REGAL BELOIT CORP
Form 10-Q
May 14, 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 April 4, 2015
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, 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	ý	Accelerated Filer	¨
Non-accelerated filer	o (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 ý
As of May 11, 2015 there were 44,806,612 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;
- prolonged declines in oil and gas up stream capital spending;
- issues and costs arising from the integration of acquired companies and businesses including PTS, and the timing and impact of purchase accounting adjustments;
- challenges in our Venezuelan operations, including potential currency devaluations, non-payment of receivables, governmental restrictions such as price and margin controls, as well as other difficult operating conditions;
- 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;
- difficulties associated with managing foreign operations; and
- other risks and uncertainties including but not limited to those described in “Risk Factors” in this Quarterly Report on Form 10-Q 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 4,

2015.

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 4, 2015	March 29, 2014
Net Sales	$911.7	$801.2
Cost of Sales	690.8	606.8
Gross Profit	220.9	194.4
Operating Expenses	157.3	124.7
Income From Operations	63.6	69.7
Interest Expense	13.6	10.4
Interest Income	1.2	1.7
Income Before Taxes	51.2	61.0
Provision For Income Taxes	13.3	16.0
Net Income	37.9	45.0
Less: Net Income Attributable to Noncontrolling Interests	1.5	1.2
Net Income Attributable to Regal Beloit Corporation	$36.4	$43.8
Earnings Per Share Attributable to Regal Beloit Corporation:		
Basic	$0.81	$0.97
Assuming Dilution	$0.81	$0.96
Cash Dividends Declared Per Share	$0.22	$0.20
Weighted Average Number of Shares Outstanding:		
Basic	44.7	45.1
Assuming Dilution	45.1	45.4

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 4, 2015	March 29, 2014
Net Income	$37.9	$45.0
Other comprehensive income (loss) net of tax:		
Foreign currency translation adjustments	(22.7)	(4.8)
Hedging Activities:		
Decrease in fair value of hedging activities, net of tax effects of $(2.4) million and $(5.3) million for the three months ended April 4, 2015 and March 29, 2014, respectively	(3.9)	(8.5)
Reclassification of losses included in net income, net of tax effects of $2.3 million and $1.5 million for the three months ended April 4, 2015 and March 29, 2014, respectively	3.7	2.4
Defined benefit pension plans:		
Reclassification adjustments for pension benefits included in net income, net of tax effects of $0.4 and $0.2 million for the three months ended April 4, 2015 and March 29, 2014, respectively	0.8	0.3
Other comprehensive loss	(22.1)	(10.6)
Comprehensive income	15.8	34.4
Less: Comprehensive income attributable to noncontrolling interests	0.5	0.6
Comprehensive income attributable to Regal Beloit Corporation	$15.3	$33.8

See accompanying Notes to Condensed Consolidated Financial Statements

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

	April 4, 2015	January 3, 2015
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$229.7	$334.1
Receivables, less allowances of $11.9 million in 2015 and $11.6 million in fiscal 2014	582.5	447.5
Inventories	784.1	691.7
Prepaid Expenses and Other Current Assets	128.1	111.7
Deferred Income Tax Benefits	76.2	67.0
Total Current Assets	1,800.6	1,652.0
Net Property, Plant and Equipment	714.8	531.5
Goodwill	1,561.1	1,004.0
Intangible Assets, net of Amortization	856.5	202.3
Other Noncurrent Assets	34.5	17.8
Total Assets	$4,967.5	$3,407.6
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	$390.2	$312.2
Dividends Payable	9.8	9.8
Hedging Obligations	26.6	29.7
Accrued Compensation and Employee Benefits	84.3	75.7
Other Accrued Expenses	139.1	125.5
Current Maturities of Long-Term Debt	71.3	8.4
Total Current Liabilities	721.3	561.3
Long-Term Debt	1,875.6	625.4
Deferred Income Taxes	205.9	116.0
Hedging Obligations	25.7	22.5
Pension and Other Postretirement Benefits	107.2	65.0
Other Noncurrent Liabilities	42.0	38.1
Commitments and Contingencies (see Note 12)		
Equity:		
Regal Beloit Corporation Shareholders' Equity:		
Common Stock, $.01 par value, 100.0 million shares authorized, 44.8 million and 44.7 million shares issued and outstanding in 2015 and fiscal 2014, respectively.	0.4	0.4
Additional Paid-In Capital	901.7	896.1
Retained Earnings	1,215.5	1,188.9
Accumulated Other Comprehensive Loss	(172.1)	(151.0)
Total Regal Beloit Corporation Shareholders' Equity	1,945.5	1,934.4
Noncontrolling Interests	44.3	44.9
Total Equity	1,989.8	1,979.3
Total Liabilities and Equity	$4,967.5	$3,407.6

