

REGAL BELOIT CORP
Form 10-Q
May 12, 2016

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
for the quarterly period ended April 2, 2016
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
Commission file number 001-07283

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

Wisconsin 39-0875718
(State of other jurisdiction of (IRS Employer
incorporation) Identification No.)
200 State Street, Beloit, Wisconsin 53511
(Address of principal executive office)
(608) 364-8800
Registrant's telephone number, including area code

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

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

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

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

YES NO

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

REGAL BELOIT CORPORATION
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CAUTIONARY STATEMENT

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995.

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

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

Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update these statements to reflect subsequent events or circumstances. Additional information regarding these and other risks and factors is included in Part I - Item 1A - Risk Factors in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2016.

PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

REGAL BELOIT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in Millions, Except Per Share Data)

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

See accompanying Notes to Condensed Consolidated Financial Statements

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

| | Three Months Ended | |
|--|-----------------------|------------------|
| | April 2, 2016 | April 4, 2015 |
| Net Income | \$42.7 | \$ 37.9 |
| Other comprehensive income (loss) net of tax: | | |
| Foreign currency translation adjustments | 25.7 | (22.7) |
| Hedging Activities: | | |
| Increase (decrease) in fair value of hedging activities, net of tax effects of \$1.3 million and \$(2.4) million for the three months ended April 2, 2016 and April 4, 2015, respectively | 2.3 | (3.9) |
| Reclassification of losses included in net income, net of tax effects of \$5.0 million and \$2.3 million for the three months ended April 2, 2016 and April 4, 2015, respectively | 8.1 | 3.7 |
| Pension and Post Retirement Plans: | | |
| Reclassification adjustments for pension and post retirement benefits included in net income, net of tax effects of \$0.2 million and \$0.4 million for the three months ended April 2, 2016 and April 4, 2015, respectively | 0.7 | 0.8 |
| Other comprehensive income (loss) | 36.8 | (22.1) |
| Comprehensive income | 79.5 | 15.8 |
| Less: Comprehensive income attributable to noncontrolling interests | 1.5 | 0.5 |
| Comprehensive income attributable to Regal Beloit Corporation | \$78.0 | \$ 15.3 |
| See accompanying Notes to Condensed Consolidated Financial Statements | | |

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

| | April 2, 2016 | January 2, 2016 |
|---|------------------|--------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$249.1 | \$252.9 |
| Trade Receivables, less allowances of \$11.9 million in 2016 and \$11.3 million in fiscal 2015 | 498.1 | 462.0 |
| Inventories | 756.8 | 775.0 |
| Prepaid Expenses and Other Current Assets | 145.5 | 145.3 |
| Total Current Assets | 1,649.5 | 1,635.2 |
| Net Property, Plant and Equipment | 673.4 | 678.5 |
| Goodwill | 1,472.4 | 1,465.6 |
| Intangible Assets, net of Amortization | 768.0 | 777.8 |
| Deferred Income Tax Benefits | 21.5 | 18.6 |
| Other Noncurrent Assets | 15.4 | 16.0 |
| Total Assets | \$4,600.2 | \$4,591.7 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$338.5 | \$336.2 |
| Dividends Payable | 10.3 | 10.3 |
| Hedging Obligations | 34.1 | 44.7 |
| Accrued Compensation and Employee Benefits | 72.4 | 80.6 |
| Other Accrued Expenses | 120.5 | 134.7 |
| Current Maturities of Long-Term Debt | 6.1 | 6.3 |
| Total Current Liabilities | 581.9 | 612.8 |
| Long-Term Debt | 1,699.3 | 1,715.6 |
| Deferred Income Taxes | 106.4 | 100.9 |
| Hedging Obligations | 22.0 | 27.6 |
| Pension and Other Post Retirement Benefits | 106.1 | 105.9 |
| Other Noncurrent Liabilities | 48.3 | 46.1 |
| Commitments and Contingencies (see Note 12) | | |
| Equity: | | |
| Regal Beloit Corporation Shareholders' Equity: | | |
| Common Stock, \$.01 par value, 100.0 million shares authorized, 44.7 million and 44.7 million shares issued and outstanding in 2016 and fiscal 2015, respectively | 0.4 | 0.4 |
| Additional Paid-In Capital | 897.3 | 900.8 |
| Retained Earnings | 1,322.5 | 1,291.1 |
| Accumulated Other Comprehensive Loss | (221.3) | (255.0) |
| Total Regal Beloit Corporation Shareholders' Equity | 1,998.9 | 1,937.3 |
| Noncontrolling Interests | 37.3 | 45.5 |
| Total Equity | 2,036.2 | 1,982.8 |
| Total Liabilities and Equity | \$4,600.2 | \$4,591.7 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Common Stock \$.01 Par Value | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Non- controlling Interests | Total Equity |
|---|--|----------------------------------|----------------------|---|----------------------------------|-----------------|
| Balance as of January 3, 2015 | \$ 0.4 | \$ 896.1 | \$ 1,188.9 | \$ (151.0) | \$ 44.9 | \$ 1,979.3 |
| Net Income | — | — | 36.4 | — | 1.5 | 37.9 |
| Other Comprehensive Loss | — | — | — | (21.1) | (1.0) | (22.1) |
| Dividends Declared (\$0.22 per share) | — | — | (9.8) | — | — | (9.8) |
| Stock Options Exercised, including income tax benefit and share cancellations | — | 2.6 | — | — | — | 2.6 |
| Dividends Declared to Non-controlling Interests | — | — | — | — | (0.3) | (0.3) |
| Share-based Compensation | — | 3.0 | — | — | — | 3.0 |
| Purchase of Subsidiary Shares from Noncontrolling Interest | — | — | — | — | (0.8) | \$(0.8) |
| Balance as of April 4, 2015 | \$ 0.4 | \$ 901.7 | \$ 1,215.5 | \$ (172.1) | \$ 44.3 | \$ 1,989.8 |

