

REGAL BELOIT CORP
Form 10-Q
May 12, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended April 2, 2016
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 (IRS Employer
incorporation) 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 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 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. (Check one):

Large Accelerated Filer Accelerated Filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

YES NO

As of May 9, 2016 there were 44,729,447 shares of the registrant's common stock, \$.01 par value per share, outstanding.

REGAL BELOIT CORPORATION
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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,” “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;
- 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;
- product liability and other litigation, or the failure of our products to perform as anticipated, particularly in high volume applications;
- 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, foreign government policies and other external factors that we cannot control;
- unanticipated liabilities of acquired businesses, including PTS;
- 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 this Annual Report on Form 10-K and from time to time in our reports filed with U.S. 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 2, 2016.

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 | |
|--|-----------------------|---------------|
| | April 2, 2016 | April 4, 2015 |
| Net Sales | \$818.2 | \$911.7 |
| Cost of Sales | 600.8 | 690.8 |
| Gross Profit | 217.4 | 220.9 |
| Operating Expenses | 148.1 | 157.3 |
| Income From Operations | 69.3 | 63.6 |
| Interest Expense | 15.0 | 13.6 |
| Interest Income | 1.1 | 1.2 |
| Income Before Taxes | 55.4 | 51.2 |
| Provision For Income Taxes | 12.7 | 13.3 |
| Net Income | 42.7 | 37.9 |
| Less: Net Income Attributable to Noncontrolling Interests | 1.1 | 1.5 |
| Net Income Attributable to Regal Beloit Corporation | \$41.6 | \$36.4 |
| Earnings Per Share Attributable to Regal Beloit Corporation: | | |
| Basic | \$0.93 | \$0.81 |
| Assuming Dilution | \$0.93 | \$0.81 |
| Cash Dividends Declared Per Share | \$0.23 | \$0.22 |
| Weighted Average Number of Shares Outstanding: | | |
| Basic | 44.7 | 44.7 |
| Assuming Dilution | 45.0 | 45.1 |

See accompanying Notes to Condensed Consolidated Financial Statements

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

| | Three Months Ended | |
|--|-----------------------|------------------|
| | April 2, 2016 | April 4, 2015 |
| Net Income | \$42.7 | \$ 37.9 |
| Other comprehensive income (loss) net of tax: | | |
| Foreign currency translation adjustments | 25.7 | (22.7) |
| Hedging Activities: | | |
| Increase (decrease) in fair value of hedging activities, net of tax effects of \$1.3 million and \$(2.4) million for the three months ended April 2, 2016 and April 4, 2015, respectively | 2.3 | (3.9) |
| Reclassification of losses included in net income, net of tax effects of \$5.0 million and \$2.3 million for the three months ended April 2, 2016 and April 4, 2015, respectively | 8.1 | 3.7 |
| 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 \$0.4 million for the three months ended April 2, 2016 and April 4, 2015, respectively | 0.7 | 0.8 |
| Other comprehensive income (loss) | 36.8 | (22.1) |
| Comprehensive income | 79.5 | 15.8 |
| Less: Comprehensive income attributable to noncontrolling interests | 1.5 | 0.5 |
| Comprehensive income attributable to Regal Beloit Corporation | \$78.0 | \$ 15.3 |
| See accompanying Notes to Condensed Consolidated Financial Statements | | |

