—	—	—	(11.7)	(11.7)
Share-based Compensation	—	10.3	—	—	—	10.3
Balance as of September 30, 2017	$ 0.4	$ 874.5	$ 1,571.5	$ (177.3)	$ 33.3	$ 2,302.4

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in Millions)

	Nine Months Ended	
	September 30, 2017	October 1, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$165.5	$ 162.2
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Net of Acquisitions and Divestitures):		
Depreciation and Amortization	103.1	116.6
(Gain) Loss on Sale or Disposition of Assets, Net	(2.0)	0.9
Share-Based Compensation Expense	10.3	10.1
Exit of Business	3.9	—
Gain on Sale of Businesses	(0.1)	(11.6)
Change in Operating Assets and Liabilities, Net of Acquisitions and Divestitures	(45.7)	52.2
Net Cash Provided By Operating Activities	235.0	330.4
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property, Plant and Equipment	(49.0)	(46.1)
Sales of Investment Securities	0.9	43.2
Purchases of Investment Securities	(0.9)	(53.7)
Proceeds from Sale of Businesses	1.1	25.5
Proceeds from Sale of Assets	5.9	1.6
Net Cash Used In Investing Activities	(42.0)	(29.5)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings Under Revolving Credit Facility	938.4	447.0
Repayments Under Revolving Credit Facility	(926.9)	(437.0)
Proceeds from Short-Term Borrowings	18.2	20.9
Repayments of Short-Term Borrowings	(18.2)	(27.7)
Proceeds from Long-Term Borrowings	0.3	—
Repayments of Long-Term Borrowings	(212.2)	(218.1)
Dividends Paid to Shareholders	(33.1)	(31.3)
Shares Surrendered for Taxes	(3.7)	(2.2)
Proceeds from the Exercise of Stock Options	0.4	0.5
Payments of Contingent Consideration	(5.3)	—
Repurchase of Common Stock	(45.1)	—
Distributions to Noncontrolling Interests	(11.7)	(0.3)
Purchase of Subsidiary Shares from Noncontrolling Interest	—	(19.6)
Net Cash Used In Financing Activities	(298.9)	(267.8)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	8.0	(4.4)
Net Increase (Decrease) in Cash and Cash Equivalents	(97.9)	28.7
Cash and Cash Equivalents at Beginning of Period	284.5	252.9
Cash and Cash Equivalents at End of Period	$186.6	$ 281.6
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid For:		
Interest	$46.8	$ 46.7
Income taxes	$45.0	$ 54.6

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2017
(Unaudited)

1. BASIS OF PRESENTATION
The accompanying (a) condensed consolidated balance sheet of Regal Beloit Corporation (the “Company”) as of December 31, 2016, which has been derived from audited consolidated financial statements, and (b) unaudited interim condensed consolidated financial statements as of September 30, 2017 and for the three and nine months ended September 30, 2017 and October 1, 2016, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.
It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s 2016 Annual Report on Form 10-K filed on March 1, 2017.
In the opinion of management, all adjustments considered necessary for a fair presentation of financial results have been made. Except as otherwise discussed, such adjustments consist of only those of a normal recurring nature. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 30, 2017.
The condensed consolidated financial statements have been prepared in accordance with GAAP, which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. The Company uses estimates in accounting for, among other items, allowance for doubtful accounts; excess and obsolete inventory; share-based compensation; acquisitions; product warranty obligations; pension and post retirement assets and liabilities; derivative fair values; goodwill and other asset impairments; health care reserves; retirement benefits; rebates and incentives; litigation claims and contingencies, including environmental matters; and income taxes. The Company accounts for changes to estimates and assumptions when warranted by factually based experience.
The Company operates on a 52/53 week fiscal year ending on the Saturday closest to December 31.
New Accounting Standards
In August 2017, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities. The amendments in this update better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Company plans to adopt this pronouncement for fiscal years beginning December 30, 2018. Early adoption is permitted. The Company is currently evaluating the impact of the pending adoption of this standard on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Stock Compensation - Scope of Modification Accounting. The ASU amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Accounting Standards Codification ("ASC") 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted and prospective application is required. The Company plans to adopt this pronouncement for fiscal years beginning December 31, 2017 and will consider the impact that this standard may have on future share based award changes, should they occur.

