

REGAL BELOIT CORP
Form 10-Q
November 06, 2018

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 September 29, 2018 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, 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 Accelerated Filer
Non-accelerated filer (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

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As of November 2, 2018 there were 43,142,214 shares of the registrant's common stock, \$0.01 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,” “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 power transmission 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;
- risks associated with global manufacturing;
- issues and costs arising from the integration of acquired companies and businesses 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;
- losses from failures, breaches, attacks or disclosures involving our information technology infrastructure and data;
 - 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 February 27,

2018.

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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, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Net Sales | \$925.4 | \$ 856.9 | \$2,763.9 | \$ 2,539.6 |
| Cost of Sales | 682.8 | 630.0 | 2,039.0 | 1,874.4 |
| Gross Profit | 242.6 | 226.9 | 724.9 | 665.2 |
| Operating Expenses | 155.0 | 132.6 | 449.5 | 412.7 |
| Goodwill Impairment | 9.5 | — | 9.5 | — |
| Asset Impairments | 8.7 | — | 8.7 | — |
| Total Operating Expenses | 173.2 | 132.6 | 467.7 | 412.7 |
| Income From Operations | 69.4 | 94.3 | 257.2 | 252.5 |
| Other Expenses, net | 0.4 | 0.3 | 1.2 | 0.7 |
| Interest Expense | 13.7 | 13.5 | 40.9 | 42.6 |
| Interest Income | 1.0 | 0.7 | 1.8 | 2.7 |
| Income Before Taxes | 56.3 | 81.2 | 216.9 | 211.9 |
| Provision For Income Taxes | 3.6 | 17.6 | 37.6 | 46.4 |
| Net Income | 52.7 | 63.6 | 179.3 | 165.5 |
| Less: Net Income Attributable to Noncontrolling Interests | 1.4 | 1.4 | 3.7 | 4.0 |
| Net Income Attributable to Regal Beloit Corporation | \$51.3 | \$ 62.2 | \$175.6 | \$ 161.5 |
| Earnings Per Share Attributable to Regal Beloit Corporation: | | | | |
| Basic | \$1.18 | \$ 1.40 | \$4.01 | \$ 3.62 |
| Assuming Dilution | \$1.17 | \$ 1.39 | \$3.98 | \$ 3.59 |
| Cash Dividends Declared Per Share | \$0.28 | \$ 0.26 | \$0.82 | \$ 0.76 |
| Weighted Average Number of Shares Outstanding: | | | | |
| Basic | 43.4 | 44.4 | 43.8 | 44.7 |
| Assuming Dilution | 43.8 | 44.8 | 44.1 | 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 29, 2018 | September 30, 2017 | September 29, 2018 | September 30, 2017 |
| Net Income | \$52.7 | \$ 63.6 | \$179.3 | \$ 165.5 |
| Other Comprehensive Income (Loss) Net of Tax: | | | | |
| Foreign Currency Translation Adjustments, Net of Tax Effects of \$1.8 Million for the Three and Nine Months ended September 29, 2018 | (18.8) | 24.6 | (57.0) | 93.1 |
| Hedging Activities: | | | | |
| Increase in Fair Value of Hedging Activities, Net of Tax Effects of \$0.9 Million and \$5.5 Million for the Three Months ended September 29, 2018 and September 30, 2017 and \$0.7 Million and \$23.5 Million for the Nine Months ended September 29, 2018 and September 30, 2017, Respectively | 3.1 | 8.8 | 2.3 | 38.2 |
| Reclassification of (Gains) Losses included in Net Income, Net of Tax Effects of \$(0.3) Million and \$(0.2) Million for the Three Months ended September 29, 2018 and September 30, 2017 and \$(3.7) Million and \$6.0 Million for the Nine Months ended September 29, 2018 and September 30, 2017, Respectively | (1.0) | (0.1) | (11.3) | 9.9 |
| Pension and Post Retirement Plans: | | | | |
| Reclassification Adjustments for Pension and Post Retirement Benefits included in Net Income, Net of Tax Effects of \$0.3 Million and \$0.2 Million for the Three Months Ended September 29, 2018 and September 30, 2017 and \$0.7 Million and \$0.6 Million for the Nine Months Ended September 29, 2018 and September 30, 2017, Respectively | 0.7 | 0.4 | 2.2 | 1.2 |
| Other Comprehensive Income (Loss) | (16.0) | 33.7 | (63.8) | 142.4 |
| Comprehensive Income | 36.7 | 97.3 | 115.5 | 307.9 |
| Less: Comprehensive Income Attributable to Noncontrolling Interests | 0.3 | 2.0 | 1.8 | 5.6 |
| Comprehensive Income Attributable to Regal Beloit Corporation | \$36.4 | \$ 95.3 | \$113.7 | \$ 302.3 |
| See accompanying Notes to Condensed Consolidated Financial Statements | | | | |

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

| | September 29, 2018 | December 30, 2017 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 184.4 | \$ 139.6 |
| Trade Receivables, Less Allowances of \$16.1 Million in 2018 and \$11.3 Million in 2017 | 582.9 | 506.3 |
| Inventories | 791.0 | 757.1 |
| Prepaid Expenses and Other Current Assets | 171.6 | 171.4 |
| Total Current Assets | 1,729.9 | 1,574.4 |
| Net Property, Plant and Equipment | 644.5 | 623.0 |
| Goodwill | 1,524.3 | 1,477.1 |
| Intangible Assets, Net of Amortization | 653.2 | 670.5 |
| Deferred Income Tax Benefits | 27.7 | 28.5 |
| Other Noncurrent Assets | 21.7 | 14.7 |
| Total Assets | \$ 4,601.3 | \$ 4,388.2 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 415.3 | \$ 384.3 |
| Dividends Payable | 12.2 | 11.5 |
| Current Hedging Obligations | 10.3 | 8.1 |
| Accrued Compensation and Employee Benefits | 82.5 | 74.2 |
| Other Accrued Expenses | 140.8 | 132.7 |
| Current Maturities of Long-Term Debt | 0.6 | 101.2 |
| Total Current Liabilities | 661.7 | 712.0 |
| Long-Term Debt | 1,278.3 | 1,039.9 |
| Deferred Income Taxes | 153.9 | 135.3 |
| Noncurrent Hedging Obligations | 1.6 | 0.9 |
| Pension and Other Post Retirement Benefits | 93.5 | 101.0 |
| Other Noncurrent Liabilities | 52.8 | 44.4 |
| Contingencies (see Note 12) | | |
| Equity: | | |
| Regal Beloit Corporation Shareholders' Equity: | | |
| Common Stock, \$0.01 par value, 100.0 Million Shares Authorized, 43.4 Million and 44.3 Million Shares Issued and Outstanding in 2018 and 2017, Respectively | 0.4 | 0.4 |
| Additional Paid-In Capital | 818.7 | 877.5 |
| Retained Earnings | 1,742.3 | 1,611.6 |
| Accumulated Other Comprehensive Loss | (228.9 |) (164.0) |
| Total Regal Beloit Corporation Shareholders' Equity | 2,332.5 | 2,325.5 |
| Noncontrolling Interests | 27.0 | 29.2 |
| Total Equity | 2,359.5 | 2,354.7 |
| Total Liabilities and Equity | \$ 4,601.3 | \$ 4,388.2 |
| 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 \$0.01 Par Value | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling 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 |

| | Common Stock \$0.01 Par Value | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total Equity |
|---|---|----------------------------------|----------------------|---|-----------------------------|-----------------|
| Balance as of December 30, 2017 | \$ 0.4 | \$ 877.5 | \$ 1,611.6 | \$ (164.0) | \$ 29.2 | \$ 2,354.7 |
| Net Income | — | — | 175.6 | — | 3.7 | 179.3 |
| Other Comprehensive Loss | — | — | — | (61.9) | (1.9) | (63.8) |
| Dividends Declared (\$0.82 Per Share) | — | — | (35.8) | — | — | (35.8) |
| Stock Options Exercised | — | (4.7) | — | — | — | (4.7) |
| Stock Repurchase | — | (64.6) | (13.7) | — | — | (78.3) |
| Dividends Declared to Noncontrolling Interests | — | — | — | — | (1.6) | (1.6) |
| Share-Based Compensation | — | 10.5 | — | — | — | 10.5 |
| Adoption of Accounting Pronouncement ASU 2018-02 | — | — | 4.6 | (4.6) | — | — |
| Purchase of Subsidiary Shares from Noncontrolling Interest | — | — | — | 1.6 | (2.4) | (0.8) |
| Balance as of September 29, 2018 | \$ 0.4 | \$ 818.7 | \$ 1,742.3 | \$ (228.9) | \$ 27.0 | \$ 2,359.5 |

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, | September 30, |
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 179.3 | \$ 165.5 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Net of Acquisitions and Divestitures): | | |
| Depreciation and Amortization | 106.3 | 103.1 |
| Goodwill Impairment | 9.5 | — |
| Asset Impairments | 8.7 | — |
| (Gain) Loss on Sale or Disposition of Assets, Net | 3.5 | (2.0) |
| Share-Based Compensation Expense | 10.5 | 10.3 |
| Exit of Business | — | 3.9 |
| Exit Related Costs | 16.7 | — |
| Gain on Sale of Businesses | — | (0.1) |
| Change in Operating Assets and Liabilities | (84.2) | (45.7) |
| Net Cash Provided By Operating Activities | 250.3 | 235.0 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to Property, Plant and Equipment | (59.2) | (49.0) |
| Sales of Investment Securities | 0.5 | 0.9 |
| Purchases of Investment Securities | — | (0.9) |
| Business Acquisitions, Net of Cash Acquired | (161.5) | — |
| Proceeds from Sale of Businesses | — | 1.1 |
| Proceeds from Sale of Assets | 4.4 | 5.9 |
| Net Cash Used In Investing Activities | (215.8) | (42.0) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings Under Revolving Credit Facility | 1,018.7 | 938.4 |
| Repayments Under Revolving Credit Facility | (993.1) | (926.9) |
| Proceeds from Short-Term Borrowings | 10.7 | 18.2 |
| Repayments of Short-Term Borrowings | (11.3) | (18.2) |
| Proceeds from Long-Term Borrowings | 900.2 | 0.3 |
| Repayments of Long-Term Borrowings | (786.3) | (212.2) |
| Dividends Paid to Shareholders | (35.1) | (33.1) |
| Shares Surrendered for Taxes | (3.4) | (3.7) |
| Proceeds from the Exercise of Stock Options | — | 0.4 |
| Payments of Contingent Consideration | — | (5.3) |
| Repurchase of Common Stock | (78.3) | (45.1) |
| Distributions to Noncontrolling Interests | (1.6) | (11.7) |
| Purchase of Subsidiary Shares from Noncontrolling Interest | (0.8) | — |
| Financing fees paid | (3.5) | — |
| Net Cash Provided By (Used In) Financing Activities | 16.2 | (298.9) |
| EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | (5.9) | 8.0 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 44.8 | (97.9) |
| Cash and Cash Equivalents at Beginning of Period | 139.6 | 284.5 |
| Cash and Cash Equivalents at End of Period | \$ 184.4 | \$ 186.6 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid For:

| | | |
|--------------|--------|---------|
| Interest | \$45.6 | \$ 46.8 |
| Income taxes | \$66.2 | \$ 45.0 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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REGAL BELOIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 29, 2018
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) Condensed Consolidated Balance Sheet of Regal Beloit Corporation (the "Company") as of December 30, 2017, which has been derived from audited Consolidated Financial Statements, and (b) unaudited interim Condensed Consolidated Financial Statements as of September 29, 2018 and for the three and nine months ended September 29, 2018 and September 30, 2017, 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 of America ("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 2017 Annual Report on Form 10-K filed on February 27, 2018.

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 29, 2018 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 29, 2018.

The Condensed Consolidated Financial Statements have been prepared in accordance with GAAP, which requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Condensed 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 February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU addresses the income tax effects of items in Accumulated Other Comprehensive Loss ("AOCI") which were originally recognized in other comprehensive income, rather than in income from continuing operations. Specifically, it permits a reclassification from AOCI to Retained Earnings for the adjustment of deferred taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate resulting from the US tax law changes enacted in December 2017. It also requires certain disclosures about these reclassifications. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The new guidance must be applied either on a prospective basis in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the US federal corporate income tax rate in the US tax law changes are recognized. The Company elected to early adopt this standard as of April 1, 2018. During the second quarter, the Company elected to reclassify the stranded effects from the US tax law changes from AOCI to Retained Earnings on a prospective basis. As a result of the adoption of ASU 2018-02, the Company reclassified \$4.6 million from AOCI to Retained Earnings. The adoption did not have a material impact on the Company's Condensed Consolidated Financial Statements. See Note 4 of Notes to Condensed Consolidated Financial Statements for a breakout of the impact by component.

In August 2017, the FASB issued 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. Early adoption is permitted. The Company plans to adopt this pronouncement for its fiscal year beginning December 30, 2018. The Company is currently evaluating the impact of the pending adoption of this standard on its Condensed 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. Prospective application is required. The Company prospectively adopted ASU 2017-09 for its fiscal year beginning on December 31, 2017 and it did not have a material impact on the Company's Condensed Consolidated Financial Statements.

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 requires companies to present the service cost component of net periodic benefit cost in the same income statement line item as other compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization. Additionally, the ASU requires that companies present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of Income from Operations. This ASU is effective for annual periods beginning after December 15, 2017. The amendments in the ASU are to be applied retrospectively for presentation in the Condensed Consolidated Statements of Income and prospectively for the capitalization of the service cost component of net periodic pension cost and net periodic post retirement benefit. A practical expedient allows the Company to use the amount disclosed for net periodic benefit costs for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The Company retrospectively adopted the ASU on December 31, 2017. As a result of adopting the ASU, non-service cost related net periodic benefit income of \$0.1 million and \$0.4 million and non-service cost related net periodic benefit costs of \$0.4 million and \$1.1 million were reclassified from Cost of Sales and Operating Expenses, respectively, to Other Expenses, net for the three and nine month period ended September 30, 2017, respectively, on the Condensed Consolidated Statements of Income to conform to the current year presentation using the practical expedient allowed under this ASU.