| | Common Stock \$.01 Par Value | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Non- controlling Interests | Total Equity |
|---|--|----------------------------------|----------------------|---|----------------------------------|-----------------|
| Balance as of January 2, 2016 | \$ 0.4 | \$ 900.8 | \$ 1,291.1 | \$ (255.0) | \$ 45.5 | \$ 1,982.8 |
| Net Income | — | — | 41.6 | — | 1.1 | 42.7 |
| Other Comprehensive Income | — | — | — | 36.4 | 0.4 | 36.8 |
| Dividends Declared (\$0.23 per share) | — | — | (10.2) | — | — | (10.2) |
| Stock Options Exercised, including income tax benefit and share cancellations | — | 0.4 | — | — | — | 0.4 |
| Share-based Compensation | — | 3.3 | — | — | — | 3.3 |
| Purchase of Subsidiary Shares from Noncontrolling Interest | — | (7.2) | — | (2.7) | (9.7) | (19.6) |
| Balance as of April 2, 2016 | \$ 0.4 | \$ 897.3 | \$ 1,322.5 | \$ (221.3) | \$ 37.3 | \$ 2,036.2 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

REGAL BELOIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 2, 2016
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet of Regal Beloit Corporation (the "Company") as of January 2, 2016, which has been derived from audited consolidated financial statements, and (b) unaudited interim condensed consolidated financial statements as of April 2, 2016 and for the three months ended April 2, 2016 and April 4, 2015, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's 2015 Annual Report on Form 10-K filed on March 2, 2016.

In the opinion of management, all adjustments considered necessary for a fair presentation of financial results have been made. Except as otherwise discussed, such adjustments consist of only those of a normal recurring nature. Operating results for the three months ended April 2, 2016 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2016.

The condensed consolidated financial statements have been prepared in accordance with GAAP, which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. The Company uses estimates in accounting for, among other items, allowance for doubtful accounts; excess and obsolete inventory; share-based compensation; acquisitions; product warranty obligations; pension and post retirement assets and liabilities; derivative fair values; goodwill and other asset impairments; health care reserves; retirement benefits; rebates and incentives; litigation claims and contingencies, including environmental matters; and income taxes. The Company accounts for changes to estimates and assumptions when warranted by factually based experience.

The Company operates on a 52/53 week fiscal year ending on the Saturday closest to December 31.

Change in Accounting Principle

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

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

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

New Accounting Standards

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

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

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

In February 2016, the FASB issued ASU 2016-02, Leases. The core principle of ASU 2016-02 is that an entity should recognize on its balance sheet assets and liabilities arising from a lease. In accordance with that principle, ASU 2016-02 requires that a lessee recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying leased asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on the lease classification as a finance or operating lease. This new accounting guidance is effective for public companies for fiscal years beginning after December 15, 2018 under a modified retrospective approach and early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

2. OTHER FINANCIAL INFORMATION

Inventories

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

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

Inventories are stated at cost, which is not in excess of market. Cost for approximately 52% of the Company's inventory at April 2, 2016, and 42% at January 2, 2016 was determined using the LIFO method.

Property, Plant and Equipment

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

| | Useful Life in Years | April 2, 2016 | January 2, 2016 |
|-------------------------------|----------------------|------------------|--------------------|
| Land and Improvements | | \$81.6 | \$ 80.7 |
| Buildings and Improvements | 3 - 50 | 277.0 | 276.9 |
| Machinery and Equipment | 3 - 15 | 943.0 | 926.7 |
| Property, Plant and Equipment | | 1,301.6 | 1,284.3 |

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

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3. ACQUISITIONS

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

2016 Acquisitions

Elco Purchase

On January 18, 2016, the Company purchased the remaining shares owned by the joint venture partner in its Elco Group B.V. ("Elco") joint venture increasing the Company's ownership from 55.0% to 100.0%. for \$19.6 million. The Company consolidated the results of Elco into the Company's consolidated financial statements in the Climate Solutions segment.