See accompanying Notes to Condensed Consolidated Financial Statements.

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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 December 28, 2013	$0.5	$916.1	$1,199.4	$ (59.8)	$46.2	$2,102.4
Net Income	—	—	43.8	—	1.2	45.0
Other Comprehensive Loss	—	—	—	(10.0)	(0.6)	(10.6)
Dividends Declared ($0.20 per share)	—	—	(9.0)	—	—	(9.0)
Stock Options Exercised, including income tax benefit and share cancellations	—	1.0	—	—	—	1.0
Share-based Compensation	—	2.7	—	—	—	2.7
Balance as of March 29, 2014	$0.5	$919.8	$1,234.2	$ (69.8)	$46.8	$2,131.5

	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

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 4, 2015	March 29, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$37.9	$45.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35.9	32.8
Excess tax benefits from share-based compensation	(0.7)	(1.0)
Loss on sale or disposition of assets, net	0.1	0.1
Share-based compensation expense	3.0	2.7
Loss on Venezuela currency devaluation	1.5	—
Change in operating assets and liabilities	(60.2)	(33.8)
Net cash provided by operating activities	17.5	45.8
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(21.2)	(22.3)
Proceeds from the sale of investment securities	9.3	7.7
Purchases of investment securities	(5.0)	(1.2)
Business acquisitions, net of cash acquired	(1,392.5)	(77.3)
Additions of equipment on operating leases	—	(1.6)
Proceeds from sale of assets	1.3	—
Net cash used in investing activities	(1,408.1)	(94.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	223.5	—
Repayments of the revolving credit facility	(147.0)	—
Proceeds from short-term borrowings	37.5	9.0
Repayments of short-term borrowings	(35.2)	(8.6)
Proceeds from long-term borrowings	1,250.0	—
Repayments of long-term borrowings	(15.7)	(0.1)
Dividends paid to shareholders	(9.8)	(9.0)
Proceeds from the exercise of stock options	3.0	0.6
Excess tax benefits from share-based compensation	0.7	1.0
Distributions to noncontrolling interests	(0.3)	—
Purchase of subsidiary shares from noncontrolling interest	(0.8)	—
Financing fees paid	(17.8)	—
Net cash provided by or (used in) financing activities	1,288.1	(7.1)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(1.9)	(3.6)
Net decrease in cash and cash equivalents	(104.4)	(59.6)
Cash and cash equivalents at beginning of period	334.1	466.0
Cash and cash equivalents at end of period	$229.7	$406.4
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	$18.6	$16.2
Income taxes	$24.6	$8.3

See accompanying Notes to Condensed Consolidated Financial Statements.

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REGAL BELOIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 4, 2015
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet of Regal Beloit Corporation (the “Company”) as of January 3, 2015, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of April 4, 2015 and for the three months ended April 4, 2015 and March 29, 2014, 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 2014 Annual Report on Form 10-K filed on March 4, 2015.

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 4, 2015 are not necessarily indicative of the results that may be expected for the entire fiscal year ending January 2, 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 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.