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

| | April 2, 2016 | January 2, 2016 |
|---|------------------|--------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$249.1 | \$252.9 |
| Trade Receivables, less allowances of \$11.9 million in 2016 and \$11.3 million in fiscal 2015 | 498.1 | 462.0 |
| Inventories | 756.8 | 775.0 |
| Prepaid Expenses and Other Current Assets | 145.5 | 145.3 |
| Total Current Assets | 1,649.5 | 1,635.2 |
| Net Property, Plant and Equipment | 673.4 | 678.5 |
| Goodwill | 1,472.4 | 1,465.6 |
| Intangible Assets, net of Amortization | 768.0 | 777.8 |
| Deferred Income Tax Benefits | 21.5 | 18.6 |
| Other Noncurrent Assets | 15.4 | 16.0 |
| Total Assets | \$4,600.2 | \$4,591.7 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$338.5 | \$336.2 |
| Dividends Payable | 10.3 | 10.3 |
| Hedging Obligations | 34.1 | 44.7 |
| Accrued Compensation and Employee Benefits | 72.4 | 80.6 |
| Other Accrued Expenses | 120.5 | 134.7 |
| Current Maturities of Long-Term Debt | 6.1 | 6.3 |
| Total Current Liabilities | 581.9 | 612.8 |
| Long-Term Debt | 1,699.3 | 1,715.6 |
| Deferred Income Taxes | 106.4 | 100.9 |
| Hedging Obligations | 22.0 | 27.6 |
| Pension and Other Post Retirement Benefits | 106.1 | 105.9 |
| Other Noncurrent Liabilities | 48.3 | 46.1 |
| Commitments and Contingencies (see Note 12) | | |
| Equity: | | |
| Regal Beloit Corporation Shareholders' Equity: | | |
| Common Stock, \$.01 par value, 100.0 million shares authorized, 44.7 million and 44.7 million shares issued and outstanding in 2016 and fiscal 2015, respectively | 0.4 | 0.4 |
| Additional Paid-In Capital | 897.3 | 900.8 |
| Retained Earnings | 1,322.5 | 1,291.1 |
| Accumulated Other Comprehensive Loss | (221.3) | (255.0) |
| Total Regal Beloit Corporation Shareholders' Equity | 1,998.9 | 1,937.3 |
| Noncontrolling Interests | 37.3 | 45.5 |
| Total Equity | 2,036.2 | 1,982.8 |
| Total Liabilities and Equity | \$4,600.2 | \$4,591.7 |
| 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 3, 2015 | \$ 0.4 | \$ 896.1 | \$ 1,188.9 | \$ (151.0) | \$ 44.9 | \$ 1,979.3 |
| Net Income | — | — | 36.4 | — | 1.5 | 37.9 |
| Other Comprehensive Loss | — | — | — | (21.1) | (1.0) | (22.1) |
| Dividends Declared (\$0.22 per share) | — | — | (9.8) | — | — | (9.8) |
| Stock Options Exercised, including income tax benefit and share cancellations | — | 2.6 | — | — | — | 2.6 |
| Dividends Declared to Non-controlling Interests | — | — | — | — | (0.3) | (0.3) |
| Share-based Compensation | — | 3.0 | — | — | — | 3.0 |
| Purchase of Subsidiary Shares from Noncontrolling Interest | — | — | — | — | (0.8) | \$(0.8) |
| Balance as of April 4, 2015 | \$ 0.4 | \$ 901.7 | \$ 1,215.5 | \$ (172.1) | \$ 44.3 | \$ 1,989.8 |

| | 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 | — | — | 41.6 | — | 1.1 | 42.7 |
| Other Comprehensive Income | — | — | — | 36.4 | 0.4 | 36.8 |
| Dividends Declared (\$0.23 per share) | — | — | (10.2) | — | — | (10.2) |
| Stock Options Exercised, including income tax benefit and share cancellations | — | 0.4 | — | — | — | 0.4 |
| Share-based Compensation | — | 3.3 | — | — | — | 3.3 |
| Purchase of Subsidiary Shares from Noncontrolling Interest | — | (7.2) | — | (2.7) | (9.7) | (19.6) |
| Balance as of April 2, 2016 | \$ 0.4 | \$ 897.3 | \$ 1,322.5 | \$ (221.3) | \$ 37.3 | \$ 2,036.2 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended | |
|---|-----------------------|------------------|
| | April 2, 2016 | April 4, 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$42.7 | \$37.9 |
| Adjustments to reconcile net income to net cash provided by operating activities (net of acquisitions): | | |
| Depreciation and amortization | 40.1 | 35.9 |
| Excess tax benefits from share-based compensation | — | (0.7) |
| Loss on sale or disposition of assets, net | 0.6 | 0.1 |
| Share-based compensation expense | 3.3 | 3.0 |
| Loss on Venezuela currency devaluation | — | 1.5 |
| Change in operating assets and liabilities | (28.5) | (60.2) |
| Net cash provided by operating activities | 58.2 | 17.5 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property, plant and equipment | (14.9) | (21.2) |
| Sales of investment securities | 19.3 | 9.3 |
| Purchases of investment securities | (21.0) | (5.0) |
| Business acquisitions, net of cash acquired | — | (1,392.5) |
| Proceeds from sale of assets | — | 1.3 |
| Net cash used in investing activities | (16.6) | (1,408.1) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from revolving credit facility | 221.0 | 223.5 |
| Repayments of the revolving credit facility | (188.0) | (147.0) |
| Proceeds from short-term borrowings | 12.7 | 37.5 |
| Repayments of short-term borrowings | (12.9) | (35.2) |
| Proceeds from long-term borrowings | — | 1,250.0 |
| Repayments of long-term borrowings | (50.1) | (15.7) |
| Dividends paid to shareholders | (10.2) | (9.8) |
| Proceeds from the exercise of stock options | 0.5 | 3.0 |
| Excess tax benefits from share-based compensation | — | 0.7 |
| Distributions to noncontrolling interests | — | (0.3) |
| Purchase of subsidiary shares from noncontrolling interest | (19.6) | (0.8) |
| Financing fees paid | — | (17.8) |
| Net cash (used in) provided by financing activities | (46.6) | 1,288.1 |
| EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | 1.2 | (1.9) |
| Net decrease in cash and cash equivalents | (3.8) | (104.4) |
| Cash and cash equivalents at beginning of period | 252.9 | 334.1 |
| Cash and cash equivalents at end of period | \$249.1 | \$229.7 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid for: | | |
| Interest | \$19.7 | \$18.6 |
| Income taxes | \$13.0 | \$24.6 |