2015 Acquisitions

PTS

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

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

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

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

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

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

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

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

Pro Forma Consolidated Results for PTS Acquisition

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

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

4. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

The changes in AOCI by component for the three months ended April 2, 2016 and April 4, 2015 were as follows (in millions):

| | Three Months Ended April 2, 2016 | | | |
|--|-------------------------------------|---|---|-----------|
| | Hedging Activities | Pension and Post Retirement Benefit Adjustments | Foreign Currency Translation Adjustments | Total |
| Beginning balance | \$(47.5) | \$ (35.4) | \$ (172.1) | \$(255.0) |
| Other comprehensive income (loss) before reclassifications | 3.6 | — | 25.3 | 28.9 |
| Tax impact | (1.3) | — | — | (1.3) |
| Amounts reclassified from accumulated other comprehensive loss | 13.1 | 0.9 | — | 14.0 |
| Tax impact | (5.0) | (0.2) | — | (5.2) |
| Net current period other comprehensive income (loss) | 10.4 | 0.7 | 25.3 | 36.4 |
| Purchase of subsidiary shares from noncontrolling interest | — | — | (2.7) | (2.7) |
| Ending balance | \$(37.1) | \$ (34.7) | \$ (149.5) | \$(221.3) |

| | Three Months Ended April 4, 2015 | | | |
|---|-------------------------------------|-----------------------------------|---|-----------|
| | Hedging Activities | Pension Benefit Adjustments | Foreign Currency Translation Adjustments | Total |
| Beginning balance | \$(31.0) | \$ (39.5) | \$ (80.5) | \$(151.0) |
| Other comprehensive income (loss) before reclassifications | (6.3) | — | (21.7) | (28.0) |
| Tax impact | 2.4 | — | — | 2.4 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 6.0 | 1.2 | — | 7.2 |
| Tax impact | (2.3) | (0.4) | — | (2.7) |
| Net current period other comprehensive income (loss) | (0.2) | 0.8 | (21.7) | (21.1) |
| Ending balance | \$(31.2) | \$ (38.7) | \$ (102.2) | \$(172.1) |

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

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

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

The following information presents changes to goodwill during the three months ended April 2, 2016 (in millions):

| | Total | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions |
|--|-----------|--|----------------------|------------------------------------|
| Balance as of January 2, 2016 | \$1,465.6 | \$ 547.7 | \$ 342.8 | \$ 575.1 |
| Acquisition and valuation adjustments | (0.3) | — | — | (0.3) |
| Translation adjustments | 7.1 | 2.5 | 0.3 | 4.3 |
| Balance as of April 2, 2016 | \$1,472.4 | \$ 550.2 | \$ 343.1 | \$ 579.1 |
| Cumulative goodwill impairment charges | \$275.7 | \$ 244.8 | \$ 7.7 | \$ 23.2 |

Intangible Assets

Intangible assets consisted of the following (in millions):

| | Weighted Average Amortization Period (Years) | April 2, 2016 | | January 2, 2016 | |
|------------------------------------|---|---------------|-----------------------------|-----------------|-----------------------------|
| | | Gross Value | Accumulated Amortization | Gross Value | Accumulated Amortization |
| Amortizable intangible assets: | | | | | |
| Customer relationships | 15 | \$715.2 | \$ 173.6 | \$709.0 | \$ 161.4 |
| Technology | 11 | 191.8 | 97.5 | 191.1 | 92.9 |
| Trademarks | 12 | 32.5 | 22.6 | 32.1 | 21.8 |
| Patent and engineering drawings | 5 | 16.6 | 16.6 | 16.6 | 16.6 |
| Non-compete agreements | 5 | 8.5 | 8.2 | 8.5 | 8.1 |
| | | 964.6 | 318.5 | 957.3 | 300.8 |
| Non-amortizable Trade Names | | 121.9 | — | 121.3 | — |
| | | \$1,086.5 | \$ 318.5 | \$1,078.6 | \$ 300.8 |

Amortization expense recorded for the three months ended April 2, 2016 and April 4, 2015 was \$15.6 million and \$14.3 million, respectively. Amortization expense for 2016 is estimated to be \$62.1 million.

6. BUSINESS SEGMENTS

The following sets forth certain financial information attributable to the Company's reporting segments as of and for the three months ended April 2, 2016 and April 4, 2015 (in millions):

| | Commercial and Industrial Systems | Climate Solutions | Power Transmission Solutions | Eliminations | Total |
|--|--|----------------------|------------------------------------|--------------|---------|
| As of and for Three Months Ended April 2, 2016 | | | | | |
| External sales | \$ 377.6 | \$ 239.8 | \$ 200.8 | \$ — | \$818.2 |
| Intersegment sales | 11.3 | 5.2 | 0.9 | (17.4) | — |
| Total sales | 388.9 | 245.0 | 201.7 | (17.4) | 818.2 |
| Gross profit | 93.6 | 56.2 | 67.6 | — | 217.4 |
| Operating expenses | 71.9 | 31.6 | 44.6 | — | 148.1 |
| Income from operations | 21.7 | 24.6 | 23.0 | — | 69.3 |
| Depreciation and amortization | 19.7 | 6.2 | 14.2 | — | 40.1 |
| Capital expenditures | 7.3 | 3.9 | 3.7 | — | 14.9 |
| Identifiable assets | 1,949.7 | 948.1 | 1,702.4 | — | 4,600.2 |
| As of and for Three Months Ended April 4, 2015 | | | | | |
| External sales | \$ 456.4 | \$ 280.4 | 174.9 | \$ — | \$911.7 |
| Intersegment sales | 23.9 | 7.1 | 1.1 | (32.1) | — |
| Total sales | 480.3 | 287.5 | 176.0 | (32.1) | 911.7 |
| Gross profit | 112.9 | 63.7 | 44.3 | — | 220.9 |
| Operating expenses | 79.6 | 30.3 | 47.4 | — | 157.3 |
| Income from operations | 33.3 | 33.4 | (3.1) | — | 63.6 |
| Depreciation and amortization | 19.5 | 7.0 | 9.4 | — | 35.9 |
| Capital expenditures | 15.7 | 4.6 | 0.9 | — | 21.2 |
| Identifiable assets | 2,440.6 | 880.8 | 1,646.1 | — | 4,967.5 |