Accounting for Highly Inflationary Economies

The Company has a subsidiary in Venezuela using accounting for highly inflationary economies. Currency restrictions enacted by the Venezuelan government have the potential to impact the ability of the Company's subsidiary to obtain U.S. dollars in exchange for Venezuelan bolivares fuertes ("Bolivars") at the official foreign exchange rate. In 2014, the Venezuelan government announced the expansion of its auction-based foreign exchange system (SICAD1). The Venezuelan government also introduced an additional auction-based foreign exchange system (SICAD2) which permits all companies incorporated or domiciled in Venezuela to bid for U.S. dollars. Effective January 3, 2015, the Company concluded that it was appropriate to apply the SICAD2 exchange rate of 51.0 Bolivars per US Dollar as management believes that this rate best represents the economics of the Company's business activity in Venezuela at that time.

On February 12, 2015, the Venezuelan government replaced SICAD 2 with a new foreign exchange market mechanism (“SIMADI”). The Company expects to be able to access U.S. dollars through the SIMADI market. SIMADI has significantly higher foreign exchange rates than those available through the other foreign exchange mechanisms. In the three-month period ended April 4, 2015, the Company recorded a $1.5 million foreign exchange loss resulting from the remeasurement of monetary assets and liabilities of the Company's Venezuelan subsidiary at the SIMADI rate of 193 Bolivars per U.S. dollar.

New Accounting Standards

On April 15, 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU")2015-04, Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets, which permits a reporting entity with a fiscal year-end that does not coincide with a month-end to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The standard is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The new guidance should be applied on a prospective basis. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

On April 7, 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The new guidance will be applied on a retrospective basis. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued Revenue from Contracts with Customers ASU 2014-09, 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 2017. The Company is currently evaluating the impact of the new requirements to its consolidated financial statements.

2. OTHER FINANCIAL INFORMATION

Inventories

The approximate percentage distribution between major classes of inventories was as follows (in millions):

	April 4, 2015	January 3, 2015
Raw Material and Work in Process	46%	45%
Finished Goods and Purchased Parts	54%	55%

Inventories are stated at cost, which is not in excess of market. Cost for approximately 47% of the Company's inventory at April 4, 2015, and 52% at January 3, 2015 was determined using the LIFO method.

Property, Plant and Equipment

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

	Useful Life in Years	April 4, 2015	January 3, 2015
Land and Improvements		$78.7	$68.8
Buildings and Improvements	3 - 50	387.1	235.4
Machinery and Equipment	3 - 15	837.5	812.1
Property, Plant and Equipment		1,303.3	1,116.3
Less: Accumulated Depreciation		(588.5)	(584.8)
Net Property, Plant and Equipment		$714.8	$531.5

3. ACQUISITIONS

Acquisitions

The results of operations for acquired businesses are included in the Condensed Consolidated Financial Statements from the dates of acquisition. Acquisition-related expenses, which were recorded in operating expenses as incurred, were $9.2 million and $0.5 million for the three months ended April 4, 2015 and March 29, 2014, respectively.

2015 Acquisitions

PTS

On January 30, 2015, the Company acquired the Power Transmission Solutions business of Emerson Electric Co. ("PTS") for $1,408.0 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 provides complementary products, expands and balances the Company's product portfolio, and enhances its margin profile.

On January 30, 2015, the Company entered into a Credit Agreement for a 5-year unsecured term loan facility in the principal amount of $1.25 billion, which was drawn in full by the Company on January 30, 2015, in connection with the closing of the acquisition of PTS (see Note 7 of Notes to the Condensed Consolidated Financial Statements).

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. The Company estimates a majority of goodwill will be deductible for United States income tax purposes. The allocation of purchase price is preliminary as the Company has not completed its analysis estimating the fair value of inventory, property, plant, and equipment, intangible assets, income tax liabilities and certain contingent liabilities.

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

	As of January 30, 2015
Current assets	$ 10.2
Trade receivables	71.3
Inventories	108.5
Property, plant and equipment	188.6
Intangible assets	670.2
Goodwill	561.8
Total assets acquired	$ 1,610.6
Accounts payable	53.9
Current liabilities assumed	22.7
Long-term liabilities assumed	126.0
Net assets acquired	$ 1,408.0

The valuation of the net assets acquired of $1,408.0 million was classified as Level 3 in the valuation hierarchy (See Note 14 for the definition of Level 3 inputs).