In February 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The ASU amends current guidance to require employers that present a measure of operating income in their statement of income to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in nonoperating expenses. Employers that do not present a measure of operating income are required to include the service cost component in the same line item as other employee compensation costs. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. The changes, which respond to input from financial statement users, are intended to classify costs according to their natures, and better align the effect of defined benefit plans on operating income with International Financial Reporting Standards. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company plans to adopt this pronouncement for fiscal years beginning December 31, 2017. The ASU will impact the components of income before taxes but will not impact the amount of income before taxes.

In February 2016, the FASB issued ASU 2016-02, Leases. The core principle of ASU 2016-02 is that an entity should recognize on its balance sheet assets and liabilities arising from a lease. In accordance with that principle, ASU 2016-02 requires that a lessee recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying leased asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on the lease classification as a finance or operating lease. This new accounting guidance is effective for fiscal years beginning after December 15, 2018 under a modified retrospective approach and early adoption is permitted. The Company has identified a six step process to successfully implement the new Lease standard: Form a task force to become experts and take the lead on understanding and implementing the new Lease standard; Update lease inventories; Decide on transition method; Review legal agreements and debt covenants; Consider IT needs; Discuss with stakeholders. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements and has commenced the first step of identifying a task force to take the lead in implementing the new Lease standard.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), a comprehensive new revenue recognition standard that supersedes current revenue recognition requirements. This update requires the Company to recognize revenue at amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services at the time of transfer. The new standard will also require additional qualitative and quantitative disclosures about contracts with customers, significant judgments made in applying the revenue guidance, and assets recognized from the costs to obtain or fulfill a contract. ASU No. 2014-09 (and related updates) will become effective for the Company at the beginning of its 2018 fiscal year. The standard allows the option of using either a full retrospective or a modified retrospective approach for the adoption of the standard. The Company plans to adopt this accounting standard update using the modified retrospective method which will result in a cumulative effect adjustment to retained earnings as of January 1, 2018.

The Company has identified a four step process to implement the new revenue standard - data gathering, assessment, solution development, and solution implementation. The Company has substantially completed step one, data gathering and step two, assessment. The Company expects to be complete with step three, solution development and step four, solution implementation by the first quarter of 2018. The Company has not finalized the impact on reported revenues and earnings of adopting the new standard, however, the Company does not expect the new revenue standard to have a material impact on the Company's pattern of revenue recognition, operating revenue, results of operations or financial position. The Company is in the process of drafting updated accounting policies, evaluating new disclosure requirements, and identifying and implementing appropriate changes to its business processes, systems and controls to support revenue recognition and disclosure under the new guidance.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The new guidance includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The provisions include:

a. recording all tax effects associated with stock-based compensation through the income statement, as opposed to recording certain amounts in other paid-in capital, which eliminates the requirement to calculate a "windfall pool";
b. allowing entities to withhold shares to satisfy the employer's statutory tax withholding requirement up to the highest marginal tax rate applicable to employees rather than the employer's minimum statutory rate, without requiring liability classification for the award;

c. modifying the requirement to estimate the number of awards that will ultimately vest by providing an accounting policy election to either estimate the number of forfeitures or recognize forfeitures as they occur;

d. changing certain presentation requirements in the statement of cash flows, including removing the requirement to present excess tax benefits as an inflow from financing activities and an outflow from operating activities, and requiring the cash paid to taxing authorities arising from withheld shares to be classified as a financing activity; and

e. the assumed proceeds from applying the treasury stock method when computing earnings per share is amended to exclude the amount of excess tax benefits that previously would have been recognized in additional paid-in capital.