The Commercial and Industrial Systems segment produces medium and large electric motors, power generation products, high-performance drives and controls, and starters. Applications include general commercial and industrial equipment, commercial HVAC, power generation, and oil and gas.

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

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

The Company evaluates performance based on the segment's income from operations. Corporate costs have been allocated to each segment based on the net sales of each segment. The reported external net sales of each segment are from external customers.

7. DEBT AND BANK CREDIT FACILITIES

The Company's indebtedness as of April 2, 2016 and January 2, 2016 was as follows (in millions):

| | April 2, 2016 | January 2, 2016 |
|----------------------------------|------------------|--------------------|
| Term facility | \$1,068.1 | \$1,118.1 |
| Senior notes | 600.0 | 600.0 |
| Multicurrency revolving facility | 36.0 | 3.0 |
| Other | 15.1 | 15.5 |
| Less: Debt issuance costs | (13.8) | (14.7) |
| | 1,705.4 | 1,721.9 |
| Less: Current maturities | 6.1 | 6.3 |
| Non-current portion | \$1,699.3 | \$1,715.6 |

The Credit Agreement

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

The Term Facility was drawn in full on January 30, 2015 in connection with the closing of the PTS Acquisition. The loans under the Term Facility require quarterly amortization at a rate starting at 5.0% per annum, increasing to 7.5% per annum after two years and further increasing to 10.0% per annum for the last two years of the Term Facility. At April 2, 2016 the Company had borrowings under the Multicurrency Revolving Facility in the amount of \$36.0 million, \$34.6 million of standby letters of credit issued under the facility, and \$429.4 million of available borrowing capacity.

Borrowings under the Credit Agreement bear interest at floating rates based upon indices determined by the currency of the borrowing, plus an applicable margin determined by reference to the Company's consolidated funded debt to consolidated EBITDA ratio or at an alternative base rate. The weighted average interest rate on the Multicurrency Revolving Facility was 1.9% for the three months ended April 2, 2016 and April 4, 2015. The weighted average interest rate on the Term Facility was 1.9% for the three months ended April 2, 2016 and April 4, 2015. The Company pays a non-use fee on the aggregate unused amount of the Multicurrency Revolving Facility at a rate determined by reference to its consolidated funded debt to consolidated EBITDA ratio.

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

Senior Notes

At April 2, 2016, the Company had \$600.0 million of senior notes (the "Notes") outstanding. The Notes consist of (i) \$500.0 million in senior notes (the "2011 Notes") in a private placement which were issued in seven tranches with maturities from seven to twelve years and carry fixed interest rates and (ii) \$100.0 million in senior notes (the "2007 Notes") issued in 2007 with a floating interest rate based on a margin over the London Inter-Bank Offered Rate ("LIBOR").

Details on the Notes at April 2, 2016 were (in millions):

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

(1)
Interest
rates
vary as
LIBOR
varies.
At April
2, 2016,
the
interest
rate was
1.3%.
At
January
2, 2016,
the
interest
rate was
1.1%

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

Financial Covenants

The Credit Agreement and the Notes require the Company to meet specified financial ratios and to satisfy certain financial condition tests.

Other Notes Payable

At April 2, 2016, other notes payable of approximately \$15.1 million were outstanding with a weighted average interest rate of 2.7%. At January 2, 2016, other notes payable of approximately \$15.5 million were outstanding with a weighted average rate of 2.5%.

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 \$1,743.1 million and \$1,758.2 million as of April 2, 2016 and January 2, 2016, respectively.

8. POST RETIREMENT PLANS

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

| | Three Months Ended | |
|---|-----------------------|------------------|
| | April 2, 2016 | April 4, 2015 |
| Service cost | \$2.1 | \$ 0.7 |
| Interest cost | 2.4 | 4.3 |
| Expected return on plan assets | (3.0) | (2.2) |
| Amortization of prior service cost and net actuarial loss | 0.9 | 1.2 |
| Net periodic benefit cost | \$2.4 | \$ 4.0 |

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 2016 fiscal year is \$3.1 million and \$0.2 million, respectively.