In February 2016, the FASB issued ASU 2016-02, Leases. The core principle of ASU 2016-02 is that an entity should recognize assets and liabilities arising from a lease on its balance sheet. 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. In July 2018, the FASB amended its guidance by issuing ASU 2018-11 to provide an additional transition method, allowing a cumulative effect adjustment to the opening balance of retained earnings during the period of adoption. The amendment will also allow lessors the option to make a policy election to treat lease and non-lease components as a single lease component under certain conditions. The Company is currently evaluating its options related to this update. The new lease standard is effective for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Company is currently evaluating the impact of the new lease standard on its Consolidated Financial Statements. The Company expects the new lease standard to increase its total assets and liabilities.

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 also requires 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. The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and its related updates, effective December 31, 2017 using the modified retrospective approach. Results for reporting periods beginning after December 30, 2017 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with

the Company's historic accounting under ASC 605.

The majority of the Company's sales are recognized when products are shipped from its manufacturing or distribution facilities to customers. For a limited number of contracts, the Company recognized revenue over time in proportion to costs incurred. Under the new standard, the Company continues to recognize revenue at a single point-in-time when control is transferred to the customer. In addition, for those contracts in which the Company recognizes revenue over time, the cost-to-cost measure of progress continues to best depict the transfer of control of assets to the customer, which occurs as the Company incurs costs.

The Company completed a comprehensive assessment of ASC 606 and its potential impacts on the Company and concluded that as a result of applying the modified retrospective method, the cumulative effect adjustment to Retained Earnings as of December 31, 2017, was immaterial. Consequently, the Company did not record an adjustment for such a cumulative effect to Retained Earnings. Further, the impact of adopting the new revenue standard does not have a material impact on the Company's pattern of revenue recognition, results of operations, or financial position. The Company has also completed the process of updating accounting policies, evaluating new disclosure requirements, and identifying and implementing changes to its business processes, systems and controls to support revenue recognition and disclosure under the new guidance.

2. OTHER FINANCIAL INFORMATION

Inventories

The following table presents approximate percentage distribution between major classes of inventories:

| | September 29, December 30, | |
|------------------------------------|----------------------------|------|
| | 2018 | 2017 |
| Raw Material and Work in Process | 49% | 47% |
| Finished Goods and Purchased Parts | 51% | 53% |

Inventories are stated at cost, which is not in excess of market. Cost for approximately 52% of the Company's inventory at September 29, 2018, and 52% at December 30, 2017 was determined using the last-in, first-out ("LIFO") method.

Property, Plant and Equipment

The following table presents property, plant, and equipment by major classification (dollars in millions):

| | Useful Life in Years | September 29, December 30, | |
|-----------------------------------|----------------------|----------------------------|----------|
| | | 2018 | 2017 |
| Land and Improvements | | \$ 83.8 | \$ 78.2 |
| Buildings and Improvements | 3 - 50 | 316.8 | 294.5 |
| Machinery and Equipment | 3 - 15 | 997.9 | 986.8 |
| Property, Plant and Equipment | | 1,398.5 | 1,359.5 |
| Less: Accumulated Depreciation | | (754.0) | (736.5) |
| Net Property, Plant and Equipment | | \$ 644.5 | \$ 623.0 |

The Company recognized a fixed asset impairment of \$1.1 million related to its decision to exit the Hermetic Climate business for the three and nine month period ended September 29, 2018.

Revenue Recognition

The Company recognizes revenue from the sale of electric motors, electrical motion controls, power generation and power transmission products. The Company recognizes revenue when control of the product passes to the customer or the service is provided and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services.

Nature of Goods and Services

The Company derives revenue from the sale of electric motors, electrical motion controls, power generation and power transmission products. The Company sells products with multiple applications as well as customized products that have a single application such as those manufactured for its OEM's customers. The Company reports in three operating segments: Commercial and Industrial Systems, Climate Solutions and Power Transmission Solutions. Commercial and Industrial Systems - This segment primarily serves commercial HVAC, pool and spa, standby and critical power and oil and gas markets. Products in this segment include medium and large electric motors, commercial and industrial equipment, power generation products, high-performance drives and controls and capacitors.

Climate Solutions - This segment primarily serves the residential, light commercial HVAC, water heaters and commercial refrigeration markets. Products in this segment include small motors, controls and air moving solutions.

Power Transmission Solutions - This segment primarily serves the beverage, bulk handling, metals, special machinery, energy and aerospace markets. Products in this segment include 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.

Nature of Performance Obligations

The Company's contracts with customers typically consist of purchase orders, invoices and master supply agreements. At contract inception, across all three segments, the Company assesses the goods and services promised in its sales arrangements with customers and identifies a performance obligation for each promise to transfer to the customer a good or service that is distinct. The Company's primary performance obligations consist of product sales and customized system/solutions.

Product:

The nature of products varies from segment to segment but across all segments, individual products are not integrated and represent separate performance obligations. Revenue from product sales is typically recognized at the time of product shipment.

Customized systems/solutions:

The Company provides customized system/solutions which consist of multiple products engineered and designed to specific customer specification, combined or integrated into one combined solution for a specific customer application. The performance obligation is typically satisfied as goods are transferred to the customer and revenue is recognized over-time.

When Performance Obligations are Satisfied

For performance obligations related to product sales, the Company determines that the customer obtains control upon shipment and recognizes revenue accordingly. Once a product has shipped, the customer is able to direct the use of, and obtain substantially all of the remaining benefits from the asset. The Company considers control to have transferred upon shipment because the Company has a present right to payment at that time, the customer has legal title to the asset, the Company has transferred physical possession of the asset, and the customer has significant risks and rewards of ownership of the asset.

For a limited number of contracts, the Company transfers control and recognizes revenue over time. The Company satisfies its performance obligations as goods are transferred to the customer and uses a cost-based input method to measure progress. In applying the cost-based method of revenue recognition, the Company uses actual costs incurred to date relative to the total estimated costs for the contract in conjunction with the customer's commitment to perform in determining the amount of revenue and cost to recognize. The Company has determined that the cost-based input method provides a faithful depiction of the transfer of goods to the customer.

Payment Terms

The arrangement with the customer states the final terms of the sale, including the description, quantity, and price of each product or service purchased. Payment terms vary by customer but typically range from due upon delivery to 120 days after delivery. For contracts recognized at a point in time, revenue and billing typically occur simultaneously. The Company generally has payment terms with its customers of one year or less and has elected the practical expedient applicable to such contracts not to consider the time value of money. For contracts recognized using the cost-based input method, revenue recognized in excess of customer billings and billings in excess of revenue recognized are reviewed to determine the net asset or net liability position and classified as such on the Condensed Consolidated Balance Sheet.

Returns, Refunds, and Warranties

The Company's contracts do not explicitly offer a "general" right of return to its customers (e.g. customers ordered excess products and return unused items). Warranties are classified as either assurance type or service type warranties. A warranty is considered an assurance type warranty if it provides the customer with assurance that the product will function as intended. A warranty that goes above and beyond ensuring basic functionality is considered a service type warranty. The Company generally only offers limited warranties which are considered to be assurance type warranties and are not accounted for as separate performance obligations under the revenue model. Customers generally receive repair or replacement on products that do not function to specification and are treated under warranty accrual. Estimated product warranties are provided for specific product groups and the Company accrues for estimated future warranty cost in the period in which the sale is recognized. The Company estimates the accrual requirements based on historical warranty loss experience and the cost is included in Cost of Sales.

Volume Rebates

In some cases, the nature of the Company's contract may give rise to variable consideration including volume based sales incentives. If the customer achieves specific sales targets, they are entitled to rebates. The Company estimates the projected amount of the rebates that will be achieved and recognizes the estimated costs as a reduction to Net Sales as revenue is recognized.

Disaggregation of Revenue

The following tables presents the Company's revenues disaggregated by geographical region for the three and nine month period ended September 29, 2018 (in millions):

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| Three Months Ended September 29, 2018 | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions | Total |
|---------------------------------------|--|----------------------|------------------------------------|-----------|
| North America | \$ 306.4 | \$ 228.7 | \$ 156.1 | \$691.2 |
| Asia | 67.7 | 6.9 | 6.8 | 81.4 |
| Europe | 53.0 | 11.3 | 33.8 | 98.1 |
| Rest-of-World | 35.2 | 8.5 | 11.0 | 54.7 |
| Total | \$ 462.3 | \$ 255.4 | \$ 207.7 | \$925.4 |
| Nine Months Ended September 29, 2018 | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions | Total |
| North America | \$ 898.3 | \$ 689.0 | \$ 512.2 | \$2,099.5 |
| Asia | 227.7 | 30.7 | 16.5 | 274.9 |
| Europe | 124.6 | 35.9 | 73.2 | 233.7 |
| Rest-of-World | 94.7 | 37.0 | 24.1 | 155.8 |
| Total | \$ 1,345.3 | \$ 792.6 | \$ 626.0 | \$2,763.9 |

Practical Expedients and Exemptions

The Company typically expenses incremental direct costs of obtaining a contract, primarily sales commissions, as incurred because the amortization period is expected to be 12 months or less. Contract costs are included in Operating Expenses on the accompanying Condensed Consolidated Statements of Earnings.

Due to the short nature of the Company's contracts, the Company has adopted a practical expedient to not disclose revenue allocated to remaining performance obligations as substantially all of its contracts have original terms of 12 months or less.

The Company typically does not include in its transaction price any amounts collected from customers for sales taxes. The Company has elected to account for shipping and handling costs as fulfillment activities and expense the costs as incurred.

Exit of Business

On July 31, 2018, the Company received notification from a customer of its Hermetic Climate business that it would wind down operations. The Hermetic Climate business accounted for sales of \$42.9 million and \$49.7 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. As a result of this notification, the Company accelerated its plans to exit this business. The Company will be winding down its operations over the next few months and as a result, the Company recognized exit and exit related charges of \$34.9 million during the three and nine months ended September 29, 2018. The charges included goodwill impairment of \$9.5 million, customer relationship intangible asset impairment of \$5.5 million, technology intangible asset impairment of \$2.1 million and fixed asset impairment of \$1.1 million. In addition to the impairments, the Company took charges on accounts receivable and inventory along with recognizing other expenses related to exiting the business.

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

The results of operations of acquired businesses are included in the Condensed Consolidated Financial Statements from the date of acquisition. Acquisition and acquisition related expenses of \$1.4 million were recorded in Operating

Expenses for the three and nine months ended September 29, 2018. There were no acquisition and acquisition related expenses for the three and nine months ended September 30, 2017.

2018 Acquisitions

Nicotra Gebhardt

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On April 10, 2018, the Company acquired Nicotra Gebhardt S.p.A ("NG") for \$161.5 million in cash, net of \$8.5 million of cash acquired. NG is a leader in critical, energy-efficient systems for ventilation and air quality. NG manufactures, sells and services fans and blowers under the industry leading brands of Nicotra and Gebhardt. The financial results of NG have been included in the Company's Commercial & Industrial Systems segment from the date of acquisition.

The Company has not yet finalized its analysis of the fair value of tangible assets acquired and liabilities assumed and the allocation of any excess acquisition cost over the fair value of the net tangible assets acquired to any separately identifiable intangible assets. As a result, the initial accounting is incomplete. The Company booked provisional amounts at the acquisition date and has made adjustments to the provisional amounts to reflect changes in the initial value of property, plant and equipment, intangible assets and the related deferred tax balances. The Company will make adjustments retrospectively during the allowed measurement period. The Company has completed its initial assessment of valuing property, plant and equipment using both a market approach and a cost approach depending on the asset. Intangible assets have been valued using the present value of projected future cash flows. Significant assumptions include royalty rates, discount rates and customer attrition. These assumptions continue to be reviewed and refined. None of the goodwill is expected to be deductible for tax purposes.

The following table summarizes the provisional fair value of assets acquired and liabilities assumed:

| | As of April 10, 2018 |
|-------------------------------|-------------------------------|
| Current Assets | \$17.2 |
| Trade Receivables | 28.0 |
| Inventories | 22.1 |
| Property, Plant and Equipment | 44.6 |
| Intangible Assets | 37.8 |
| Goodwill | 69.1 |
| Other Noncurrent Assets | 2.5 |
| Total Assets Acquired | 221.3 |
| Accounts Payable | 16.7 |
| Current Liabilities Assumed | 14.2 |
| Long-Term Liabilities Assumed | 20.4 |
| Net Assets Acquired | \$170.0 |

Other Disclosures

The Condensed Consolidated Statements of Income include the results of operations of NG since the date of acquisition, and such results are reflected in the Commercial and Industrial Systems segment. Results of operations since the date of acquisition and supplemental pro forma financial information have not been presented for the NG acquisition as such information is not material to the results of operations.

South Africa

During the three months ended September 29, 2018 the Company purchased additional shares owned by the noncontrolling interest in its joint venture in a South African distribution business for \$0.8 million.

4. ACCUMULATED OTHER COMPREHENSIVE LOSS

Foreign currency translation adjustments, hedging activities and pension and post retirement benefit adjustments are included in AOCI, a component of Total Equity.