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	$484.7
Technology	14.5	63.6
	16.7	548.3
Non-amortizable intangible assets		
Trademarks	-	121.9
Intangible assets		$670.2

Included in the Company's results of operations for the three months ended April 4, 2015 are revenues of $106.8 million and earnings of $10.8 million, related to the PTS acquisition. These results exclude the impacts of purchase accounting adjustments and transaction costs of $22.7 million.

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 and March 29, 2014, as if the acquisition of PTS had occurred at the beginning of fiscal year 2014. As a practical expedient, the Company has used the audited stand-alone financial statements of PTS for the period ending September 30, 2014 to estimate pro-forma results for the three months ended March 29, 2014. 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, (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. 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	March 29, 2014
Pro forma net sales	$960.3	$953.0
Pro forma net income	38.1	52.8
Basic earnings per share as reported	$0.81	$0.97
Pro forma basic earnings per share	0.85	1.17
Diluted earnings per share as reported	$0.81	$0.96
Pro forma diluted earnings per share	0.85	1.16

2014 Acquisitions

Benshaw

On June 30, 2014, the Company acquired all of the stock of Benshaw. Inc., ("Benshaw") for $51.0 million in cash. The Company financed the transaction with existing cash. Benshaw is a manufacturer of custom low and medium voltage variable frequency drives and soft starters. It is reported in the Commercial and Industrial Systems segment. The Company acquired Benshaw because management determined it was a strategic fit for the Commercial and Industrial Systems segment.

The acquisition of Benshaw was accounted for as a purchase in accordance with FASB 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 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. The Company expects the amount of goodwill will be deductible for United States income tax purposes.

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

	As of June 30, 2014
Current assets	$0.5
Trade receivables	10.4
Inventories	22.4
Property, plant and equipment	4.5
Intangible assets, subject to amortization	14.6
Goodwill	9.9
Total assets acquired	62.3
Accounts payable	3.7
Current liabilities assumed	2.2
Long-term liabilities assumed	5.4
Net assets acquired	$51.0

Hy-Bon

On February 7, 2014, the Company acquired Hy-Bon Engineering Company, Inc. ("Hy-Bon") for $78.0 million in cash. The Company financed the transaction with existing cash. Hy-Bon is a leader in vapor recovery solutions for oil and gas applications. It is reported in the Commercial and Industrial Systems segment. The Company acquired Hy-Bon because management determined it was a strategic fit for the Commercial and Industrial Systems segment.

The acquisition of Hy-Bon was accounted for as a purchase in accordance with the FASB 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, 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 other growth opportunities. The Company does not expect the amount of goodwill will be deductible for United States income tax purposes.

The purchase price allocation for Hy-Bon was as follows (in millions):

	As of February 7, 2014
Current assets	$ 1.7
Trade receivables	11.5
Inventories	14.3
Property, plant and equipment	8.1
Intangible assets, subject to amortization	13.4
Goodwill	40.6
Other assets	0.1
Total assets acquired	89.7
Accounts payable	5.5
Current liabilities assumed	5.1
Long-term liabilities assumed	1.1
Net assets acquired	$ 78.0

Pro Forma Consolidated Results for 2014 Acquisitions

The following supplemental pro forma information presents the financial results for the three months ended March 29, 2014, as if the acquisitions of Benshaw and Hy-Bon had occurred at the beginning of fiscal year 2014. Based upon the timing of the Company's fiscal 2014 acquisitions, financial results for the three months ended April 4, 2015 included the financial results of the acquisitions of Benshaw and Hy-Bon.

The pro forma amounts do not include any estimated cost synergies or other effects of the integration of the acquisitions. Accordingly, the pro forma amounts are not necessarily indicative of the results that actually would have occurred had the acquisitions been completed on the dates indicated. Pro forma amounts are also not necessarily indicative of any future consolidated operating results of the Company (see Note 5 of Notes to the Condensed Consolidated Financial Statements for amortization expense related to intangible assets acquired) (in millions, except per share amounts).