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 2, 2016

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet of Regal Beloit Corporation (the "Company") as of January 2, 2016, which has been derived from audited consolidated financial statements, and (b) unaudited interim condensed consolidated financial statements as of April 2, 2016 and for the three months ended April 2, 2016 and April 4, 2015, 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 2015 Annual Report on Form 10-K filed on March 2, 2016.

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 months ended April 2, 2016 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2016.

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.

Change in Accounting Principle

As of the beginning of its fiscal year 2016, the Company changed its inventory valuation method for the U.S. inventory of the recently acquired Power Transmission Solutions ("PTS") business to the last-in, first-out ("LIFO") method from the first-in, first-out ("FIFO") method. This change affects approximately 9% of the Company's inventory. The Company believes this change in accounting principle is preferable under the circumstances because LIFO will better match current costs with current revenues since the cost of raw materials has been volatile in recent years, results in greater consistency in inventory costing across the organization since LIFO is the method used for the majority of the Company's other U.S. inventory, and better aligns with how management assesses the performance of the business. Because this change in accounting principle was immaterial in all annual or interim prior periods, it was not applied retrospectively. The change did not have a material impact on the consolidated financial statements as of and for the quarter ended April 2, 2016.

Also, as of the beginning of its fiscal year 2016, the Company changed its method of calculating LIFO inventories, which represents approximately 51% of the Company's inventory. The Company reduced the number of LIFO inventory pools to three to align with the Company's reportable segments. Previously, the Company had 10 LIFO inventory pools, some of which crossed reportable segments. The Company believes this change in accounting principle is preferable under the circumstances because fewer pools will simplify the LIFO calculations, combine inventory items with similarities within a reportable segment, and better align with how management assesses the performance of the businesses. The Company determined that it has the data needed to apply this change in

accounting principle prospectively as of the beginning of its fiscal year 2014, but that full retrospective application is impracticable because the data is not available to determine the cumulative effect of the change. Because the effect of applying the change prospectively as of the beginning of fiscal 2014 is immaterial in any annual or interim period in fiscal years 2014 or 2015, the Company has applied this change in accounting principle prospectively from the first day of fiscal year 2016.

New Accounting Standards

In March, 2016 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The

ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. Implementation and administration may present challenges for companies with significant share-based payment activities and there are various transition methods. The Company is required to adopt the new requirements in the first quarter of fiscal 2017. The Company is currently evaluating the impact of the new requirements to its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amends the principal-versus-agent implementation guidance in ASU No. 2014-09 (Topic 606), Revenue from Contracts with Customers, issued by the FASB in May 2014. ASU No. 2016-08 clarifies the principal-versus-agent guidance in Topic 606 and requires an entity to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal/agent designation. ASU 2014-09 is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. 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. In doing so, the Company will need to use more judgment and make more estimates than under today's guidance. Such estimates include identifying performance obligations in the contracts, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company can either apply a full retrospective adoption or a modified retrospective adoption. The Company is required to adopt the new requirements in the first quarter of fiscal 2018. The Company is currently evaluating the impact of the new requirements to its consolidated financial statements.

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 public companies for fiscal years beginning after December 15, 2018 under a modified retrospective approach and early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

2. OTHER FINANCIAL INFORMATION

Inventories

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

| | April 2, 2016 | January 2, 2016 |
|------------------------------------|------------------|--------------------|
| Raw Material and Work in Process | 45% | 45% |
| Finished Goods and Purchased Parts | 55% | 55% |

Inventories are stated at cost, which is not in excess of market. Cost for approximately 52% of the Company's inventory at April 2, 2016, and 42% at January 2, 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 | April 2, 2016 | January 2, 2016 |
|-------------------------------|----------------------|------------------|--------------------|
| Land and Improvements | | \$81.6 | \$ 80.7 |
| Buildings and Improvements | 3 - 50 | 277.0 | 276.9 |
| Machinery and Equipment | 3 - 15 | 943.0 | 926.7 |
| Property, Plant and Equipment | | 1,301.6 | 1,284.3 |

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| | | |
|-----------------------------------|----------|----------|
| Less: Accumulated Depreciation | (628.2) | (605.8) |
| Net Property, Plant and Equipment | \$673.4 | \$ 678.5 |

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3. ACQUISITIONS

The results of operations for acquired businesses are included in the Condensed Consolidated Financial Statements from the dates of acquisition. There were no acquisition related expenses for the three months ended April 2, 2016. Acquisition related expenses were \$9.2 million for the three months ended April 4, 2015. Acquisition related expenses are recorded in operating expenses as incurred.