For the three months ended April 2, 2016 and April 4, 2015, the Company contributed \$1.1 million and \$0.8 million, respectively, to post retirement plans. The Company expects to make total contributions of \$4.6 million in 2016. The Company contributed a total of \$4.7 million in fiscal 2015. 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 2015 Annual Report on Form 10-K filed on March 2, 2016.

Beginning in 2016, the Company changed the method used to estimate the service and interest cost components of the net periodic pension and other post retirement benefit costs. The new method uses the spot yield curve approach to estimate the service and interest costs by applying the specific spot rates along the yield curve used to determine the benefit obligations to relevant projected cash outflows. The change will not affect the measurement of the total benefit obligations as the change in service and interest costs is offset in the actuarial gains and losses recorded in other comprehensive income. The methodology of selecting a discount rate that matches each plan's cash flows to that of a theoretical bond portfolio yield curve will continue to be used to value the benefit obligation at the end of each year. The Company changed to the new method to provide a more precise measure of interest and service costs by improving the correlation between the projected benefit cash flows and the discrete spot yield curve rates. The Company has accounted for this change as a change in estimate prospectively and is expected to result in a \$2.9 million reduction in expense for fiscal 2016 as compared to the previous method.

9. SHAREHOLDERS' EQUITY

Common Stock

The Board of Directors has approved a repurchase program of up to 3.0 million common shares of Company stock. Management is authorized to effect purchases from time to time in the open market or through privately negotiated transactions. There were no

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purchases under this program during the three months ended ending April 2, 2016. There are approximately 2.3 million shares of our common stock available for repurchase under this program.

Share-Based Compensation

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

The Company recognized approximately \$3.3 million and \$3.0 million in share-based compensation expense for the three months ended April 2, 2016 and April 4, 2015, 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. The total excess income tax benefit recognized relating to share-based compensation was immaterial for the three months ended April 2, 2016 and was approximately \$0.7 million for the three months ended April 4, 2015. As of April 2, 2016, total unrecognized compensation cost related to share-based compensation awards was approximately \$21.3 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 1.9 years.

Approximately 2.0 million shares were available for future grant under the 2013 Equity Incentive Plan at April 2, 2016.

Options and Stock Appreciation Rights

The Company uses several forms of share-based incentive awards, including non-qualified stock options, incentive stock options, and stock settled stock appreciation rights ("SARs"). Options and SARs 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 three months ended April 2, 2016 and April 4, 2015, expired and canceled shares were immaterial. The table below presents share-based compensation activity for the three months ended April 2, 2016 and April 4, 2015 (in millions):

| | April 2, 2016 | April 4, 2015 |
|---|---------------|---------------|
| Total intrinsic value of share-based incentive awards exercised | \$ 0.1 | \$ 2.8 |
| Cash received from stock option exercises | 0.5 | 3.0 |
| Income tax benefit from the exercise of stock options | 0.1 | 1.1 |

Following is a summary of share-based incentive plan grant activity (options and SARs) for the three months ended April 2, 2016.

| Number of Shares Under Options and SARs | Shares | Weighted Average Exercise Price | Weighted Average Remaining Term (years) | Aggregate Intrinsic Value (in millions) |
|---|-----------|---------------------------------|---|---|
| Exercisable at January 2, 2016 | 1,548,266 | \$ 63.09 | | |
| Granted | — | — | | |
| Exercised | (14,506) | 46.67 | | |
| Forfeited | (1,933) | 75.75 | | |
| Expired | (700) | 71.51 | | |
| Outstanding at April 2, 2016 | 1,531,127 | \$ 63.23 | 5.5 | \$ 7.7 |
| Exercisable at April 2, 2016 | 938,291 | \$ 57.38 | 4.1 | \$ 7.6 |

Compensation expense recognized related to Options and SARs was \$1.2 million for the three months ended April 2, 2016.

As of April 2, 2016, there was \$9.8 million of unrecognized compensation cost related to non-vested options and SARs that is expected to be recognized as a change to earnings over a weighted average period of 3.0 years.

The amount of options 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, or death, disability or normal retirement of the grantee.

Following is a summary of RSA award activity for the three months ended April 2, 2016:

| | Shares | Weighted Average Fair Value at Grant Date | Weighted Average Remaining Contractual Term (years) |
|----------------------------------|--------|---|---|
| Unvested RSAs at January 2, 2016 | 14,400 | \$ 78.15 | 0.4 |
| Granted | — | — | |
| Vested | — | — | |
| Forfeited | — | — | |
| Unvested RSAs April 2, 2016 | 14,400 | \$ 78.15 | 0.1 |

RSAs vest on either the first (for RSAs granted in 2013 and later) or the third (for RSAs granted prior to 2013) 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 \$0.3 million for the three months ended April 2, 2016.

As of April 2, 2016, there was \$0.1 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 0.1 years.