	Three Months Ended March 29, 2014
Pro forma net sales	$ 820.9
Pro forma net income	43.5
Basic earnings per share as reported	$ 0.97
Pro forma basic earnings per share	0.97
Diluted earnings per share as reported	$ 0.96
Pro forma diluted earnings per share	0.96

4. ACCUMULATED OTHER COMPREHENSIVE LOSS

Foreign currency translation adjustments, hedging activities and pension benefit adjustments are included in Equity in Accumulated Other Comprehensive Loss.

The changes in accumulated other comprehensive loss by component for the three months ended April 4, 2015 and March 29, 2014 was as follows (in millions):

	Three Months Ended April 4, 2015			
	Hedging Activities	Pension Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning balance	$ (31.0)	$ (39.5)	$ (80.5)	$ (151.0)
Other comprehensive income (loss) before reclassifications	(6.3)	—	(21.7)	(28.0)
Amounts reclassified from accumulated other comprehensive income (loss)	6.0	1.2	—	7.2
Tax (expense) benefit	0.1	(0.4)	—	(0.3)
Net current period other comprehensive income (loss)	(0.2)	0.8	(21.7)	(21.1)
Ending balance	$ (31.2)	$ (38.7)	$ (102.2)	$ (172.1)

	Three Months Ended March 29, 2014			
	Hedging Activities	Pension Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning balance	$ (9.5)	$ (23.3)	$ (27.0)	$ (59.8)
Other comprehensive income (loss) before reclassifications	(13.8)	—	(4.2)	(18.0)
Amounts reclassified from accumulated other comprehensive income (loss)	3.9	0.5	—	4.4
Tax (expense) benefit	3.8	(0.2)	—	3.6
Net current period other comprehensive income (loss)	(6.1)	0.3	(4.2)	(10.0)
Ending balance	$ (15.6)	$ (23.0)	$ (31.2)	$ (69.8)

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 benefit adjustments in the tables above are part of net periodic pension costs recorded in Operating Expenses (see 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 three months ended April 4, 2015 (in millions):

	Total	Commercial and Industrial Systems	Climate Solutions	Power Transmission Solutions
Balance as of January 3, 2015	$1,004.0	$645.4	$344.6	$14.0
Acquisition adjustments	561.8	—	—	561.8
Translation adjustments	(4.7)	(4.4)	—	(0.3)
Balance as of April 4, 2015	$1,561.1	$641.0	$344.6	$575.5
Cumulative Goodwill Impairment Charges	$195.8	$164.9	$7.7	$23.2

Intangible Assets

Intangible assets consisted of the following (in millions):

		April 4, 2015		January 3, 2015	
	Weighted Average Amortization Period (Years)	Gross Value	Accumulated Amortization	Gross Value	Accumulated Amortization
Amortizable intangible assets:					
Customer Relationships	15	$738.5	$130.2	$256.8	$122.6
Technology	11	192.9	79.4	129.4	74.9
Trademarks	12	32.6	20.4	33.1	20.1
Patent and Engineering Drawings	5	16.6	16.6	16.6	16.6
Non-compete Agreements	5	8.6	8.0	8.6	8.0
		989.2	254.6	444.5	242.2
Non-amortizable trademarks		121.9	—	—	—
		$1,111.1	$254.6	$444.5	$242.2

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

Year	Estimated Amortization
2016	$63.5
2017	56.7
2018	54.9
2019	54.4
2020	51.7

Amortization expense recorded for the three months ended April 4, 2015 and March 29, 2014 was $14.3 million and $11.3 million, respectively. Amortization expense for 2015 is estimated to be $65.6 million.