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The following table presents changes in AOCI by component for the three and nine months ended September 29, 2018 and September 30, 2017 (in millions):

| | Three Months Ended September 29, 2018 | | | |
|--|--|---|---|-----------|
| | Hedging Activities | Pension and Post Retirement Benefit Adjustments | Foreign Currency Translation Adjustments | Total |
| Beginning Balance | \$(0.5) | \$ (37.7) | \$ (177.4) | \$(215.6) |
| Other Comprehensive Income (Loss) before Reclassifications | 4.0 | — | (19.5) | (15.5) |
| Tax Impact | (0.9) | — | 1.8 | 0.9 |
| Amounts Reclassified from Accumulated Other Comprehensive Loss | (1.3) | 1.0 | — | (0.3) |
| Tax Impact | 0.3 | (0.3) | — | — |
| Net Current Period Other Comprehensive Income (Loss) | 2.1 | 0.7 | (17.7) | (14.9) |
| Purchase of Subsidiary Shares from Noncontrolling Interest | — | — | 1.6 | 1.6 |
| Ending Balance | \$1.6 | \$ (37.0) | \$ (193.5) | \$(228.9) |

| | 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) |

| | Nine Months Ended September 29, 2018 | | | Total |
|--|---|---|---|-----------|
| | Hedging Activities | Pension and Post Retirement Benefit Adjustments | Foreign Currency Translation Adjustments | |
| Beginning Balance | \$8.6 | \$ (32.6) | \$ (140.0) | \$(164.0) |
| Other Comprehensive Loss before Reclassifications | 3.0 | — | (56.9) | (53.9) |
| Tax Impact | (0.7) | — | 1.8 | 1.1 |
| Amounts Reclassified from Accumulated Other Comprehensive Loss | (15.0) | 2.9 | — | (12.1) |
| Tax Impact | 3.7 | (0.7) | — | 3.0 |
| Net Current Period Other Comprehensive Income (Loss) | (9.0) | 2.2 | (55.1) | (61.9) |
| Purchase of Subsidiary Shares from Noncontrolling Interest | — | — | 1.6 | 1.6 |
| Adoption of Accounting Pronouncement ASU 2018-02 | 2.0 | (6.6) | — | (4.6) |
| Ending Balance | \$1.6 | \$ (37.0) | \$ (193.5) | \$(228.9) |

| | Nine Months Ended September 30, 2017 | | | Total |
|--|---|---|---|-----------|
| | Hedging Activities | Pension and Post Retirement Benefit Adjustments | Foreign Currency Translation Adjustments | |
| 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) |

The Condensed Consolidated Statements of Income line items affected by the hedging activities reclassified from AOCI 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. During the third quarter of 2018, the Company accelerated its plans to exit the Hermetic Climate business. This decision resulted in an impairment charge of \$9.5 million for the three and nine months ended September 29, 2018.

The following table presents changes to goodwill during the nine months ended September 29, 2018 (in millions):

| | Total | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions |
|---------------------------------------|-----------|--|----------------------|------------------------------------|
| Balance as of December 30, 2017 | \$1,477.1 | \$ 548.8 | \$ 342.4 | \$ 585.9 |
| Acquisition and Valuation Adjustments | 69.1 | 69.1 | — | — |
| Less: Impairment Charges | (9.5) | — | (9.5) | — |
| Translation Adjustments | (12.4) | (6.2) | (1.0) | (5.2) |
| Balance as of September 29, 2018 | \$1,524.3 | \$ 611.7 | \$ 331.9 | \$ 580.7 |

Cumulative Goodwill Impairment Charges \$285.2 \$ 244.8 \$ 17.2 \$ 23.2

Intangible Assets

The following table presents intangible assets (in millions):

| | Weighted Average Amortization Period (Years) | September 29, 2018 | | December 30, 2017 | |
|------------------------------------|---|--------------------|-----------------------------|-------------------|-----------------------------|
| | | Gross Value | Accumulated Amortization | Gross Value | Accumulated Amortization |
| Amortizable Intangible Assets: | | | | | |
| Customer Relationships | 16 | \$735.4 | \$ 279.2 | \$720.9 | \$ 249.6 |
| Technology | 13 | 188.9 | 128.7 | 192.3 | 122.8 |
| Trademarks | 13 | 41.2 | 26.6 | 32.8 | 25.7 |
| Patent and Engineering Drawings | 5 | 16.6 | 16.6 | 16.6 | 16.6 |
| Non-Compete Agreements | 8 | 8.3 | 8.2 | 8.5 | 8.4 |
| | | 990.4 | 459.3 | 971.1 | 423.1 |
| Non-Amortizable Trade Names | | | | | |
| | | 122.1 | — | 122.5 | — |
| | | \$1,112.5 | \$ 459.3 | \$1,093.6 | \$ 423.1 |

Amortization expense recorded for the three and nine months ended September 29, 2018 was \$13.8 million and \$41.4 million, respectively. Amortization expense recorded for the three and nine months ended September 30, 2017 was \$13.9 million and \$41.9 million, respectively. Amortization expense for fiscal year 2018 is estimated to be \$54.9 million. Amortization expense does not include any impairment recognized during the respective periods. The Company recognized impairment of its customer relationships and technology intangible assets of \$5.5 million and \$2.1 million, respectively, related to its decision to exit the Hermetic Climate business for the three and nine months ended September 29, 2018.

The following table presents future annual amortization for intangible assets (in millions):

| Year | Estimated Amortization |
|------|---------------------------|
| 2019 | \$ 53.6 |
| 2020 | 51.1 |
| 2021 | 44.5 |
| 2022 | 42.8 |
| 2023 | 42.8 |

6. SEGMENT INFORMATION

The Company is comprised of three operating segments: Commercial and Industrial Systems, Climate Solutions, and Power Transmission Solutions.

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.

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 29, 2018 and September 30, 2017 (in millions):

| | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions | Eliminations | Total |
|---------------------------------------|--|----------------------|------------------------------------|--------------|---------|
| Three Months Ended September 29, 2018 | | | | | |
| External Sales | \$ 462.3 | \$ 255.4 | \$ 207.7 | \$ — | \$925.4 |
| Intersegment Sales | 11.7 | 5.7 | 5.6 | (23.0) | — |
| Total Sales | 474.0 | 261.1 | 213.3 | (23.0) | 925.4 |
| Gross Profit | 109.8 | 62.1 | 70.7 | — | 242.6 |
| Operating Expenses | 74.5 | 37.9 | 42.6 | — | 155.0 |
| Goodwill Impairment | — | 9.5 | — | — | 9.5 |
| Asset Impairments | — | 8.7 | — | — | 8.7 |
| Income From Operations | 35.3 | 6.0 | 28.1 | — | 69.4 |
| Depreciation and Amortization | 16.4 | 5.4 | 13.5 | — | 35.3 |
| Capital Expenditures | 11.3 | 3.6 | 3.8 | — | 18.7 |
| 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 | 97.9 | 66.0 | 63.0 | — | 226.9 |
| Operating Expenses | 68.4 | 26.9 | 37.3 | — | 132.6 |
| Income From Operations | 29.5 | 39.1 | 25.7 | — | 94.3 |
| Depreciation and Amortization | 15.2 | 5.5 | 13.6 | — | 34.3 |
| Capital Expenditures | 8.6 | 3.1 | 3.6 | — | 15.3 |

| | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions | Eliminations | Total |
|--------------------------------------|--|----------------------|------------------------------------|--------------|------------|
| Nine Months Ended September 29, 2018 | | | | | |
| External Sales | \$ 1,345.3 | \$ 792.6 | \$ 626.0 | \$ — | \$ 2,763.9 |
| Intersegment Sales | 39.3 | 17.0 | 17.6 | (73.9) | — |
| Total Sales | 1,384.6 | 809.6 | 643.6 | (73.9) | 2,763.9 |
| Gross Profit | 315.3 | 198.7 | 210.9 | — | 724.9 |
| Operating Expenses | 220.4 | 98.2 | 130.9 | — | 449.5 |
| Goodwill Impairment | — | 9.5 | — | — | 9.5 |
| Asset Impairments | — | 8.7 | — | — | 8.7 |
| Income From Operations | 94.9 | 82.3 | 80.0 | — | 257.2 |
| Depreciation and Amortization | 49.0 | 16.0 | 41.3 | — | 106.3 |
| Capital Expenditures | 31.2 | 16.0 | 12.0 | — | 59.2 |
| Nine Months Ended September 30, 2017 | | | | | |
| External Sales | \$ 1,196.6 | \$ 774.2 | \$ 568.8 | \$ — | \$ 2,539.6 |
| Intersegment Sales | 52.2 | 19.2 | 3.4 | (74.8) | — |
| Total Sales | 1,248.8 | 793.4 | 572.2 | (74.8) | 2,539.6 |
| Gross Profit | 285.2 | 195.0 | 185.0 | — | 665.2 |
| Operating Expenses | 209.4 | 84.1 | 119.2 | — | 412.7 |
| Income From Operations | 75.8 | 110.9 | 65.8 | — | 252.5 |
| Depreciation and Amortization | 45.2 | 16.6 | 41.3 | — | 103.1 |
| Capital Expenditures | 30.3 | 9.7 | 9.0 | — | 49.0 |

The following table presents identifiable assets information attributable to the Company's operating segments as of September 29, 2018 and December 30, 2017 (in millions):

| | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions | Total |
|--|--|----------------------|------------------------------------|------------|
| Identifiable Assets as of September 29, 2018 | \$ 2,081.4 | \$ 898.1 | \$ 1,621.8 | \$ 4,601.3 |
| Identifiable Assets as of December 30, 2017 | \$ 1,854.1 | \$ 909.9 | \$ 1,624.2 | \$ 4,388.2 |

7. DEBT AND BANK CREDIT FACILITIES

The following table presents the Company's indebtedness as of September 29, 2018 and December 30, 2017 (in millions):

| | September 29, December 30, | |
|--|----------------------------|------------|
| | 2018 | 2017 |
| Term Facility | \$ 835.0 | \$ — |
| Senior Notes | 400.0 | 500.0 |
| Multicurrency Revolving Facility | 45.4 | — |
| Prior Term Facility | — | 621.1 |
| Prior Multicurrency Revolving Facility | — | 19.7 |
| Other | 5.0 | 5.7 |
| Less: Debt Issuance Costs | (6.5) | (5.4) |
| Total | 1,278.9 | 1,141.1 |
| Less: Current Maturities | 0.6 | 101.2 |
| Non-Current Portion | \$ 1,278.3 | \$ 1,039.9 |

The Credit Agreement and Prior Credit Agreement

In connection with the Company's acquisition of the Power Transmission Solutions business of Emerson Electric Co. (the "PTS Acquisition") on January 30, 2015, the Company entered into a Credit Agreement (the "Prior 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 "Prior Term Facility") and (ii) a 5-year unsecured multicurrency revolving facility in the principal amount of \$500.0 million (the "Prior Multicurrency Revolving Facility"), including a \$100.0 million letter of credit sub facility, available for general corporate purposes. 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.

On August 27, 2018 the Company replaced the Prior Credit Agreement by entering into an Amended and Restated 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 \$900.0 million (the "Term Facility") and (ii) a 5-year unsecured multicurrency revolving facility in the principal amount of \$500.0 million (the "Multicurrency Revolving Facility"), including a \$50.0 million letter of credit sub facility, available for general corporate purposes. 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 Term Facility was drawn in full on August 27, 2018 with the proceeds settling the amounts owed under the Prior Term Facility and Prior Multicurrency Revolving Facility. The loan under the Term Facility requires quarterly amortization at a rate starting at 5.0% per annum, increasing to 7.5% per annum after three years and further increasing to 10.0% per annum for the last years of the Term Facility, unless previously prepaid. The weighted average interest rate on the Term Facility was 3.5% for the three months ended September 29, 2018. The weighted average interest rate on the Prior Term Facility was 3.5% and 3.3% for the three and nine months ended September 29, 2018, respectively and 2.7% and 2.5% for the three and nine months ended September 30, 2017, respectively. The Credit Agreement requires that the Company prepay the loans under the Term Facility with 100% of the net cash proceeds received from specified asset sales and borrowed money indebtedness, subject to certain exceptions.

At September 29, 2018, the Company had borrowings under the Multicurrency Revolving Facility in the amount of \$45.4 million, \$0.7 million of standby letters of credit issued under the facility, and \$453.9 million of available borrowing capacity. The average daily balance in borrowings under the Multicurrency Revolving Facility was \$32.8 million and the weighted average interest rate on the Multicurrency Revolving Facility was 3.4% for the three months ended September 29, 2018. The average daily balance in borrowings under the Prior Multicurrency Revolving Facility

was \$304.7 million and \$211.7 million, and the weighted average interest rate on the Prior Multicurrency Revolving Facility was 3.4% and 3.2% for the three and nine months ended September 29, 2018, respectively. The average daily balance in borrowings under the Prior Multicurrency Revolving Facility was \$97.8 million and \$105.4 million and the weighted average interest rate on the Prior Multicurrency Revolving Facility was 2.7% and 2.5% for

the three and nine months ended September 30, 2017. 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.

Senior Notes

At September 29, 2018, the Company had \$400.0 million of senior notes (the “Notes”) outstanding. The Notes consist of \$400.0 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. As of September 29, 2018, \$400.0 million of the 2011 Notes are included in Long-Term Debt on the Condensed Consolidated Balance Sheets.

The following table presents details on the Notes at September 29, 2018 (in millions):

| | Principal | Interest Rate | Maturity |
|-------------------------|-----------|---------------|---------------|
| 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 |
| | \$ 400.0 | | |

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

Compliance with Financial Covenants

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 Notes and the Credit Agreement as of September 29, 2018.

Other Notes Payable

At September 29, 2018, other notes payable of approximately \$5.0 million were outstanding with a weighted average interest rate of 4.9%. At December 30, 2017, other notes payable of approximately \$5.7 million were outstanding with a weighted average rate of 5.7%.

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 \$1,292.7 million and \$1,165.4 million as of September 29, 2018 and December 30, 2017, respectively.

8. RETIREMENT AND POST RETIREMENT HEALTH CARE PLANS

The following table presents the Company’s net periodic benefit cost components (in millions):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|----------------|-------------------|----------------|
| | September 2018 | September 2017 | September 2018 | September 2017 |
| Service Cost | \$ 1.8 | \$ 1.8 | \$ 5.5 | \$ 5.4 |
| Interest Cost | 2.4 | 2.5 | 7.2 | 7.3 |
| Expected Return on Plan Assets | (3.0) | (2.8) | (8.9) | (8.4) |
| Amortization of Prior Service Cost and Net Actuarial Loss | 1.0 | 0.6 | 2.9 | 1.8 |
| Net Periodic Benefit Cost | \$ 2.2 | \$ 2.1 | \$ 6.7 | \$ 6.1 |

The service cost component is included in Cost of Sales and Operating Expenses. All other components of net period benefit costs are included in Other Expenses, net on the Company's Condensed Consolidated Statements of Income.