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 Company consolidated the results of Elco into the Company's consolidated financial statements in the Climate Solutions segment.

2015 Acquisitions

PTS

On January 30, 2015, the Company acquired PTS for \$1,408.9 million in cash through a combination of stock and asset purchases. PTS is a global leader in highly engineered power transmission products and solutions. The business manufactures, sells and services bearings, couplings, gearing, drive components and conveyor systems. PTS is included in the Power Transmission Solutions segment. The Company acquired PTS because management believes it diversifies the Company's end market exposure, provides complementary products, expands and balances the Company's product portfolio, and enhances its margin profile.

The acquisition of PTS was accounted for as a purchase in accordance with FASB Accounting Standards Codification ("ASC") Topic 805, Business Combinations. Assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The fair values of identifiable intangible assets, which were primarily customer relationships, trade names, and technology, were based on valuations using the income approach. The excess of the purchase price over the estimated fair values of tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. The goodwill is attributable to expected synergies and expected growth opportunities. Approximately 65% of goodwill will be deductible for United States income tax purposes.

The purchase price allocation for PTS was as follows (in millions):

| | As of January 30, 2015 |
|-------------------------------|------------------------------|
| Current assets | \$22.5 |
| Trade receivables | 67.2 |
| Inventories | 108.8 |
| Property, plant and equipment | 184.4 |
| Intangible assets | 648.2 |
| Goodwill | 564.3 |
| Total assets acquired | 1,595.4 |
| Accounts payable | 57.2 |
| Current liabilities assumed | 32.3 |
| Long-term liabilities assumed | 97.0 |
| Net assets acquired | \$1,408.9 |

The valuation of the net assets acquired of \$1,408.9 million was classified as Level 3 in the valuation hierarchy (Note 14 of the Notes to the Condensed Consolidated Financial Statements for the definition of Level 3 inputs). The Company valued property, plant and equipment using both a market approach and a cost approach depending on the asset. Intangible assets were valued using the present value of projected future cash flows and significant assumptions included royalty rates, discount rates, customer attrition and obsolescence factors.

The components of Intangible Assets included as part of the PTS acquisition was as follows (in millions):

| | Weighted Average Amortization Period (Years) | Gross Value |
|---|--|-------------|
| Amortizable intangible assets | | |
| Customer Relationships | 17.0 | \$ 462.8 |
| Technology | 14.5 | 63.5 |
| Intangible assets subject to amortization | 16.7 | 526.3 |
| Non-amortizable intangible assets | | |
| Trade Names | - | 121.9 |
| Intangible assets | | \$ 648.2 |

Net sales from PTS were \$132.6 million and \$106.8 million for the three months ended April 2, 2016 and April 4, 2015, respectively. Operating income (loss) from PTS was \$12.3 million and (\$11.9) million for the three months ended April 2, 2016 and April 4, 2015, respectively. Purchase accounting inventory adjustments and transaction costs of \$22.7 million were included in the PTS operating income for the three months ended April 4, 2015.

Pro Forma Consolidated Results for PTS Acquisition

The following supplemental pro forma financial information presents the financial results for the three months ended April 4, 2015, as if the acquisition of PTS had occurred at the beginning of fiscal year 2015. The pro forma financial information includes, where applicable, adjustments for: (i) the estimated amortization of acquired intangible assets, (ii) estimated additional interest expense on acquisition related borrowings, and (iii) the income tax effect on the pro forma adjustments using an estimated effective tax rate. The pro forma financial information excludes, where applicable, adjustments for: (i) the estimated impact of inventory purchase accounting adjustments and (ii) the estimated closing costs on the acquisition and (iii) any estimated cost synergies or other effects of the integration of the acquisition. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the acquisition been completed as of the date indicated or the results that may be obtained in the future (in millions, except per share amounts):

| | Three Months Ended April 4, 2015 |
|--|--|
| Pro forma net sales | \$ 960.3 |
| Pro forma net income attributable to the Company | 38.1 |
| Basic earnings per share as reported | \$ 0.81 |
| Pro forma basic earnings per share | 0.85 |
| Diluted earnings per share as reported | \$ 0.81 |
| Pro forma diluted earnings per share | 0.85 |

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 months ended April 2, 2016 and April 4, 2015 were as follows (in millions):

| Three Months Ended | | | | |
|--------------------|------------|-------------|-------------|-------|
| April 2, 2016 | | | | |
| | Hedging | Pension and | Foreign | |
| Activities | Retirement | Post | Currency | Total |
| | Benefit | Adjustments | Translation | |
| | | | Adjustments | |
| Beginning balance | \$(47.5) | \$ | | |