Following is a summary of RSU award activity for the three months ended April 2, 2016:

| | Shares | Weighted Average Fair Value at Grant Date | Weighted Average Remaining Contractual Term (years) |
|----------------------------------|---------|---|---|
| Unvested RSUs at January 2, 2016 | 268,655 | \$ 72.91 | 1.8 |
| Granted | — | — | |
| Vested | (4,420) | 72.65 | |
| Forfeited | (4,215) | 71.52 | |
| Unvested RSUs at April 2, 2016 | 264,020 | \$ 72.94 | 1.6 |

RSU shares vest on the third anniversary of the grant date, provided the holder of the shares is continuously employed by the Company until the vesting date. Compensation expense recognized related to the RSUs was \$1.3 million for the three months ended April 2, 2016.

As of April 2, 2016, there was \$8.6 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 1.6 years.

Performance Share Units

Performance share unit ("PSU") awards 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. PSU's have a performance period of 3 years. As set forth in the individual grant agreements, acceleration of vesting may occur under a change in control, death or disability. There are no voting rights with these instruments 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.

Following is a summary of PSU award activity for the three months ended April 2, 2016:

| Shares | Weighted Average Fair Value at Grant Date | Weighted Average Remaining Contractual Term (years) |
|----------------------------------|---|---|
| Unvested PSUs at January 2, 2016 | 87,895 | 1.9 |
| Granted | — | — |
| Vested | — | — |
| Forfeited | (2,154) | 87.85 |
| Unvested PSUs at April 2, 2016 | 87,660 | 1.7 |

Compensation expense for awards granted are recognized based on the targeted payout of 100.0%, net of estimated forfeitures. Compensation expense recognized related to PSUs was \$0.5 million for the three months ended April 2, 2016. Total unrecognized compensation expense for all PSUs granted as of April 2, 2016 is estimated to be \$2.8 million recognized as a charge to earnings over a weighted average period of 1.7 years.

10. INCOME TAXES

The effective tax rate for the three months ended April 2, 2016 was 23.0% versus 26.0% for the three months ended April 4, 2015. The change in the effective tax rate for the three months ended April 2, 2016 was primarily driven by the mix of earnings. The lower effective rate as compared to the 35.0% statutory Federal income tax rate is driven by lower foreign tax rates.

As of April 2, 2016 and January 2, 2016, the Company had approximately \$8.8 million and \$8.3 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 U.S. Federal and state/local income tax examinations by tax authorities for years prior to 2011, and the Company is no longer subject to non-U.S. income tax examinations by tax authorities for years prior to 2009.

11. EARNINGS PER SHARE ("EPS")

Diluted earnings per share is computed 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. Options for common shares where the exercise price was above the market price have been excluded from the calculation of effect of dilutive securities shown below; the amount of the anti-dilutive shares were 1.2 million and 0.2 million for the three months ended April 2, 2016 and April 4, 2015, respectively. The following table reconciles the basic and diluted shares used in EPS calculations for the three months ended April 2, 2016 and April 4, 2015 (in millions):

Three
Months
Ended

April 4,
2016 2015

| | | |
|-------------------------------|------|------|
| Denominator for basic EPS | 44.7 | 44.7 |
| Effect of dilutive securities | 0.3 | 0.4 |
| Denominator for diluted EPS | 45.0 | 45.1 |

12. CONTINGENCIES

One of the Company's subsidiaries that it acquired in 2008 is subject to numerous claims filed in various jurisdictions relating to certain sub-fractional motors that were primarily manufactured through 2005 and that were included as components of residential and commercial ventilation units marketed by a third party. These claims generally allege that the ventilation units were the cause of fires. Based on the current facts, the Company does not believe these claims, individually or in the aggregate, will have a material effect on its interim condensed consolidated financial statements as a whole.

The Company is, from time to time, party to litigation that arises in the normal course of its business operations, including product warranty and liability claims, contract disputes and environmental, asbestos, 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. 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 is a reconciliation of the changes in accrued warranty costs for the three months ended April 2, 2016 and April 4, 2015 (in millions):

| | Three Months Ended | |
|-------------------|--------------------|------------------|
| | April 2, 2016 | April 4, 2015 |
| Beginning balance | \$ 19.1 | \$ 19.3 |
| Less: Payments | (5.1) | (4.7) |
| Provisions | 3.5 | 5.5 |
| Acquisition | — | 0.8 |
| Ending balance | \$ 17.5 | \$ 20.9 |

13. DERIVATIVE INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are commodity price, currency exchange 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 entered into to manage interest rate risk associated with the Company's floating rate borrowings.

The Company must recognize all derivative instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets. 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 April 2, 2016.

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 other comprehensive loss 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. All derivative instruments used by the Company impact operating cash flows. At April 2, 2016, the Company had \$(7.2) 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 January 2, 2016, the Company had \$(7.4) million, net of tax, of derivative losses on closed hedge instruments in AOCI that was realized in earnings when the hedged items impacted earnings.