The estimated net actuarial loss and prior service cost for post retirement plans that will be amortized from AOCI into net periodic benefit cost during the 2018 fiscal year are \$3.5 million and \$0.2 million, respectively.

For the three months ended September 29, 2018 and September 30, 2017, the Company contributed \$3.3 million and \$6.0 million, respectively, to post retirement plans. For the nine months ended September 29, 2018 and September 30, 2017, the Company contributed \$10.2 million and \$8.2 million, respectively, to post retirement plans. The Company expects to make total contributions of \$11.4 million in 2018. The Company contributed a total of \$8.6 million in fiscal 2017. The assumptions used in the valuation of the Company's post retirement plans and in the target investment allocation have remained the same as those disclosed in the Company's 2017 Annual Report on Form 10-K filed on February 27, 2018.

9. SHAREHOLDERS' EQUITY

Repurchase of Common Stock

The Company repurchased and retired 77,533 shares of its common stock in the quarter ended September 29, 2018, at an average cost of \$79.93 per share for a total cost of \$6.2 million. The Company repurchased and retired 1,007,538 shares of its common stock for the nine months ended September 29, 2018, at an average cost of \$77.74 per share for a total cost of \$78.3 million. There were 32,000 shares repurchased under the 3.0 million share repurchase program approved by the Company's Board of Directors in November, 2013. At a meeting of the Board of Directors on July 24, 2018, this repurchase program was extinguished and replaced with an authorization to purchase up to \$250.0 million of shares. At September 29, 2018, \$3.6 million of shares were repurchased under the program approved on July 24, 2018.

Share-Based Compensation

The majority of the Company's annual share-based incentive awards are granted in the second fiscal quarter.

The Company recognized approximately \$3.3 million in share-based compensation expense for the three months ended September 29, 2018 and September 30, 2017, respectively. Share-based compensation expense was \$10.5 million and \$10.3 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. The total income tax benefit recognized in the Condensed Consolidated Statements of Income for share-based compensation expense was \$0.8 million and \$1.3 million for the three months ended September 29, 2018 and September 30, 2017, respectively. The total income tax benefit recognized in the Condensed Consolidated Statements of Income for share-based compensation expense was \$2.5 million and \$3.9 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. The Company recognizes compensation expense on grants of share-based compensation awards on a straight-line basis over the vesting period of each award. As of September 29, 2018, total unrecognized compensation cost related to share-based compensation awards was approximately \$27.1 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 2.2 years. On October 10, 2018, the Company entered into a retirement agreement with the CEO resulting in the modification of the CEO's unvested awards. The Company expects to recognize the modified award values over the modified service term. The modification will increase the amount of unrecognized compensation cost and reduce the weighted average period in which the Company expects to recognize the unrecognized compensation cost.

Approximately 2.6 million shares were available for future grant under the 2018 Equity Incentive Plan at September 29, 2018.

Stock Appreciation Rights

The Company uses stock settled stock appreciation rights ("SARs") as a form of share-based incentive awards. SARs are the right to receive stock in an amount equal to the appreciation in value of a share of stock over the base price per share that generally vest over 5 years and expire 10 years from the grant date. All grants are made at prices equal to the fair market value of the stock on the grant date. For the nine months ended September 29, 2018 and September 30,

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2017, expired and canceled shares were immaterial.

The following table presents share-based compensation activity for the nine months ended September 29, 2018 and September 30, 2017 (in millions):

| | September 29, 2018 | September 30, 2017 |
|---|-----------------------|-----------------------|
| Total Intrinsic Value of Share-Based Incentive Awards Exercised | \$ 4.9 | \$ 3.7 |
| Cash Received from Stock Option Exercises | — | 0.4 |
| Income Tax Benefit from the Exercise of Stock Options | 0.1 | 0.7 |
| Total Fair Value of Share-Based Incentive Awards Vested | 4.0 | 4.3 |

The following table presents assumptions used in the Company's Black-Scholes valuation related to grants of SARs:

| | | | | |
|---|---------|---------|---|--|
| | 2018 | 2017 | | |
| Per Share Weighted Average Fair Value of Grants | \$22.73 | \$23.73 | | |
| Risk-Free Interest Rate | 2.9 | % 2.0 | % | |
| Expected Life (Years) | 7.0 | 7.0 | | |
| Expected Volatility | 27.8 | % 27.9 | % | |
| Expected Dividend Yield | 1.4 | % 1.2 | % | |

The average risk-free interest rate is based on the US Treasury security rate as of the grant date. The expected dividend yield is based on the projected annual dividend as a percentage of the estimated market value of the Company's common stock as of the grant date. The Company estimated the expected volatility using a weighted average of daily historical volatility of the Company's stock price over the expected term of the award. The Company estimated the expected term using historical data adjusted for the estimated exercise dates of unexercised awards. The following table presents a summary of share-based incentive plan grant activity (SARs) for the nine months ended September 29, 2018.

| Number of Shares Under SARs | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (in millions) |
|-----------------------------------|------------|---------------------------------|---|---|
| Exercisable at December 30, 2017 | 1,601,791 | \$ 66.46 | | |
| Granted | 193,357 | 77.60 | | |
| Exercised | (241,574) | 58.00 | | |
| Forfeited | (5,206) | 70.30 | | |
| Expired | (1,250) | 54.28 | | |
| Outstanding at September 29, 2018 | 1,547,118 | \$ 69.17 | 5.8 | \$ 20.5 |
| Exercisable at September 29, 2018 | 936,737 | \$ 66.42 | 4.1 | \$ 15.0 |

Compensation expense recognized related to SARs was \$2.7 million for the nine months ended September 29, 2018. As of September 29, 2018, there was \$10.6 million of unrecognized compensation cost related to non-vested SARs that is expected to be recognized as a charge to earnings over a weighted average period of 3.4 years.

The number of SARs expected to vest is materially consistent with those outstanding and not yet exercisable.

Restricted Stock Awards and Restricted Stock Units

Restricted stock awards ("RSA") and restricted stock units ("RSU") consist of shares or the rights to shares of the Company's stock. The awards are restricted such that they are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer. As defined in the individual grant agreements, acceleration of vesting may occur under a change in control, death, disability or normal retirement of the grantee.

The following table presents a summary of RSA award activity for the nine months ended September 29, 2018:

| | Shares | Weighted Average Fair Value at Grant Date | Weighted Average Remaining Contractual Term (Years) |
|------------------------------------|----------|---|---|
| Unvested RSAs at December 30, 2017 | 13,941 | \$ 80.70 | 0.4 |
| Granted | 16,490 | 74.68 | |
| Vested | (13,941) | 80.70 | |

Unvested RSAs at September 29, 2018 16,490 \$ 74.68 0.6

RSAs vest on the first anniversary of the grant date, provided the holder of the shares is continuously employed by or in the service of the Company until the vesting date. Compensation expense recognized related to the RSAs was \$0.9 million for the nine months ended September 29, 2018.

As of September 29, 2018, there was \$0.8 million of unrecognized compensation cost related to non-vested RSAs that is expected to be recognized as a charge to earnings over a weighted average period of 0.6 years.

The following table presents a summary of RSU award activity for the nine months ended September 29, 2018:

| Shares | Weighted Average Fair Value at Grant Date | Weighted Average Remaining Contractual Term (Years) |
|-------------------------------------|---|---|
| Unvested RSUs at December 30, 2017 | 260,533 \$ 70.81 | 1.7 |
| Granted | 78,140 74.51 | |
| Vested | (67,999) 76.33 | |
| Forfeited | (4,028) 69.91 | |
| Unvested RSUs at September 29, 2018 | 235,746 \$ 69.75 | 2.0 |

RSUs vest on the third anniversary of the grant date, provided the holder of the RSUs is continuously employed by the Company until the vesting date. Compensation expense recognized related to the RSUs was \$4.9 million for the nine months ended September 29, 2018.

As of September 29, 2018, there was \$9.0 million of unrecognized compensation cost related to non-vested RSUs that is expected to be recognized as a charge to earnings over a weighted average period of 2.0 years.

Performance Share Units

Performance share units ("PSU") consist of shares or the rights to shares of the Company's stock which are awarded to employees of the Company. These shares are payable upon the determination that the Company achieved certain established performance targets and can range from 0% to 200% of the targeted payout based on the actual results. PSUs have a performance period of 3 years and vest 3 years from the grant date. The PSUs have performance criteria based on a return on invested capital metric or they have performance criteria using returns relative to the Company's peer group. As set forth in the individual award agreements, acceleration of vesting may occur under a change in control, death or disability. There are no voting rights associated with PSUs until vesting occurs and a share of stock is issued. Some of the PSU awards are valued using a Monte Carlo simulation method as of the grant date while others are valued using the closing market price as of the grant date depending on the performance criteria for the award.

The following table presents the assumptions used in the Company's Monte Carlo simulation:

| | September 29, 2018 | | September 30, 2017 | |
|-------------------------|--------------------|---|--------------------|---|
| Risk-Free Interest Rate | 2.7 | % | 1.6 | % |
| Expected Life (Years) | 3.0 | | 3.0 | |
| Expected Volatility | 25.0 | % | 24.0 | % |
| Expected Dividend Yield | 1.4 | % | 1.3 | % |

The following table presents a summary of PSU activity for the nine months ended September 29, 2018:

| Shares | Weighted Average Fair Value at Grant Date | Weighted Average Remaining Contractual Term (Years) |
|-------------------------------------|---|---|
| Unvested PSUs at December 30, 2017 | 155,116 | \$ 70.43 |
| Granted | 50,659 | 83.80 |
| Vested | (1,359) | 57.43 |
| Forfeited | (36,576) | 83.55 |
| Unvested PSUs at September 29, 2018 | 167,840 | \$ 71.71 |

Compensation expense for awards granted is recognized based on the grant issuance value or the expected payout ratio depending upon the performance criterion for the award, net of estimated forfeitures. Compensation expense recognized related to PSUs was \$2.0 million for the nine months ended September 29, 2018. Total unrecognized compensation expense for all PSUs granted as of September 29, 2018 is estimated to be \$6.6 million which is expected to be recognized as a charge to earnings over a weighted average period of 2.0 years.

10. INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law revising the US corporate income tax. Changes included, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the elimination of certain deductions and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries. The primary impacts of the Act reflected in the Condensed Consolidated Financial Statements relate to the remeasurement of deferred tax assets and liabilities resulting from the change in the corporate tax rate; a one-time mandatory transition tax on undistributed earnings of foreign affiliates; and deferred taxes in connection with a change in the Company's intent to permanently reinvest the historical undistributed earnings of its foreign affiliates. The Securities and Exchange Commission (the "SEC") provided guidance that allows the Company to record provisional amounts if the accounting assessment is incomplete for impacts of the Act, with the requirement that the accounting be finalized in a period not to exceed one year from the date of enactment. The Company recorded a net \$1.0 million provisional reduction in tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional benefit recognized related to the remeasurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse was \$51.0 million. The provisional expense recognized related to the one-time tax on the mandatory deemed repatriation of foreign earnings was \$40.0 million of which the Company will elect to pay over a period of eight years. During the three months ended September 29, 2018, the U.S. Department of Treasury released proposed rules affecting the computation of the Company's 2017 federal income tax liability. As a result of this new guidance and additional analysis of the impacts of the Act, the Company revised its prior estimates and recorded \$6.6 million of tax benefit related to the Act during the three months ended September 29, 2018. The Company continues to treat these amounts as provisional until the final regulations are issued or one year from the date of enactment has lapsed, whichever is earlier. The final impact may differ from this estimate, possibly materially, if the final regulations are issued prior to December 29, 2018.

The Act also subjects US shareholders to tax on Global Intangible Low Taxed Income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and has not yet determined an accounting policy. As of September 29, 2018, the Company has included GILTI related to current year earnings only in its estimated annual effective tax rate and has not provided additional GILTI on deferred items.

The effective tax rate for the three months ended September 29, 2018 was 6.4% versus 21.7% for the three months ended September 30, 2017. The effective tax rate for the nine months ended September 29, 2018 was 17.3% versus 21.9% for the nine months ended September 30, 2017. The change in the effective tax rate for the three months ended September 29, 2018 was primarily driven by the impact of the Act and the mix of earnings. The change in the effective tax rate for the nine months ended September 29, 2018 was primarily driven by the impact of the Act and the mix of earnings.

As of September 29, 2018 and December 30, 2017, the Company had approximately \$5.7 million and \$6.7 million, respectively, of unrecognized tax benefits, all of which would impact the effective income tax rate if recognized. Potential interest and penalties related to unrecognized tax benefits are recorded in income tax expense.

With few exceptions, the Company is no longer subject to US Federal and state/local income tax examinations by tax authorities for years prior to 2013, and the Company is no longer subject to non-US income tax examinations by tax authorities for years prior to 2011.

11. EARNINGS PER SHARE

Diluted earnings per share is calculated based upon earnings applicable to common shares divided by the weighted-average number of common shares outstanding during the period adjusted for the effect of other dilutive securities. The amount of the anti-dilutive shares were 0.6 million and 0.5 million for the three months ended September 29, 2018 and September 30, 2017, respectively, and 0.6 million and 0.4 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. The following table reconciles the basic and diluted shares used in earnings per share calculations for the three and nine months ended September 29, 2018 and September 30, 2017 (in millions):

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| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2018 | September 30, 2017 | September 30, 2018 | September 30, 2017 |
| Denominator for Basic Earnings Per Share | 43.4 | 44.4 | 43.8 | 44.7 |
| Effect of Dilutive Securities | 0.4 | 0.4 | 0.3 | 0.3 |
| Denominator for Diluted Earnings Per Share | 43.8 | 44.8 | 44.1 | 45.0 |

12. CONTINGENCIES

One of the Company's subsidiaries that it acquired in 2007 is subject to numerous claims filed in various jurisdictions relating to certain sub-fractional motors that were primarily manufactured through 2004 and that were included as components of residential and commercial ventilation units manufactured and sold in high volumes by a third party. These ventilation units are subject to product safety requirements and other potential regulation of their performance by government agencies such as the US Consumer Product Safety Commission ("CPSC"). The claims generally allege that the ventilation units were the cause of fires. The Company has recorded an estimated liability for incurred claims. Based on the current facts, the Company cannot assure that these claims, individually or in the aggregate, will not have a material adverse effect on its subsidiary's financial condition. The Company's subsidiary cannot reasonably predict the outcome of these claims, the nature or extent of any CPSC or other remedial actions, if any, that the Company's subsidiary may need to undertake with respect to motors that remain in the field, or the costs that may be incurred, some of which could be significant.