The Company adopted the provisions of ASU 2016-09 on January 1, 2017. As a result of adopting the standard, the Changes in Operating Assets and Liabilities, Net of Acquisitions and Divestitures line in the Cash Flows From Operating Activities section on the Condensed Consolidated Statements of Cash Flows and the Shares Surrendered for Taxes line in the Cash Flows from Financing Activities section were both adjusted by $2.2 million for 2016. The presentation on the Condensed Consolidated Statements of Cash Flows for shares surrendered by employees to meet the minimum statutory withholding requirement and excess tax benefits were applied retrospectively. In addition, the Excess Tax Expense from Share-Based Compensation lines in the Cash Flows from Operating Activities section and the Cash Flows from Financing Activities section were removed. The Company removed the excess tax benefits from the calculation of dilutive shares on a prospective basis. In addition, the Company began recording all tax effects associated with stock-based compensation through the income statement on a prospective basis. The Company did not have any awards classified as liability awards due to the statutory tax withholding requirements as of January 1, 2017. The Company made an accounting policy election to continue to estimate forfeitures as it had previously.

2. OTHER FINANCIAL INFORMATION

Inventories

The approximate percentage distribution between major classes of inventories was as follows:

	September 30, 2017	December 31, 2016
Raw Material and Work in Process	48%	45%
Finished Goods and Purchased Parts	52%	55%

Inventories are stated at cost, which is not in excess of market. Cost for approximately 53% of the Company's inventory at September 30, 2017, and 55% at December 31, 2016 was determined using the LIFO method.

Property, Plant and Equipment

Property, plant, and equipment by major classification was as follows (dollars in millions):

	Useful Life in Years	September 30, 2017	December 31, 2016
Land and Improvements		$ 78.9	$ 76.7
Buildings and Improvements	3 - 50	294.8	280.4
Machinery and Equipment	3 - 15	979.2	929.9
Property, Plant and Equipment		1,352.9	1,287.0
Less: Accumulated Depreciation		(719.2)	(659.5)
Net Property, Plant and Equipment		$ 633.7	$ 627.5

Other

As part of the purchase agreement of the 2008 acquisition of the Wuxi Hwada Motor Co., the Company agreed that if certain relocation compensation was received for the relocation of the business, the Company would pay a portion of that compensation to the seller as part of a deferred contingent purchase price. During the first quarter of 2017, a final deferred contingent purchase price payment of $5.3 million was made under this agreement.

3. ACQUISITIONS AND DIVESTITURES

There were no acquisition related expenses for the nine months ended September 30, 2017 and October 1, 2016.

2016 Acquisitions

Elco Purchase

On January 18, 2016, the Company purchased the remaining shares owned by the joint venture partner in its Elco Group B.V. (“Elco”) joint venture increasing the Company’s ownership from 55.0% to 100.0% for $19.6 million. The purchase price of Elco is reflected as a component of equity.

2016 Divestitures

Mastergear Worldwide

On June 1, 2016, the Company sold its Mastergear Worldwide ("Mastergear") business to Rotork PLC for a purchase price of $25.7 million. Mastergear was included in the Company's Power Transmission Solutions segment. Gains related to the sale of $0.1 million and $11.6 million were recorded as a reduction to Operating Expenses in the Condensed Consolidated Statements of Income during fiscal 2017 and 2016, respectively.

Venezuelan Subsidiary

On July 7, 2016, the Company sold the assets of its Venezuelan subsidiary, which had been included in the Company's Commercial and Industrial Systems segment, to a private company for $3.0 million. Of this amount, $1.0 million was received on the transaction closing date and $2.0 million is being received in 24 monthly installments. The Company may receive additional amounts in the future related to certain accounts receivable of this business. The gains will be recognized as the cash is received. The Company wrote down its investment and ceased operations of this subsidiary in 2015.

4. ACCUMULATED OTHER COMPREHENSIVE LOSS

Foreign currency translation adjustments, hedging activities and pension and post retirement benefit adjustments are included in Equity in Accumulated Other Comprehensive Loss ("AOCI").