6. BUSINESS SEGMENTS

The following sets forth certain financial information attributable to the Company's reporting segments as of and for the three months ended April 4, 2015 and March 29, 2014 (in millions):

	Commercial and Industrial Systems	Climate Solutions	Power Transmission Solutions	Eliminations	Total
As of and for Three Months Ended April 4, 2015					
External sales	$456.4	$280.4	$174.9	$—	$911.7
Intersegment sales	23.9	7.1	1.1	(32.1)	—
Total sales	480.3	287.5	176.0	(32.1)	911.7
Gross profit	112.9	63.7	44.3	—	220.9
Operating expenses	79.6	30.3	47.4	—	157.3
Income (loss) from operations	33.3	33.4	(3.1)	—	63.6
Depreciation and amortization	19.5	7.0	9.4	—	35.9
Capital expenditures	15.7	4.6	0.9	—	21.2
Identifiable assets	2,440.6	880.8	1,646.1	—	4,967.5
As of and for Three Months Ended March 29, 2014					
External sales	$453.5	$285.1	62.6	$—	$801.2
Intersegment sales	16.5	4.1	1.0	(21.6)	—
Total sales	470.0	289.2	63.6	(21.6)	801.2
Gross profit	115.7	62.7	16.0	—	194.4
Operating expenses	78.5	36.4	9.8	—	124.7
Income from operations	37.2	26.3	6.2	—	69.7
Depreciation and amortization	18.4	11.5	2.9	—	32.8
Capital expenditures	13.8	5.7	2.8	—	22.3
Identifiable assets	2,702.2	824.7	199.6	—	3,726.5

In the fourth quarter of 2014, the Company reorganized its reportable segments to align with its new management reporting structure and business activities. Prior to this reorganization, the Company was comprised of two reportable segments for financial reporting purposes: Electrical and Mechanical. As a result of this change, the Company is now comprised of three reportable segments: Commercial & Industrial Systems, Climate Solutions and Power Transmission Solutions. Historical financial information has been revised on a basis consistent with these segments.

The Commercial and Industrial Systems segment produces medium and large motors, generators and customer drives, controls and systems. Applications include commercial and industrial equipment, commercial HVAC, pool and spa, standby and critical power and oil and gas systems.

The Climate Solutions segment produces small motors, controls and air moving solutions. Applications include residential and light commercial HVAC, commercial refrigeration and water heaters.

The Power Transmission Solutions segment produces power transmission gearing, hydraulic pump drives, large open gearing and specialty mechanical products. Applications include material handling, industrial equipment, energy and off-road equipment.

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.

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7. DEBT AND BANK CREDIT FACILITIES

The Company's indebtedness as of April 4, 2015 and January 3, 2015 was as follows (in millions):

	April 4, 2015	January 3, 2015
Term facility	$1,234.4	$—
Senior notes	600.0	600.0
Multicurrency revolving facility	93.5	—
Revolving facility	—	17.0
Other	19.0	16.8
	1,946.9	633.8
Less: Current maturities	71.3	8.4
Non-current portion	$1,875.6	$625.4

The New Credit Agreement

In connection with the PTS Acquisition, on January 30, 2015, the Company entered into a new Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as Administrative Agent and the lenders named therein, providing for a (i) 5-year unsecured term loan facility in the principal amount of $1.25 billion (the "Term Facility") and (ii) a 5-year unsecured multicurrency revolving facility in the principal amount of $500.0 million (the "Multicurrency Revolving Facility") available for general corporate purposes. The Credit Agreement replaced the Prior Credit Agreement, and the Multicurrency Revolving Facility replaced the Prior Revolving Facility (further discussed below).

The Term Facility was drawn in full on January 30, 2015 in connection with the closing of the PTS Acquisition. The loans under the Term Facility require quarterly amortization at a rate starting at 5.0% per annum, increasing to 7.5% per annum after two years and further increasing to 10.0% per annum for the last two years of the Facility. At April 4, 2015 the Company had borrowings under the Multicurrency Revolving Facility in the amount of $93.5 million, $28.5 million of standby letters of credit issued under the facility, and $378.0 million of available borrowing capacity.