The Company is, from time to time, party to litigation and other legal or regulatory proceedings that arise in the normal course of its business operations and the outcomes of which are subject to significant uncertainty, including product warranty and liability claims, contract disputes and environmental, asbestos, intellectual property, employment and other litigation matters. The Company's products are used in a variety of industrial, commercial and residential applications that subject the Company to claims that the use of its products is alleged to have resulted in injury or other damage. Many of these matters will only be resolved when one or more future events occur or fail to occur. Management conducts regular reviews, including updates from legal counsel, to assess the need for accounting recognition or disclosure of these contingencies, and such assessment inherently involves an exercise in judgment. The Company accrues for exposures in amounts that it believes are adequate, and the Company does not believe that the outcome of any such lawsuit individually or collectively will have a material effect on the Company's financial position, its results of operations or its cash flows.

The Company recognizes the cost associated with its standard warranty on its products at the time of sale. The amount recognized is based on historical experience.

The following table presents a reconciliation of the changes in accrued warranty costs for the three and nine months ended September 29, 2018 and September 30, 2017 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
| | September 29, 2018 | September 30, 2017 | September 29, 2018 | September 30, 2017 |
| Beginning Balance | \$ 17.0 | \$ 18.1 | \$ 16.0 | \$ 20.3 |
| Less: Payments | (6.0) | (4.7) | (16.0) | (17.5) |
| Provisions | 5.9 | 4.0 | 16.7 | 14.5 |
| Acquisition | — | — | 0.3 | — |
| Translation Adjustments | 0.1 | 0.1 | — | 0.2 |
| Ending Balance | \$ 17.0 | \$ 17.5 | \$ 17.0 | \$ 17.5 |

These liabilities are included in Other Accrued Expenses and Other Noncurrent Liabilities on the Condensed Consolidated Balance Sheet.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are commodity price risk, currency exchange risk, and interest rate risk. Forward contracts on certain commodities are entered into to manage the price risk associated with forecasted purchases of materials used in the Company's manufacturing process. Forward contracts on certain currencies are entered into to manage forecasted cash flows in certain foreign currencies. Interest rate swaps are utilized to manage interest rate risk associated with the Company's floating rate borrowings.

The Company is exposed to credit losses in the event of non-performance by the counterparties to various financial agreements, including its commodity hedging transactions, foreign currency exchange contracts and interest rate swap agreements. Exposure to counterparty credit risk is managed by limiting counterparties to major international banks and financial institutions meeting established credit guidelines and continually monitoring their compliance with the credit guidelines. The Company does not obtain collateral or other security to support financial instruments subject to credit risk. The Company does not anticipate non-performance by its counterparties, but cannot provide assurances. The Company recognizes all derivative instruments as either assets or liabilities at fair value in the statement of financial position. The Company designates commodity forward contracts as cash flow hedges of forecasted purchases of commodities, currency forward contracts as cash flow hedges of forecasted foreign currency cash flows and interest rate swaps as cash flow hedges of forecasted LIBOR-based interest payments. There were no significant collateral deposits on derivative financial instruments as of September 29, 2018 or September 30, 2017.

Cash Flow Hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or changes in market value of derivatives not designated as hedges are recognized in current earnings. At September 29, 2018, the Company had \$(0.1) million, net of tax, of derivative losses on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At December 30, 2017, the Company had \$(2.0) million, net of tax, of derivative losses on closed hedge instruments in AOCI that was subsequently realized in earnings when the hedged items impacted earnings.

As of September 29, 2018, the Company had the following currency forward contracts outstanding (with maturities extending through April 2021) to hedge forecasted foreign currency cash flows (in millions):

| | Notional Amount (in US Dollars) |
|-------------------|--|
| Chinese Renminbi | \$ 267.9 |
| Mexican Peso | 191.4 |
| Euro | 104.7 |
| Indian Rupee | 38.0 |
| Canadian Dollar | 13.8 |
| Australian Dollar | 11.6 |
| Thai Baht | 6.7 |
| British Pound | 16.9 |

As of September 29, 2018, the Company had the following commodity forward contracts outstanding (with maturities extending through December 2019) to hedge forecasted purchases of commodities (notional amounts expressed in terms of the dollar value of the hedged item (in millions)):

| | Notional Amount |
|----------|--------------------|
| Copper | \$ 100.4 |
| Aluminum | 7.6 |

As of September 29, 2018, the Company had a \$88.4 million notional receive variable/pay-fixed interest rate swap with a maturity of April 12, 2021.

The following table presents the fair values of derivative instruments as of September 29, 2018 and December 30, 2017 (in millions):

| | September 29, 2018 | | | |
|--|--------------------|------------|-------------|-------------|
| | Prepaid | Other | Current | Noncurrent |
| | Expenses | Noncurrent | Hedging | Hedging |
| | and | Assets | Obligations | Obligations |
| | Other | | | |
| | Current | | | |
| | Assets | | | |
| Designated as Hedging Instruments: | | | | |
| Interest Rate Swap Contracts | \$— | \$ 0.8 | \$ — | \$ — |
| Currency Contracts | 9.6 | 6.0 | 4.6 | 1.5 |
| Commodity Contracts | 1.4 | 0.2 | 4.7 | 0.1 |
| Not Designated as Hedging Instruments: | | | | |
| Currency Contracts | 0.2 | — | 0.9 | — |
| Commodity Contracts | — | — | 0.1 | — |
| Total Derivatives | \$11.2 | \$ 7.0 | \$ 10.3 | \$ 1.6 |
| | | | | |
| | December 30, 2017 | | | |
| | Prepaid | Other | Current | Noncurrent |
| | Expenses | Noncurrent | Hedging | Hedging |
| | and | Assets | Obligations | Obligations |
| | Other | | | |
| | Current | | | |
| | Assets | | | |
| Designated as Hedging Instruments: | | | | |
| Currency Contracts | \$11.5 | \$ 2.5 | \$ 7.9 | \$ 0.9 |
| Commodity Contracts | 10.8 | 0.7 | — | — |
| Not Designated as Hedging Instruments: | | | | |
| Currency Contracts | 4.1 | — | 0.2 | — |
| Commodity Contracts | 0.2 | — | — | — |
| Total Derivatives | \$26.6 | \$ 3.2 | \$ 8.1 | \$ 0.9 |

The following table presents the effect of derivative instruments on the Condensed Consolidated Statements of Income and Condensed Consolidated Statement of Comprehensive Income (pre-tax) (in millions):

Derivatives Designated as Cash Flow Hedging Instruments

| | Three Months Ended September 29, 2018 | | | | September 30, 2017 | | | |
|--|--|----------------------|---------------------------|--------|-----------------------|----------------------|---------------------------|---------|
| | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total |
| Gain (Loss) Recognized in Other Comprehensive Income (Loss) | \$(3.9) | \$ 6.9 | \$ 1.0 | \$ 4.0 | \$ 6.8 | \$ 7.0 | \$ 0.5 | \$ 14.3 |
| Amounts Reclassified from Other Comprehensive Income (Loss): | | | | | | | | |
| Gain Recognized in Net Sales | — | — | — | — | — | 0.3 | — | 0.3 |
| Gain (Loss) Recognized in Cost of Sales | 0.7 | (0.7) | — | — | 2.8 | (2.2) | — | 0.6 |
| Gain recognized in Operating Expenses | — | 0.6 | — | 0.6 | — | — | — | — |
| Gain (Loss) Recognized in Interest Expense | — | — | 0.7 | 0.7 | — | — | (0.6) | (0.6) |
| | | | | | | | | |
| | Nine Months Ended September 29, 2018 | | | | September 30, 2017 | | | |
| | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total |
| Gain (Loss) Recognized in Other Comprehensive Income (Loss) | \$(12.8) | \$ 13.8 | \$ 2.0 | \$ 3.0 | \$ 11.3 | \$ 49.9 | \$ 0.5 | \$ 61.7 |
| Amounts Reclassified from Other Comprehensive Income (Loss): | | | | | | | | |
| Gain Recognized in Net Sales | — | 0.3 | — | 0.3 | — | 0.7 | — | 0.7 |
| Gain (Loss) Recognized in Cost of Sales | 7.4 | 1.2 | — | 8.6 | 7.5 | (21.3) | — | (13.8) |
| Gain recognized in Operating Expenses | — | 4.9 | — | 4.9 | — | — | — | — |
| Gain (Loss) Recognized in Interest Expense | — | — | 1.2 | 1.2 | — | — | (2.8) | (2.8) |

The ineffective portion of hedging instruments recognized during the three and nine months ended September 29, 2018 and September 30, 2017, respectively, was immaterial.

Derivatives Not Designated as Cash Flow Hedging Instruments (in millions):

| | Three Months Ended | | | |
|--|--------------------|--------------------|--------------------|-------------------|
| | September 29, 2018 | | September 30, 2017 | |
| | Commodity Forwards | Commodity Forwards | Currency Forwards | Currency Forwards |
| Loss Recognized in Cost of Sales | \$— | \$ (0.8) | \$ | \$ — |
| Gain (Loss) Recognized in Operating Expenses | —(4.1) | — | 2.9 | |
| | Nine Months Ended | | | |
| | September 29, 2018 | | September 30, 2017 | |
| | Commodity Forwards | Commodity Forwards | Currency Forwards | Currency Forwards |
| Loss Recognized in Cost of Sales | \$(0.3) | \$ — | \$ (0.6) | \$ — |
| Gain (Loss) Recognized in Operating Expenses | — | (6.3) | — | 10.6 |

The net AOCI hedging component balance of a \$1.6 million gain at September 29, 2018 includes \$1.3 million of net current deferred gains expected to be realized in the next twelve months.

The Company's commodity and currency derivative contracts are subject to master netting agreements with the respective counterparties which allow the Company to net settle transactions with a single net amount payable by one party to another party. The Company has elected to present the derivative assets and derivative liabilities on the Condensed Consolidated Balance Sheets on a gross basis for the periods ended September 29, 2018 and December 30, 2017.

The following table presents the derivative assets and derivative liabilities presented on a net basis under enforceable master netting agreements (in millions):

| | September 29, 2018 | | |
|--|--|--|--|
| | Gross | | |
| | Amounts | | |
| | as Presented in the Condensed Consolidated Balance Sheet | Derivative Contract Amounts Subject to Right of Offset | Derivative Contracts as Presented on a Net Basis |
| Prepaid Expenses and Other Current Assets: | | | |
| Derivative Currency Contracts | \$9.8 | \$ (2.8) | \$ 7.0 |
| Derivative Commodity Contracts | 1.4 | (1.0) | 0.4 |
| Other Noncurrent Assets: | | | |
| Derivative Currency Contracts | 6.0 | (0.5) | 5.5 |
| Derivative Commodity Contracts | 0.2 | (0.1) | 0.1 |
| Current Hedging Obligations: | | | |
| Derivative Currency Contracts | 5.5 | (2.8) | 2.7 |
| Derivative Commodity Contracts | 4.8 | (1.0) | 3.8 |
| Noncurrent Hedging Obligations: | | | |
| Derivative Currency Contracts | 1.5 | (0.5) | 1.0 |
| Derivative Commodity Contracts | 0.1 | (0.1) | — |
| | December 30, 2017 | | |
| | Gross | | |
| | Amounts | | |
| | as Presented in the Condensed Consolidated Balance Sheet | Derivative Contract Amounts Subject to Right of Offset | Derivative Contracts as Presented on a Net Basis |
| Prepaid Expenses and Other Current Assets: | | | |
| Derivative Currency Contracts | \$15.6 | \$ (5.9) | \$ 9.7 |
| Derivative Commodity Contracts | 11.0 | — | 11.0 |
| Other Noncurrent Assets: | | | |
| Derivative Currency Contracts | 2.5 | (0.7) | 1.8 |
| Derivative Commodity Contracts | 0.7 | — | 0.7 |
| Current Hedging Obligations: | | | |
| Derivative Currency Contracts | 8.1 | (5.9) | 2.2 |
| Noncurrent Hedging Obligations: | | | |
| Derivative Currency Contracts | 0.9 | (0.7) | 0.2 |

14. FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or
Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or
Inputs other than quoted prices that are observable for the asset or liability
- Level 3 Unobservable inputs for the asset or liability

The Company uses the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The fair values of cash equivalents and short-term deposits approximate their carrying values as of September 29, 2018 and December 30, 2017, due to the short period of time to maturity and are classified using Level 1 inputs. The fair values of trade receivables and accounts payable approximate the carrying values due to the short period of time to maturity. See Note 7 of Notes to Condensed Consolidated Financial Statements for disclosure of the approximate fair value of the Company's debt at September 29, 2018 and December 30, 2017.

The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 29, 2018 and December 30, 2017 (in millions):

| | September 29, 2018 | December 30, 2017 | Classification |
|--|-----------------------|----------------------|----------------|
| Assets: | | | |
| Prepaid Expenses and Other Current Assets: | | | |
| Derivative Currency Contracts | \$ 9.8 | \$ 15.6 | Level 2 |
| Derivative Commodity Contracts | 1.4 | 11.0 | Level 2 |
| Other Noncurrent Assets: | | | |
| Assets Held in Rabbi Trust | 5.8 | 5.7 | Level 1 |
| Derivative Currency Contracts | 6.0 | 2.5 | Level 2 |
| Derivative Commodity Contracts | 0.2 | 0.7 | Level 2 |
| Interest Rate Swap | 0.8 | — | Level 2 |
| Liabilities: | | | |
| Current Hedging Obligations: | | | |
| Derivative Currency Contracts | 5.5 | 8.1 | Level 2 |
| Derivative Commodity Contracts | 4.8 | — | Level 2 |
| Noncurrent Hedging Obligations: | | | |
| Derivative Currency Contracts | 1.5 | 0.9 | Level 2 |
| Derivative Commodity Contracts | 0.1 | — | Level 2 |

Level 1 fair value measurements for assets held in a Rabbi Trust are unadjusted quoted prices.