The changes in AOCI by component for the three and nine months ended September 30, 2017 and October 1, 2016 were as follows (in millions):

	Three Months Ended September 30, 2017			
	Hedging Activities	Pension and Post Retirement Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning Balance	$(1.7)	$ (35.5)	$ (173.2)	$(210.4)
Other Comprehensive Income (Loss) before Reclassifications	14.3	(0.2)	24.2	38.3
Tax Impact	(5.5)	—	—	(5.5)
Amounts Reclassified from Accumulated Other Comprehensive Loss	(0.3)	0.6	—	0.3
Tax Impact	0.2	(0.2)	—	—
Net Current Period Other Comprehensive Income	8.7	0.2	24.2	33.1
Ending Balance	$7.0	$ (35.3)	$ (149.0)	$(177.3)

	Three Months Ended October 1, 2016			
	Hedging Activities	Pension and Post Retirement Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning Balance	$(40.6)	$ (33.6)	$ (181.6)	$(255.8)
Other Comprehensive Income (Loss) before Reclassifications	(10.1)	0.1	(2.6)	(12.6)
Tax Impact	3.8	—	—	3.8
Amounts Reclassified from Accumulated Other Comprehensive Loss	12.3	0.8	—	13.1
Tax Impact	(4.6)	(0.3)	—	(4.9)
Net Current Period Other Comprehensive Income (Loss)	1.4	0.6	(2.6)	(0.6)
Ending Balance	$(39.2)	$ (33.0)	$ (184.2)	$(256.4)

	Nine Months Ended September 30, 2017			
	Hedging Activities	Pension and Post Retirement Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning Balance	$(41.1)	$ (36.0)	$ (241.0)	$(318.1)
Other Comprehensive Income (Loss) before Reclassifications	61.7	(0.5)	92.0	153.2
Tax Impact	(23.5)	—	—	(23.5)
Amounts Reclassified from Accumulated Other Comprehensive Loss	15.9	1.8	—	17.7
Tax Impact	(6.0)	(0.6)	—	(6.6)
Net Current Period Other Comprehensive Income	48.1	0.7	92.0	140.8
Ending Balance	$7.0	$ (35.3)	$ (149.0)	$(177.3)

	Nine Months Ended October 1, 2016			
	Hedging Activities	Pension and Post Retirement Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning Balance	$(47.5)	$ (35.4)	$ (172.1)	$(255.0)
Other Comprehensive Income (Loss) before Reclassifications	(24.3)	0.6	(9.4)	(33.1)
Tax Impact	9.2	—	—	9.2
Amounts Reclassified from Accumulated Other Comprehensive Loss	37.7	2.7	—	40.4
Tax Impact	(14.3)	(0.9)	—	(15.2)
Net Current Period Other Comprehensive Income (Loss)	8.3	2.4	(9.4)	1.3
Purchase of Subsidiary Shares from Noncontrolling Interest	—	—	(2.7)	(2.7)
Ending Balance	$(39.2)	$ (33.0)	$ (184.2)	$(256.4)

The Condensed Consolidated Statements of Income line items affected by the hedging activities reclassified from accumulated other comprehensive loss in the tables above are disclosed in Note 13 of Notes to Condensed Consolidated Financial Statements.

The reclassification amounts for pension and post retirement benefit adjustments in the tables above are part of net periodic benefit costs recorded in Operating Expenses (see also Note 8 of Notes to Condensed Consolidated Financial Statements).

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

As required, the Company performs an annual impairment test of goodwill as of the end of the October fiscal month or more frequently if events or circumstances change that would more likely than not reduce the fair value of its reporting units below their carrying value.