As of April 2, 2016, the Company had the following currency forward contracts outstanding (with maturities extending through December 2018) to hedge forecasted foreign currency cash flows (in millions):

| | Notional Amount (in U.S. Dollars) |
|-------------------|--|
| Chinese Renminbi | \$ 210.0 |
| Mexican Peso | 251.4 |
| Euro | 37.8 |
| Indian Rupee | 48.8 |
| Canadian Dollar | 20.3 |
| Australian Dollar | 8.5 |
| Japanese Yen | 2.7 |
| Thai Baht | 4.3 |

As of April 2, 2016, the Company had the following commodity forward contracts outstanding (with maturities extending through September 2017) to hedge forecasted purchases of commodities (notional amounts expressed in terms of the dollar value of the hedged item (in millions):

| | Notional Amount |
|----------|--------------------|
| Copper | \$ 57.4 |
| Aluminum | 3.3 |

As of April 2, 2016, the total notional amount of the Company's receive-variable/pay-fixed interest rate swap was \$100.0 million (with maturity in August 2017).

Fair values of derivative instruments as of April 2, 2016 and January 2, 2016 were (in millions):

| | April 2, 2016 | | | |
|--|--|-------------------------------|-------------------------------------|---|
| | Prepaid Expenses and Other Current Assets | Other Noncurrent Assets | Hedging Obligations (current) | Hedging Obligations (non-current) |
| Designated as hedging instruments: | | | | |
| Interest rate swap contracts | \$— | \$ — | \$ — | \$ 7.0 |
| Currency contracts | 1.0 | 0.9 | 24.9 | 14.9 |
| Commodity contracts | 0.8 | 0.3 | 4.3 | 0.1 |
| Not designated as hedging instruments: | | | | |
| Currency contracts | 0.7 | — | 1.9 | — |
| Commodity contracts | 2.9 | — | 3.0 | — |
| Total Derivatives | \$5.4 | \$ 1.2 | \$ 34.1 | \$ 22.0 |

| | January 2, 2016 | | | |
|--|---|--------|-------------------------------|-----------------------------------|
| | Prepaid Expenses and Other Current Assets | | Hedging Obligations (current) | Hedging Obligations (non-current) |
| Designated as hedging instruments: | | | | |
| Interest rate swap contracts | \$— | \$ — | \$ — | \$ 7.8 |
| Currency contracts | 0.7 | 0.4 | 29.9 | 19.5 |
| Commodity contracts | 0.1 | — | 8.7 | — |
| Not designated as hedging instruments: | | | | |
| Currency contracts | 0.5 | 0.6 | 0.9 | 0.3 |
| Commodity contracts | 5.1 | — | 5.2 | — |
| Total Derivatives | \$6.4 | \$ 1.0 | \$ 44.7 | \$ 27.6 |

The effect of derivative instruments on the Condensed Consolidated Statements of Income and Comprehensive Income (pre-tax) was as follows (in millions):

Derivatives Designated as Cash Flow Hedging Instruments

| | Three Months Ended April 2, 2016 | | | | April 4, 2015 | | | |
|--|----------------------------------|-------------------|---------------------|--------|--------------------|-------------------|---------------------|---------|
| | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total |
| Gain (Loss) recognized in Other Comprehensive Income (Loss) | \$1.4 | \$ 2.6 | \$(0.4) | \$3.6 | \$(4.6) | \$(0.7) | \$(1.0) | \$(6.3) |
| Amounts reclassified from Other Comprehensive Income (Loss): | | | | | | | | |
| Loss recognized in Cost of Sales | (5.4) | (6.5) | — | (11.9) | (3.1) | (1.6) | — | (4.7) |
| Loss recognized in Interest Expense | — | — | (1.2) | (1.2) | — | — | (1.3) | (1.3) |

The ineffective portion of hedging instruments recognized during the three months ended April 2, 2016 and April 4, 2015, respectively, was immaterial.

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

| | Three Months Ended April 2, 2016 | | April 4, 2015 | |
|---|----------------------------------|-------------------|--------------------|-------------------|
| | Commodity Forwards | Currency Forwards | Commodity Forwards | Currency Forwards |
| Gain (Loss) recognized in Cost of Sales | \$— | \$ 0.9 | \$— | \$(2.2) |
| Gain recognized in Operating Expenses | 0.1 | — | — | — |

The net AOCI hedging component balance of \$(37.1) million loss at April 2, 2016 includes \$(20.8) million of net current deferred losses 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 April 2, 2016 and January 2, 2016.

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

| | April 2, 2016 | | |
|--|--|--|--|
| | 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 | \$1.7 | \$ (1.3) | \$ 0.4 |
| Derivative Commodity Contracts | 3.7 | (3.7) | — |
| Other Noncurrent Assets: | | | |
| Derivative Currency Contracts | 0.9 | (0.5) | 0.4 |
| Derivative Commodity Contracts | 0.3 | — | 0.3 |
| Hedging Obligations (Current): | | | |
| Derivative Currency Contracts | 26.8 | (1.3) | 25.5 |
| Derivative Commodity Contracts | 7.3 | (3.7) | 3.6 |
| Hedging Obligations: | | | |
| Derivative Currency Contracts | 14.9 | (0.5) | 14.4 |
| Derivative Commodity Contracts | 0.1 | — | 0.1 |
| | January 2, 2016 | | |
| | 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 | \$1.2 | \$ (1.2) | \$ — |
| Derivative Commodity Contracts | 5.2 | (5.2) | — |
| Other Noncurrent Assets: | | | |
| Derivative Currency Contracts | 1.0 | (1.0) | — |
| Hedging Obligations (Current): | | | |
| Derivative Currency Contracts | 30.8 | (1.2) | 29.6 |
| Derivative Commodity Contracts | 13.9 | (5.2) | 8.7 |
| Hedging Obligations: | | | |
| Derivative Currency Contracts | 19.8 | (1.0) | 18.8 |

14. FAIR VALUE

The Company uses a three-tier hierarchy to assess the inputs used to measure the fair value of financial assets and liabilities.