Level 2 fair value measurements for derivative assets and liabilities are measured using quoted prices in active markets for similar assets and liabilities. Interest rate swaps are valued based on the discounted cash flows for the LIBOR forward yield curve for a swap with similar contractual terms. Foreign currency forwards are valued based on exchange rates quoted by domestic and foreign banks for similar instruments. Commodity forwards are valued based on observable market transactions of forward commodity prices.

During the nine months ended September 29, 2018, there were no transfers between classification Levels 1, 2 or 3.

15. RESTRUCTURING ACTIVITIES

The Company incurred restructuring and restructuring related costs on projects beginning in 2014. Restructuring costs include employee termination and plant relocation costs. Restructuring-related costs include costs directly associated with actions resulting from the Company's Simplification initiatives, such as asset write-downs or accelerated depreciation due to shortened useful lives in connection with site closures, discretionary employment benefit costs and other facility rationalization costs. Restructuring costs for employee termination expenses are generally required to be accrued over the employees remaining service period while restructuring costs for plant relocation costs and restructuring-related costs are generally required to be expensed as incurred.

The following table presents a reconciliation of provisions and payments for the restructuring projects for the three and nine months ended September 29, 2018 and September 30, 2017 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-------------------|--------------------|--------------------|--------------------|--------------------|
| | September 29, 2018 | September 30, 2017 | September 29, 2018 | September 30, 2017 |
| Beginning Balance | \$ 0.3 | \$ 1.3 | \$ 1.2 | \$ 0.6 |
| Provision | 2.3 | 1.6 | 5.5 | 12.5 |
| Less: Payments | 2.3 | 1.7 | 6.4 | 11.9 |
| Ending Balance | \$ 0.3 | \$ 1.2 | \$ 0.3 | \$ 1.2 |

The following table presents a reconciliation of restructuring and restructuring-related costs for restructuring projects for the three and nine months ended September 29, 2018 and September 30, 2017, respectively (in millions):

| | Three Months Ended | | | | | |
|---|--------------------|--------------------|--------|--------------------|--------------------|--------|
| | September 29, 2018 | | | September 30, 2017 | | |
| Restructuring Costs: | Cost of Sales | Operating Expenses | Total | Cost of Sales | Operating Expenses | Total |
| Employee Termination Expenses | \$0.1 | \$ 0.1 | \$ 0.2 | \$0.1 | \$ 0.1 | \$ 0.2 |
| Facility Related Costs | 0.5 | 1.2 | 1.7 | 1.1 | 0.2 | 1.3 |
| Other Expenses | 0.4 | — | 0.4 | — | 0.1 | 0.1 |
| Total Restructuring Costs | \$1.0 | \$ 1.3 | \$ 2.3 | \$1.2 | \$ 0.4 | \$ 1.6 |
| Restructuring Related Costs: | | | | | | |
| Other Employment Benefit Expenses | \$— | \$ — | \$— | \$— | \$ — | \$— |
| Total Restructuring Related Costs | \$— | \$ — | \$— | \$— | \$ — | \$— |
| Total Restructuring and Restructuring Related Costs | \$1.0 | \$ 1.3 | \$ 2.3 | \$1.2 | \$ 0.4 | \$ 1.6 |

| | Nine Months Ended | | | | | |
|---|--------------------|--------------------|--------|--------------------|--------------------|--------|
| | September 29, 2018 | | | September 30, 2017 | | |
| Restructuring Costs: | Cost of Sales | Operating Expenses | Total | Cost of Sales | Operating Expenses | Total |
| Employee Termination Expenses | \$0.1 | \$ 0.1 | \$ 0.2 | \$2.5 | \$ 1.4 | \$ 3.9 |
| Facility Related Costs | 1.6 | 2.0 | 3.6 | 3.4 | 0.5 | 3.9 |
| Other Expenses | 0.9 | 0.8 | 1.7 | 3.9 | 0.1 | 4.0 |
| Total Restructuring Costs | \$2.6 | \$ 2.9 | \$ 5.5 | \$9.8 | \$ 2.0 | \$11.8 |
| Restructuring Related Costs: | | | | | | |
| Other Employment Benefit Expenses | \$— | \$ — | \$— | \$0.7 | \$ — | \$0.7 |
| Total Restructuring Related Costs | \$— | \$ — | \$— | \$0.7 | \$ — | \$0.7 |
| Total Restructuring and Restructuring Related Costs | \$2.6 | \$ 2.9 | \$ 5.5 | \$10.5 | \$ 2.0 | \$12.5 |

The following table presents the allocation of Restructuring Costs by segment for the three and nine months ended September 29, 2018 and September 30, 2017 (in millions):

| | Total | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions |
|---|--------|-----------------------------------|-------------------|------------------------------|
| Restructuring Costs - Three Months Ended September 29, 2018 | \$ 2.3 | \$ 1.9 | \$ 0.3 | \$ 0.1 |
| Restructuring Costs - Three Months Ended September 30, 2017 | \$ 1.6 | \$ 1.2 | \$ 0.3 | \$ 0.1 |

| | Total | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions |
|--|--------|-----------------------------------|-------------------|------------------------------|
| Restructuring Costs - Nine Months Ended September 29, 2018 | \$5.5 | \$ 3.9 | \$ 1.4 | \$ 0.2 |
| Restructuring Costs - Nine Months Ended September 30, 2017 | \$12.5 | \$ 9.8 | \$ 2.0 | \$ 0.7 |

The Company's current restructuring activities are expected to continue. The Company expects to record aggregate future charges of approximately \$2.5 million which includes \$0.3 million of employee termination expenses and \$2.2 million of facility related and other costs.

16. SUBSEQUENT EVENT

The Company has evaluated subsequent events from September 29, 2018 through the date of this report. The Company is not aware of any subsequent events that would require recognition or disclosure.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, references in this Item 2 to "we," "us," "our" or the "Company" refer collectively to Regal Beloit Corporation and its subsidiaries.

Overview

Regal Beloit Corporation (NYSE: RBC), based in Beloit, Wisconsin (USA), is a leading manufacturer of electric motors, electrical motion controls, power generation and power transmission products serving markets throughout the world.

Operating Segments

Our company is comprised of three operating segments: Commercial and Industrial Systems, Climate Solutions and Power Transmission Solutions.

A description of the three operating segments is as follows:

- 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.
- 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.

Components of Profit and Loss

Net Sales. We sell our products to a variety of manufacturers, distributors and end users. Our customers consist of a large cross-section of businesses, ranging from Fortune 100 companies to small businesses. A number of our products are sold to Original Equipment Manufacturers ("OEM's"), who incorporate our products, such as electric motors, into products they manufacture, and many of our products are built to the requirements of our customers. The majority of our sales derive from direct sales, but a significant portion derives from sales made by manufacturer's representatives, who are paid exclusively on commission. Our product sales are made via purchase order, long-term contract, and, in some instances, one-time purchases. Many of our products have broad customer bases, with the levels of concentration of revenues varying from division to division.

Our level of net sales for any given period is dependent upon a number of factors, including (i) the demand for our products; (ii) the strength of the economy generally and the end markets in which we compete; (iii) our customers' perceptions of our product quality at any given time; (iv) our ability to timely meet customer demands; (v) the selling price of our products; and (vi) the weather. As a result, our total revenue has tended to experience quarterly variations and our total revenue for any particular quarter may not be indicative of future results.

We use the term "organic sales" to refer to sales from existing operations excluding (i) sales from acquired businesses recorded prior to the first anniversary of the acquisition less the amount of sales attributable to any divested businesses ("acquisition sales"), and (ii) the impact of foreign currency translation. The impact of foreign currency translation is determined by translating the respective period's sales (excluding acquisition sales) using the same currency exchange rates that were in effect during the prior year periods. We use the term "organic sales growth" to refer to the increase in our sales between periods that is attributable to organic sales. We use the term "acquisition growth" to refer to the increase in our sales between periods that is attributable to acquisition sales.

Gross Profit. Our gross profit is impacted by our levels of net sales and cost of sales. Our cost of sales consists of costs for, among other things (i) raw materials, including copper, steel and aluminum; (ii) components such as castings, bars, tools, bearings and electronics; (iii) wages and related personnel expenses for fabrication, assembly and logistics personnel; (iv) manufacturing facilities, including depreciation on our manufacturing facilities and equipment, taxes, insurance and utilities; and (v) shipping. The majority of our cost of sales consists of raw materials and components. The price we pay for commodities and components can be subject to commodity price fluctuations. We attempt to mitigate this through fixed-price agreements with suppliers and our hedging strategies. We are currently reducing the number of suppliers we use in order to leverage better prices and terms that can be obtained with higher volume orders. A large number of our suppliers are in North America. As we expand production and our geographic footprint, we expect it may be advantageous to increase our use of foreign suppliers. When we experience commodity price increases, we have tended to announce price increases to our customers who purchase via purchase order, with such increases generally taking effect a period of time after the public announcements. For those sales we make under long-term contracts, we tend to include material price formulas that specify quarterly or semi-annual price adjustments based on a variety of factors, including commodity prices.

Outside of general economic cyclicality, our different business units experience different levels of variation in gross margin from quarter to quarter based on factors specific to each division. For example, a portion of our Climate Solutions segment manufactures products that are used in air conditioning applications. As a result, our sales for that business tend to be lower in the first and fourth quarters and higher in the second and third quarters. In contrast, our Commercial and Industrial Systems segment and our Power Transmission Solutions segment have a broad customer base and a variety of applications, thereby helping to mitigate large quarter-to-quarter fluctuations outside of general economic conditions.

Operating Expenses. Our operating expenses consist primarily of (i) general and administrative expenses; (ii) sales and marketing expenses; (iii) general engineering and research and development expenses; and (iv) handling costs

incurred in conjunction with distribution activities. Personnel related costs are our largest operating expense.

Our general and administrative expenses consist primarily of costs for (i) salaries, benefits and other personnel expenses related to our executive, finance, human resource, information technology, legal and operations functions; (ii) occupancy expenses; (iii) technology related costs; (iv) depreciation and amortization; and (v) corporate-related travel. The majority of our general and administrative costs are for salaries and related personnel expenses. These costs can vary by division given the location of our different manufacturing operations.

Our sales and marketing expenses consist primarily of costs for (i) salaries, benefits and other personnel expenses related to our sales and marketing function; (ii) internal and external sales commissions and bonuses; (iii) travel, lodging and other out-of-pocket expenses associated with our selling efforts; and (iv) other related overhead.

Our general engineering and research and development expenses consist primarily of costs for (i) salaries, benefits and other personnel expenses; (ii) the design and development of new energy efficiency products and enhancements; (iii) quality assurance and testing; and (iv) other related overhead. Our research and development efforts tend to be targeted toward developing new products that would allow us to maintain or gain additional market share, whether in new or existing applications. While these costs make up an insignificant portion of our operating expenses in the Power Transmission Solutions segment, they are more substantial in our Commercial and Industrial Systems and Climate Solutions segments. In particular, a large driver of our research and development efforts in these two segments is energy efficiency, which generally means using less electrical power to produce more mechanical power.

Operating Profit. Our operating profit consists of the segment gross profit less the segment operating expenses. In addition, there are shared operating costs that cover corporate, engineering and information technology expenses that are consistently allocated to the operating segments and are included in the segment operating expenses. Operating profit is a key metric used to measure year over year improvement of the segments.

Restructuring and Restructuring Related Costs. Beginning in 2014, we announced the closure of several of our manufacturing and warehouse facilities and consolidation into existing facilities to simplify manufacturing operations in our Commercial and Industrial Systems, Climate Solutions and Power Transmission Solutions segments. As a result of these closures, we incurred restructuring and restructuring-related costs. Restructuring costs includes employee termination and plant relocation costs. Restructuring related costs includes costs directly associated with actions resulting from our simplification initiatives, such as asset write-downs or accelerated depreciation due to shortened useful lives in connection with site closures, discretionary employment benefit costs and other facility rationalization costs. Restructuring costs for employee termination expenses are generally required to be accrued over the employees remaining service period while restructuring costs for plant relocation costs and restructuring-related costs are generally required to be expensed as incurred.

Outlook

Our order trends remain positive, and we continue to expect low single digit organic sales growth for the full year.

Results of Operations

Three Months Ended September 29, 2018 Compared to September 30, 2017

Net sales increased \$68.5 million or 8.0% for the third quarter 2018 compared to the third quarter 2017. The increase consisted of an organic sales growth increase of 5.2%, negative foreign currency translation impact of 0.9%, a negative 0.4% impact from the business to be exited and a positive 4.1% from the acquisition of Nicotra Gebhardt. Gross profit increased \$15.7 million or 6.9% for the third quarter 2018 as compared to the third quarter 2017 primarily due to higher sales volumes, incremental price realization and productivity gains, partially offset by commodity inflation and inventory write-downs associated with the exit of the Hermetic Climate business. Operating expenses for the third quarter 2018 increased \$22.4 million or 16.9% as compared to the same period in the prior year primarily due to costs associated with the business to be exited, increased compensation and benefit costs and the inclusion of the acquired business. Goodwill and other asset impairments of \$18.2 million were recorded in the Climate Solutions Segment during the third quarter of 2018 related to the business to be exited.