Borrowings under the Credit Agreement bear interest at floating rates based upon indices determined by the currency of the borrowing, plus an applicable margin determined by reference to the Company's consolidated funded debt to consolidated EBITDA ratio or at an alternative base rate. The weighted average interest rate on the Credit Agreement was 1.9% during the three months ended April 4, 2015. The Company pays a non-use fee on the aggregate unused amount of the Multicurrency Revolving Facility at a rate determined by reference to its consolidated funded debt to consolidated EBITDA ratio.

The Credit Agreement requires the Company prepay the loans under the Term Facility with 100% of the net cash proceeds received from specified asset sales and in currencies of borrowed money indebtedness, subject to certain exceptions.

Senior Notes

At April 4, 2015, the Company had $600.0 million of senior notes (the “Notes”) outstanding. The Notes consist of (i) $500.0 million in senior notes (the “2011 Notes”) in a private placement which were issued in seven tranches with maturities from seven to twelve years and carry fixed interest rates and (ii) $100.0 million in senior notes (the “2007 Notes”) issued in 2007 with a floating interest rate based on a margin over the London Inter-Bank Offered Rate (“LIBOR”).

Details on the Notes at April 4, 2015 were (in millions):

	Principal	Interest Rate	Maturity
Floating Rate Series 2007A	$100.0	Floating [(1)]	August 23, 2017
Fixed Rate Series 2011A	100.0	4.1%	July 14, 2018
Fixed Rate Series 2011A	230.0	4.8 to 5.0%	July 14, 2021
Fixed Rate Series 2011A	170.0	4.9 to 5.1%	July 14, 2023
	$600.0		

(1) Interest rates vary as LIBOR varies. At April 4, 2015, the interest rate was 1.0%, and at January 3, 2015 the interest rate was 0.9%.

The Company has interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk (see also Note 13 of Notes to the Condensed Consolidated Financial Statements).

The Prior Credit Agreement and Prior Revolving Facility

On June 30, 2011, the Company entered into a revolving credit agreement (the “Prior Credit Agreement”) that provided for an aggregate amount of availability under a revolving credit facility of $500.0 million, including a $100.0 million letter of credit subfacility (the “Prior Revolving Facility”). The Prior Credit Agreement and Prior Revolving Facility were replaced with the New Credit Agreement (discussed above).

The Prior Revolving Facility permitted borrowing at interest rates based upon a margin above LIBOR. At January 3, 2015, the Company had $17.0 million outstanding on the Prior Revolving Facility. The balance on the Prior Revolving Facility was fully paid on January 27, 2015. The average interest rate under the Prior Revolving Facility was 1.4% for the quarter ended April 4, 2015.

Other Notes Payable

At April 4, 2015, other notes payable of $19.0 million were outstanding with a weighted average interest rate of 2.5%. At January 3, 2015, other notes payable of approximately $16.8 million were outstanding with a weighted average interest rate of 2.5%.

Fair Value

Based on rates for instruments with comparable maturities and credit quality, which are classified as Level 2 inputs (see also Note 14 of Notes to the Condensed Consolidated Financial Statements), the approximate fair value of the Company's total debt was $1,987.9 million and $666.8 million as of April 4, 2015 and January 3, 2015, respectively.

Compliance with Financial Covenants

The Credit Agreement contains customary affirmative and negative covenants and events of default for an unsecured financing arrangement, including, among other things, limitations on consolidations, mergers and sales of assets. The Credit Agreement and the Notes require the Company to meet specified financial ratios and to satisfy certain financial condition tests. The Company was in compliance with all financial covenants contained in the Credit Agreement, and the Notes as of April 4, 2015.

8. PENSION PLANS

The Company’s net periodic benefit pension cost was comprised of the following components (in millions):

	Three Months Ended	
	April 4, 2015	March 29, 2014
Service cost	$0.7	$0.6
Interest cost	4.3	2.0
Expected return on plan assets	(2.2)	(2.3)
Amortization of prior service cost and net actuarial loss	1.2	0.6
Net periodic benefit cost	$4.0	$0.9

The estimated net actuarial loss and prior service cost for defined benefit pension plans that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit cost during the