The following information presents changes to goodwill during the nine months ended September 30, 2017 (in millions):

	Total	Commercial and Industrial Systems	Climate Solutions	Power Transmission Solutions
Balance as of December 31, 2016	$1,453.2	$ 540.6	$ 341.8	$ 570.8
Translation Adjustments	22.0	8.9	1.1	12.0
Balance as of September 30, 2017	$1,475.2	$ 549.5	$ 342.9	$ 582.8
Cumulative Goodwill Impairment Charges	$275.7	$ 244.8	$ 7.7	$ 23.2

Intangible Assets

Intangible assets consisted of the following (in millions):

		September 30, 2017		December 31, 2016	
	Weighted Average Amortization Period (Years)	Gross Value	Accumulated Amortization	Gross Value	Accumulated Amortization
Amortizable Intangible Assets:					
Customer Relationships	16	$718.8	$ 240.1	$703.6	$ 201.6
Technology	13	191.8	118.0	189.7	109.5
Trademarks	15	32.7	25.3	31.8	23.3
Patent and Engineering Drawings	5	16.6	16.6	16.6	16.6
Non-Compete Agreements	8	8.4	8.3	8.3	8.1
		968.3	408.3	950.0	359.1
Non-Amortizable Trade Names		122.4	—	120.8	—
		$1,090.7	$ 408.3	$1,070.8	$ 359.1

Amortization expense recorded for the three and nine months ended September 30, 2017 was $13.9 million and $41.9 million, respectively. Amortization expense recorded for the three and nine months ended October 1, 2016 was $15.6 million and $47.0 million, respectively. Amortization expense for 2017 is estimated to be $55.9 million.

Estimated expected future annual amortization for intangible assets is as follows (in millions):

Year	Estimated Amortization
2018	$ 53.9
2019	53.5
2020	50.4
2021	42.6
2022	41.0

6. BUSINESS SEGMENTS

Commercial and Industrial Systems produces medium and large motors, commercial and industrial equipment, generator and custom drives and systems. These products serve markets including commercial Heating, Ventilation, and Air Conditioning ("HVAC"), pool and spa, standby and critical power and oil and gas systems.

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Climate Solutions produces small motors, controls and air moving solutions serving markets including residential and light commercial HVAC, water heaters and commercial refrigeration.
Power Transmission Solutions manufactures, sells and services belt and chain drives, helical and worm gearing, mounted and unmounted bearings, couplings, modular plastic belts, conveying chains and components, hydraulic pump drives, large open gearing and specialty mechanical products serving markets including beverage, bulk handling, metals, special machinery, energy, aerospace and general industrial.
The Company evaluates performance based on the segment's income from operations. Corporate costs have been allocated to each segment based on the net sales of each segment. The reported external net sales of each segment are from external customers.
The following sets forth certain financial information attributable to the Company's operating segments for the three and nine months ended September 30, 2017 and October 1, 2016 (in millions):

	Commercial and Industrial Systems	Climate Solutions	Power Transmission Solutions	Eliminations	Total
Three Months Ended September 30, 2017					
External Sales	$ 408.0	$ 256.0	$ 192.9	$ —	$856.9
Intersegment Sales	16.4	5.0	0.5	(21.9)	—
Total Sales	424.4	261.0	193.4	(21.9)	856.9
Gross Profit	98.0	65.8	63.2	—	227.0
Operating Expenses	68.4	27.0	37.6	—	133.0
Income from Operations	29.6	38.8	25.6	—	94.0
Depreciation and Amortization	15.2	5.5	13.6	—	34.3
Capital Expenditures	8.6	3.1	3.6	—	15.3
Three Months Ended October 1, 2016					
External Sales	$ 389.4	$ 250.5	$ 169.7	$ —	$809.6
Intersegment Sales	10.8	5.7	1.1	(17.6)	—
Total Sales	400.2	256.2	170.8	(17.6)	809.6
Gross Profit	105.4	71.4	54.9	—	231.7
Operating Expenses	69.2	29.2	43.5	—	141.9
Income from Operations	36.2	42.2	11.4	—	89.8
Depreciation and Amortization	17.7	4.9	15.0	—	37.6
Capital Expenditures	9.6	2.6	2.2	—	14.4