Commercial and Industrial Systems Segment net sales for the third quarter 2018 were \$462.3 million, an increase of \$54.3 million or 13.3% as compared to the third quarter 2017. Organic sales growth contributed an increase of 6.1% driven by broad strength in distribution, power generation, oil & gas and commercial HVAC. Foreign currency translation had a negative impact of 1.3%. The acquisition of Nicotra Gebhardt contributed sales growth of 8.5%. Gross profit increased \$11.9 million or 12.2% as compared to the third quarter 2017 primarily driven by higher sales volumes, incremental price realization and productivity gains partially offset by commodity inflation. Operating expenses for the third quarter 2018 were \$74.5 million compared to \$68.4 million in the third quarter 2017. The \$6.1 million or 8.9% increase was primarily due to increased compensation and benefit costs, variable selling related costs and the inclusion of the acquired business.

Climate Solutions Segment net sales were \$255.4 million, a decrease of 0.2% compared to third quarter 2017. The decrease consisted of an organic sales growth increase of 1.4% driven by strength in North American residential HVAC and commercial refrigeration partially offset by weakness in international markets. Foreign currency translation had a negative 0.7% impact on net sales for the third quarter 2018 while the business to be exited had a negative impact of 0.9%. Gross profit decreased \$3.9 million or 5.9% compared to the prior year. The decrease was primarily driven sales mix, commodity inflation, inventory write-downs associated with the business to be exited and lower sales volume partially offset by productivity gains and incremental price realization. On July 31, 2018, we received notification from a customer in the Hermetic Climate business that it would wind down operations. As a result of this notification, we accelerated our plans to exit the Hermetic Climate business and recognized impairment and exit related charges of \$34.9 million. The charges included goodwill impairment of \$9.5 million, customer

relationship intangible asset impairment of \$5.5 million, technology intangible asset impairment of \$2.1 million and fixed asset impairment of \$1.1 million. In addition to the impairments, operating expenses include charges related to accounts receivable along with other expenses related to exiting the business. Operating expenses for the third quarter 2018 were \$37.9 million compared to \$26.9 million in the third quarter 2017. The \$11.0 million or 40.9% increase was primarily due to the costs associated with the business to be exited and increased compensation and benefit costs. Power Transmission Solutions Segment net sales for the third quarter 2018 were \$207.7 million an increase of 7.7% compared to third quarter 2017 net sales of \$192.9 million. The increase consisted of an organic sales growth increase of 8.1% primarily driven by increased demand in oil and gas, distribution, material handling and commercial HVAC. Foreign currency translation had a negative impact of 0.4%. Gross profit for the third quarter 2018 increased \$7.7 million or 12.2% primarily due to the increase in sales volume partially offset by commodity inflation. Operating expenses for the third quarter 2018 increased \$5.3 million as compared to the third quarter 2017 primarily due to increased compensation and benefit costs and variable selling related costs.

Nine Months Ended September 29, 2018 Compared to September 30, 2017

Net sales increased \$224.3 million or 8.8% for the nine months ended September 29, 2018 compared to the nine months ended September 30, 2017. The increase consisted of an organic sales growth increase of 5.8%, a 2.6% increase from acquisitions, positive foreign currency translation impact of 0.9% and a negative impact of 0.5% from the business to be exited. Gross profit for the nine months ended September 29, 2018 increased \$59.7 million or 9.0% compared to the nine months ended September 30, 2017 primarily due to higher sales volumes, incremental price realization and productivity gains partially offset by commodity inflation, inventory write-downs associated with the business to be exited and purchase accounting charges attributable to acquired inventory. Operating expenses for the nine months ended September 29, 2018 increased \$36.8 million or 8.9% as compared to the same period in the prior year primarily due to increased compensation and benefit costs, the inclusion of the acquired business, costs associated with the business to be exited and variable selling related costs. Goodwill and other asset impairments of \$18.2 million were recorded during the nine months ended September 29, 2018 related to the business to be exited. Commercial and Industrial Systems Segment net sales increased \$148.7 million or 12.4% for the nine months ended September 29, 2018 compared to the nine months ended September 30, 2017. Organic sales growth contributed an increase of 5.8% driven by commercial HVAC, oil & gas, and power generation. Acquisitions contributed sales growth of 5.4%. Foreign currency translation had a positive impact of 1.2%. Gross profit for nine months ended September 29, 2018 increased \$30.1 million or 10.6% primarily due to higher sales volumes, incremental price realization, lower restructuring charges and productivity gains offset by purchase accounting charges attributable to acquired inventory. Operating expenses for the nine months ended September 29, 2018 increased \$11.0 million or 5.3% compared to the nine months ended September 30, 2017 primarily due to increased compensation and benefit costs, the inclusion of the acquired business, variable selling related costs and acquisition related costs. Climate Solutions Segment net sales increased \$18.4 million or 2.4% for the nine months ended September 29, 2018 compared to the nine months ended September 30, 2017. The increase consisted of an organic sales growth increase of 3.3%, a positive foreign currency translation impact of 0.2% and a negative impact of 1.1% from the business to be exited. The organic sales increase was primarily driven by growth in North American residential HVAC. Gross profit increased \$3.7 million or 1.9%. The increase was primarily driven by higher sales volume and incremental price realization partially offset by commodity inflation. We recognized \$34.9 million of exit and exit related costs during the nine months ended September 29, 2018 related to the exit of the Hermetic Climate business. The charges included goodwill impairment of \$9.5 million, customer relationship intangible asset impairment of \$5.5 million, technology intangible asset impairment of \$2.1 million and fixed asset impairment of \$1.1 million. In addition to the impairments, operating expenses include charges related to accounts receivable along with other expenses related to exiting the business. Operating expenses for the nine months ended September 29, 2018 increased \$14.1 million or 16.8% as compared to the nine months ended September 30, 2017 primarily due to the costs associated with the business to be exited and higher compensation and benefit costs. Power Transmission Solutions Segment net sales increased \$57.2 million or 10.1% for the nine months ended September 29, 2018 compared to the nine months ended September 30, 2017. The increase consisted of an organic

sales growth increase of 9.1% and a positive foreign currency translation impact of 1.0%. The organic sales increase was primarily driven by oil & gas and material handling. Gross profit for the nine months ended September 29, 2018 increased \$25.9 million or 14.0% compared to the nine months ended September 30, 2017 primarily due to the higher sales volume. Operating expenses for the nine months ended September 29, 2018 increased \$11.7 million or 9.8% primarily due to higher compensation and benefit costs, variable selling costs and a prior year gain on the sale of assets.

| | Three Months Ended | | Nine Months Ended | | |
|---|--------------------|--------------------|--------------------|--------------------|---|
| | September 29, 2018 | September 30, 2017 | September 29, 2018 | September 30, 2017 | |
| (Dollars in Millions) | | | | | |
| Net Sales: | | | | | |
| Commercial and Industrial Systems | \$462.3 | \$ 408.0 | \$1,345.3 | \$ 1,196.6 | |
| Climate Solutions | 255.4 | 256.0 | 792.6 | 774.2 | |
| Power Transmission Solutions | 207.7 | 192.9 | 626.0 | 568.8 | |
| Consolidated | \$925.4 | \$ 856.9 | \$2,763.9 | \$ 2,539.6 | |
| Gross Profit as a Percent of Net Sales: | | | | | |
| Commercial and Industrial Systems | 23.8 | % 24.0 | % 23.4 | % 23.8 | % |
| Climate Solutions | 24.3 | % 25.8 | % 25.1 | % 25.2 | % |
| Power Transmission Solutions | 34.0 | % 32.7 | % 33.7 | % 32.5 | % |
| Consolidated | 26.2 | % 26.5 | % 26.2 | % 26.2 | % |
| Operating Expenses as a Percent of Net Sales: | | | | | |
| Commercial and Industrial Systems | 16.1 | % 16.8 | % 16.4 | % 17.5 | % |
| Climate Solutions | 14.8 | % 10.5 | % 12.4 | % 10.9 | % |
| Power Transmission Solutions | 20.5 | % 19.3 | % 20.9 | % 21.0 | % |
| Consolidated | 16.7 | % 15.5 | % 16.3 | % 16.3 | % |
| Income From Operations as a Percent of Net Sales: | | | | | |
| Commercial and Industrial Systems | 7.6 | % 7.2 | % 7.1 | % 6.3 | % |
| Climate Solutions | 2.3 | % 15.3 | % 10.4 | % 14.3 | % |
| Power Transmission Solutions | 13.5 | % 13.3 | % 12.8 | % 11.6 | % |
| Consolidated | 7.5 | % 11.0 | % 9.3 | % 9.9 | % |
| Income From Operations | \$69.4 | \$ 94.3 | \$257.2 | \$ 252.5 | |
| Other Expenses, net | 0.4 | 0.3 | 1.2 | 0.7 | |
| Interest Expense | 13.7 | 13.5 | 40.9 | 42.6 | |
| Interest Income | 1.0 | 0.7 | 1.8 | 2.7 | |
| Income Before Taxes | 56.3 | 81.2 | 216.9 | 211.9 | |
| Provision For Income Taxes | 3.6 | 17.6 | 37.6 | 46.4 | |
| Net Income | 52.7 | 63.6 | 179.3 | 165.5 | |
| Less: Net Income Attributable to Noncontrolling Interests | 1.4 | 1.4 | 3.7 | 4.0 | |
| Net Income Attributable to Regal Beloit Corporation | \$51.3 | \$ 62.2 | \$175.6 | \$ 161.5 | |

The effective tax rate for the three months ended September 29, 2018 was 6.4% versus 21.7% for the three months ended September 30, 2017. The effective tax rate for the nine months ended September 29, 2018 was 17.3% versus 21.9% for the nine months ended September 30, 2017. The change in the effective tax rate for the three months ended September 29, 2018 was primarily driven by the Tax Cuts and Jobs Act of 2017 (the "Act") and the mix of earnings. The change in the effective tax rate for the nine months ended September 29, 2018 was primarily driven by the Act and the mix of earnings.

Liquidity and Capital Resources

General

Our principal source of liquidity is cash flow provided by operating activities. In addition to operating income, other significant factors affecting our cash flow include working capital levels, capital expenditures, dividends, share repurchases, acquisitions and divestitures, availability of debt financing, and the ability to attract long-term capital at acceptable terms.

Cash flow provided by operating activities was \$250.3 million for the nine months ended September 29, 2018, a \$15.3 million increase from the nine months ended September 30, 2017. The increase was primarily the result of the higher net income and the non-cash impairments partially offset by the higher investment in net working capital for the nine months ended September 29, 2018 as compared to the nine months ended September 30, 2017.

Cash flow used in investing activities was \$215.8 million for the nine months ended September 29, 2018 versus \$42.0 million for the nine months ended September 30, 2017. The change was driven by the \$161.5 million acquisition of Nicotra Gebhardt, net of cash acquired, and the higher additions of fixed assets in the current year.

Cash flow provided by financing activities was \$16.2 million for the nine months ended September 29, 2018, compared to \$298.9 million used in financing activities for the nine months ended September 30, 2017. Net debt borrowings of \$138.9 million were made during the nine months ended September 29, 2018, compared to net debt repayments of \$200.4 million made during the nine months ended September 30, 2017. We paid \$35.1 million in dividends to shareholders in the nine months ended September 29, 2018, compared to \$33.1 million for the nine months ended September 30, 2017. Cash used for share repurchases was \$78.3 million for the nine months ended September 29, 2018, compared to \$45.1 million for the nine months ended September 30, 2017.

Our working capital was \$1,068.2 million at September 29, 2018, compared to \$862.4 million at December 30, 2017. At September 29, 2018 and December 30, 2017, our current ratio (which is the ratio of our current assets to current liabilities) was 2.6:1 and 2.2:1, respectively. Our working capital increased primarily due to an increase in Trade Receivables of \$76.6 million and a \$33.9 million increase in Inventories which was partially offset by a \$31.0 million increase in Accounts Payable. We paid \$100.0 million of our 2011 Notes due in July 2018 using existing cash as well as cash generated from operations.

The following table presents selected financial information and statistics as of September 29, 2018 and December 30, 2017 (in millions):

| | September 29, 2018 | December 30, 2017 |
|---------------------------|-----------------------|----------------------|
| Cash and Cash Equivalents | \$ 184.4 | \$ 139.6 |
| Trade Receivables, Net | 582.9 | 506.3 |
| Inventories | 791.0 | 757.1 |
| Working Capital | 1,068.2 | 862.4 |
| Current Ratio | 2.6:1 | 2.2:1 |

At September 29, 2018 our cash and cash equivalents totaled \$184.4 million, of which \$181.6 million was held by foreign subsidiaries and could be used in our domestic operations if necessary. We periodically evaluate our cash held outside the US and may pursue opportunities to repatriate certain foreign cash amounts. As a result of the Tax Cuts and Jobs Act of 2017 (the "Act"), dividends to the US no longer incur US tax however a one-time tax on the mandatory deemed repatriation of foreign earnings payable over eight years was included in the Act. We have recognized a provisional deferred tax liability of \$29.7 million related to the historical unremitted earnings as a result of the Act, payable over eight years.

We will, from time to time, maintain excess cash balances which may be used to (i) fund operations, (ii) repay outstanding debt, (iii) fund acquisitions, (iv) pay dividends, (v) make investments in new product development programs, (vi) repurchase our common stock, or (vii) fund other corporate objectives.

Credit Agreement

In connection with the PTS Acquisition, on January 30, 2015, we entered into a new Credit Agreement (the “Prior 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 “Prior Term Facility”) and (ii) a 5-year unsecured multicurrency revolving facility in the principal amount of \$500.0 million (the “Prior Multicurrency Revolving Facility”), including a \$100.0 million letter of credit sub facility available for general corporate purposes. 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 our consolidated funded debt to consolidated EBITDA ratio or at an alternative base rate. On August 27, 2018 we replaced the Prior Credit Agreement by entering into an Amended and Restated 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 \$900.0 million (the “Term Facility”) and (ii) a 5-year unsecured multicurrency revolving facility in the principal amount of \$500.0 million (the “Multicurrency Revolving Facility”), including a \$50.0 million letter of credit sub facility, available for general corporate purposes. 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 our consolidated funded debt to consolidated EBITDA ratio or at an alternative base rate.

The Term Facility was drawn in full on August 27, 2018 with the proceeds settling the amounts owed under the Prior Term Loan and Prior Multicurrency Revolving Facility. The loan under the Term Facility requires quarterly amortization at a rate starting at 5.0% per annum, increasing to 7.5% per annum after three years and further increasing to 10.0% per annum for the last years of the Term Facility, unless previously prepaid. The weighted average interest rate on the Term Facility was 3.5% for the three months ended September 29, 2018. The weighted average interest rate on the Prior Term Facility was 3.5% and 3.3% for the three and nine months ended September 29, 2018, respectively and 2.7% and 2.5% for the three and nine months ended September 30, 2017, respectively. The Credit Agreement requires that we prepay the loans under the Term Facility with 100% of the net cash proceeds received from specified asset sales and borrowed money indebtedness, subject to certain exceptions. At September 29, 2018, we had borrowings under the Multicurrency Revolving Facility in the amount of \$45.4 million, \$0.7 million of standby letters of credit issued under the facility, and \$453.9 million of available borrowing capacity. The average daily balance in borrowings under the Multicurrency Revolving Facility was \$32.8 million and the weighted average interest rate on the Multicurrency Revolving Facility was 3.4% for the three months ended September 29, 2018. The average daily balance in borrowings under the Prior Multicurrency Revolving Facility was \$304.7 million and \$211.7 million, and the weighted average interest rate on the Prior Multicurrency Revolving Facility was 3.4% and 3.2% for the three and nine months ended September 29, 2018, respectively. The average daily balance in borrowings under the Prior Multicurrency Revolving Facility was \$97.8 million and \$105.4 million and the weighted average interest rate on the Prior Multicurrency Revolving Facility was 2.7% and 2.5% for the three and nine months ended September 30, 2017. We pay a non-use fee on the aggregate unused amount of the Multicurrency Revolving Facility at a rate determined by reference to our consolidated funded debt to consolidated EBITDA ratio.

Senior Notes

At September 29, 2018, we had \$400.0 million of senior notes (the “Notes”) outstanding. The Notes consist of \$400.0 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. As of September 29, 2018, \$400.0 million of the 2011 Notes are included in Long-Term Debt on the Condensed Consolidated Balance Sheets.

The following table presents details on the Notes at September 29, 2018 (in millions):

| | Principal | Interest Rate | Maturity |
|-------------------------|-----------|---------------|---------------|
| 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 |
| | \$ 400.0 | | |

We have an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk (see also Note 13 of Notes to the Condensed Financial Statements).

Compliance with Financial Covenants

The Credit Agreement and the Notes require us to meet specified financial ratios and to satisfy certain financial condition tests. We were in compliance with all financial covenants contained in the Notes and the Credit Agreement as of September 29, 2018.

Other Notes Payable

At September 29, 2018, other notes payable of approximately \$5.0 million were outstanding with a weighted average interest rate of 4.9%. At December 30, 2017, other notes payable of approximately \$5.7 million were outstanding with a weighted average rate of 5.7%.

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 our total debt was \$1,292.7 million and \$1,165.4 million as of September 29, 2018 and December 30, 2017, respectively.

Critical Accounting Policies

Our disclosures of critical accounting policies, which are contained in our Annual Report on Form 10-K for the year ended December 30, 2017, have not materially changed since that report was filed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk relating to our operations due to changes in interest rates, foreign currency exchange rates and commodity prices of purchased raw materials. We manage the exposure to these risks through a combination of normal operating and financing activities and derivative financial instruments such as interest rate swaps, commodity cash flow hedges and foreign currency forward exchange contracts. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which prohibit the use of financial instruments for speculative purposes.

All qualified hedges are recorded on the balance sheet at fair value and are accounted for as cash flow hedges, with changes in fair value recorded in accumulated other comprehensive income (loss) (“AOCI”) in each accounting period. An ineffective portion of the hedges change in fair value, if any, is recorded in earnings in the period of change.

Interest Rate Risk

We are exposed to interest rate risk on certain of our short-term and long-term debt obligations used to finance our operations and acquisitions. At September 29, 2018, excluding the impact of interest rate swaps, we had \$404.7 million of fixed rate debt and \$880.7 million of variable rate debt. We utilize interest rate swaps to manage fluctuations in cash flows resulting from exposure to interest rate risk on forecasted variable rate interest payments. We have floating rate borrowings, which expose us to variability in interest payments due to changes in interest rates. A hypothetical 10% change in our weighted average borrowing rate on outstanding variable rate debt at September 29, 2018 would result in a \$2.4 million change in after-tax annualized earnings. We have entered into a pay fixed/receive floating interest rate swap to manage fluctuations in cash flows resulting from interest rate risk related to the floating rate interest on our Multicurrency Revolving Facility. This interest rate swap has been designated as a cash flow hedge against forecasted interest payments.

Details regarding the instruments as of September 29, 2018 are as follows (in millions):

| Instrument | Notional Amount | Maturity | Rate Paid | Rate Received | Fair Value | Gain |
|------------|-----------------|----------------|-----------|-----------------|------------|------|
| Swap | \$88.4 | April 12, 2021 | 2.5% | LIBOR (1 month) | \$0.8 | |

As of September 29, 2018, the interest rate swap asset of \$0.8 million was included in Other Noncurrent Assets. The unrealized gain on the effective portion of the contract net of tax of \$0.6 million was recorded in AOCI. There were no interest swap rate contracts outstanding at December 30, 2017.

Foreign Currency Risk

We are exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances of foreign subsidiaries, intercompany loans with foreign subsidiaries and transactions denominated in foreign currencies. Our objective is to minimize our exposure to these risks through a combination of normal operating activities and the utilization of foreign currency exchange contracts to manage our exposure on the forecasted transactions denominated in currencies other than the applicable functional currency. Contracts are executed with credit worthy banks and are denominated in currencies of major industrial countries. We do not hedge our exposure to the translation of reported results of foreign subsidiaries from local currency to United States dollars.

Derivatives

As of September 29, 2018, derivative currency assets (liabilities) of \$9.8 million, \$6.0 million, \$(5.5) million and \$(1.5) million, are recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Current Hedging

Obligations, and Noncurrent Hedging Obligations, respectively. As of December 30, 2017, derivative currency assets (liabilities) of \$15.6 million, \$2.5 million, \$(8.1) million and \$(0.9) million, are recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Current Hedging Obligations, and Noncurrent Hedging Obligations, respectively. The unrealized gains on the contracts of \$3.5 million

net of tax, and \$3.3 million net of tax, as of September 29, 2018 and December 30, 2017 respectively, were recorded in AOCI. At September 29, 2018, we had \$1.3 million, net of tax, of derivative currency gains on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At December 30, 2017, we had \$(4.7) million of derivative currency losses on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impacted earnings.

The following table quantifies the outstanding foreign exchange contracts intended to hedge non-US dollar denominated receivables and payables and the corresponding impact on the value of these instruments assuming a hypothetical 10% appreciation/depreciation of their counter currency on September 29, 2018 (in millions):

| Currency | Notional Amount | Fair Value | Gain (Loss) From | |
|-------------------|-----------------|------------|--------------------------------------|--------------------------------------|
| | | | 10% Appreciation of Counter Currency | 10% Depreciation of Counter Currency |
| Chinese Renminbi | \$ 267.9 | \$(3.3) | \$ 26.8 | \$ (26.8) |
| Mexican Peso | 191.4 | 9.4 | 19.1 | (19.1) |
| Euro | 104.7 | 3.7 | 10.5 | (10.5) |
| Indian Rupee | 38.0 | (1.8) | 3.8 | (3.8) |
| Canadian Dollar | 13.8 | 0.1 | 1.4 | (1.4) |
| Australian Dollar | 11.6 | 0.4 | 1.2 | (1.2) |
| Thai Baht | 6.7 | 0.3 | 0.7 | (0.7) |
| British Pound | 16.9 | — | 1.7 | (1.7) |

Gains and losses indicated in the sensitivity analysis would be offset by gains and losses on the underlying forecasted non-US dollar denominated cash flows.

Commodity Price Risk

We periodically enter into commodity hedging transactions to reduce the impact of changing prices for certain commodities such as copper and aluminum based upon forecasted purchases of such commodities. Qualified hedge transactions are designated as cash flow hedges and the contract terms of commodity hedge instruments generally mirror those of the hedged item, providing a high degree of risk reduction and correlation.

Derivatives

Derivative commodity assets (liabilities) of \$1.4 million, \$0.2 million, \$(4.8) million, and \$(0.1) million were recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Current Hedging Obligations and Noncurrent Hedging Obligations, respectively, at September 29, 2018. Derivative commodity assets of \$11.0 million are recorded in Prepaid Expenses at December 30, 2017. Derivative commodity assets of \$0.7 million are recorded in Noncurrent Assets at December 30, 2017. The unrealized (losses) gains on the effective portion of the contracts of \$(2.4) million net of tax and \$7.3 million net of tax, as of September 29, 2018 and December 30, 2017, respectively, were recorded in AOCI. At September 29, 2018, we had \$(1.4) million, net of tax, of derivative commodity losses on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At December 30, 2017, there was \$2.7 million, net of tax, of derivative commodity gains on closed hedge instruments in AOCI that were realized into earnings when the hedged items impacted earnings.

The following table quantifies the outstanding commodity contracts intended to hedge raw material commodity prices and the corresponding impact on the value of these instruments assuming a hypothetical 10% appreciation/depreciation of their prices on September 29, 2018 (in millions):

| Commodity | Notional Amount | Fair Value | Gain (Loss) From | |
|-----------|-----------------|------------|--------------------------------------|--------------------------------------|
| | | | 10% Appreciation of Commodity Prices | 10% Depreciation of Commodity Prices |
| Copper | \$ 100.4 | \$(3.2) | \$ 10.0 | \$ (10.0) |
| Aluminum | 7.6 | (0.1) | 0.8 | (0.8) |

Gains and losses indicated in the sensitivity analysis would be offset by the actual prices of the commodities.

The net AOCI hedging component balance of a \$1.6 million gain at September 29, 2018 includes \$1.3 million of net current deferred gains expected to be realized in the next twelve months.

Counterparty Risk

We are exposed to credit losses in the event of non-performance by the counterparties to various financial agreements, including our interest rate swap agreements, foreign currency exchange contracts and commodity hedging transactions. We manage exposure to counterparty credit risk by limiting our counterparties to major international banks and financial institutions meeting established credit guidelines and continually monitoring their compliance with the credit guidelines. We do not obtain collateral or other security to support financial instruments subject to credit risk. We do not anticipate non-performance by our counterparties, but cannot provide assurances.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective to ensure that (a) information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and (b) information required to be disclosed by us in the reports the Company files or submits under the Exchange Act is accumulated and communicated to our management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in the legal matters described in Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 30, 2017, which is incorporated here by reference.

ITEM 1A. RISK FACTORS

Our business and financial results are subject to numerous risks and uncertainties. The risk and uncertainties have not changed materially from those reported in Item 1A in our 2017 Annual Report on Form 10-K for the year ended December 30, 2017, which is incorporated here by reference. For additional information regarding risks and uncertainties facing the Company, please also see the information provided under the header "Cautionary Statement" contained in this Quarterly Report on Form 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following tables contain detail related to the repurchase of our common stock under the two programs that existed during the current quarter based on the date of trade during the quarter ended September 29, 2018.

| 2018 Fiscal Month | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May be Purchased Under the Plans or Programs |
|-------------------|----------------------------------|------------------------------|--|--|
| Jul 1 to Aug 4 | 32,000 | \$ 79.94 | 32,000 | — |
| Aug 5 to Sep 1 | — | — | — | — |
| Sep 2 to Sep 29 | — | — | — | — |
| | 32,000 | | 32,000 | |

| 2018 Fiscal Month | Total Number of Shares Purchased | Average Price Paid per Share | Total Value of Shares Purchased as a Part of Publicly Announced Plans or Programs | Maximum Value of Shares that May be Purchased Under the Plans or Programs |
|-------------------|----------------------------------|------------------------------|---|---|
| Jul 1 to Aug 4 | — | \$ — | —\$ — | \$ 250,000,000 |
| Aug 5 to Sep 1 | 45,533 | 79.93 | 3,639,242 | 246,360,758 |
| Sep 2 to Sep 29 | — | — | — | 246,360,758 |
| | 45,533 | | \$ 3,639,242 | |

Under our equity incentive plans, participants may satisfy all or a portion of the federal, state and local withholding tax obligations arising in connection with plan awards by electing to have the Company withhold shares of common stock otherwise issuable under the award having a value equal to the amount to be withheld. During the quarter ended September 29, 2018, we did not acquire any shares in connection with transactions pursuant to equity incentive plans. In November, 2013, the Board of Directors approved the repurchase of up to 3.0 million shares of our common stock, which repurchase authority had no expiration date. During the quarter ended September 29, 2018, we acquired 32,000 shares pursuant to this authorization. We had entered into a Rule 10b5-1 trading plan for the purpose of repurchasing shares, and certain of our purchases under the authorization during the quarter were made pursuant to the Rule 10b5-1 trading plan. At a meeting of the Board of Directors on July 24, 2018, this authorization was extinguished and replaced with an authorization to purchase up to \$250.0 million of shares. The new authorization has no expiration date. Management is authorized to effect purchases from time to time in the open market or through privately negotiated transactions. During the quarter ended September 29, 2018, we acquired \$3.6 million of shares pursuant to this authorization. We have entered into a Rule 10b5-1 trading plan for the purpose of repurchasing shares, and certain of our purchases under the authorization during the quarter were made pursuant to the Rule 10b5-1 trading plan.

ITEM 6. EXHIBITS

| Exhibit Number | Exhibit Description |
|----------------|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350. |
| 101 | The following materials from Regal Beloit Corporation's Quarterly Report on Form 10-Q for the quarter ended September 29, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements. |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGAL BELOIT CORPORATION
(Registrant)

/s/ Robert J. Rehard
Robert J. Rehard
Vice President
Chief Financial Officer
(Principal Financial Officer)

/s/ Jason R. Longley
Jason R. Longley
Vice President
Corporate Controller
(Principal Accounting Officer)

Date: November 6, 2018

INDEX TO EXHIBITS

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| | |
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