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 term deposits approximate their carrying values as of April 2, 2016 and January 2, 2016, 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 April 2, 2016 and January 2, 2016.

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 April 2, 2016 and January 2, 2016 (in millions):

| | April 2, 2016 | January 2, 2016 | Classification |
|--|------------------|--------------------|----------------|
| Assets: | | | |
| Prepaid Expenses and Other Current Assets: | | | |
| Derivative Currency Contracts | \$ 1.7 | \$ 1.2 | Level 2 |
| Derivative Commodity Contracts | 3.7 | 5.2 | Level 2 |
| Other Noncurrent Assets: | | | |
| Assets Held in Rabbi Trust | 5.2 | 5.2 | Level 1 |
| Derivative Currency Contracts | 0.9 | 1.0 | Level 2 |
| Derivative Commodity Contracts | 0.3 | — | Level 2 |
| Liabilities: | | | |
| Hedging Obligations (current): | | | |
| Derivative Currency Contracts | 26.8 | 30.8 | Level 2 |
| Derivative Commodity Contracts | 7.3 | 13.9 | Level 2 |
| Hedging Obligations: | | | |
| Interest Rate Swap | 7.0 | 7.8 | Level 2 |
| Derivative Currency Contracts | 14.9 | 19.8 | Level 2 |
| Derivative Commodity Contracts | 0.1 | — | Level 2 |

The Company's derivative contracts are valued at fair value using the market or income approaches. The Company measures the fair value of foreign currency exchange contracts using Level 2 inputs based on observable spot and forward rates in active markets. The Company measures the fair value of commodity contracts using Level 2 inputs through observable market transactions in active markets provided by financial institutions. The Company measures the fair value of investments using Level 1 inputs based on quoted market prices for identical instruments in active markets. The Company measures the fair value of interest rate swaps using Level 2 inputs in an income approach for valuation based on expected interest rate yield curves over the remaining duration of the interest rate swaps. During the three months ended April 2, 2016, there were no transfers between classification Levels 1, 2 or 3.

15. RESTRUCTURING AND RELATED COSTS

Beginning in 2014, the Company announced the closure of several of its manufacturing and warehouse facilities and consolidation into existing facilities to simplify manufacturing operations in its Commercial and Industrial Systems, Climate Solutions and Power Transmission Solutions segments. As a result of these closures, the Company 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.

The following is a reconciliation of provisions and payments for the restructuring projects for the three months ended April 2, 2016 and April 4, 2015, respectively (in millions):

| | Three Months Ended | |
|-------------------|--------------------------|------------------|
| | April 2, 2016 | April 4, 2015 |
| Beginning balance | \$ 1.3 | \$ 6.1 |
| Provision | 1.4 | 1.2 |
| Less: Payments | 1.7 | 3.3 |
| Ending Balance | \$ 1.0 | \$ 4.0 |

The following is a reconciliation of restructuring and restructuring-related costs for the restructuring projects for the three months ended April 2, 2016 and April 4, 2015, respectively (in millions):

| | Three Months Ended | | | | | |
|---|---------------------|-----------------------|--------|---------------------|-----------------------|--------|
| | April 2, 2016 | | | April 4, 2015 | | |
| | Cost of Sales | Operating Expenses | Total | Cost of Sales | Operating Expenses | Total |
| Restructuring Costs: | | | | | | |
| Employee termination expenses | \$0.2 | \$ — | \$ 0.2 | \$0.2 | \$ — | \$ 0.2 |
| Facility related costs | 0.1 | — | 0.1 | 0.1 | 0.1 | 0.2 |
| Other expenses | — | — | — | — | 0.8 | 0.8 |
| Total restructuring costs | \$0.3 | \$ — | \$ 0.3 | \$0.3 | \$ 0.9 | \$ 1.2 |
| Restructuring-related costs: | | | | | | |
| Other employment benefit expenses | \$0.5 | \$ 0.6 | \$ 1.1 | \$ — | \$ — | \$ — |
| Total restructuring-related costs | \$0.5 | \$ 0.6 | \$ 1.1 | \$ — | \$ — | \$ — |
| Total restructuring and restructuring-related costs | \$0.8 | \$ 0.6 | \$ 1.4 | \$0.3 | \$ 0.9 | \$ 1.2 |

The Company's current restructuring activities are expected to conclude by the end of the first quarter of fiscal 2017. The Company expects to record aggregate future charges relating to previously announced restructuring activities of approximately \$14.3 million which includes \$5.2 million of employee termination expenses and \$9.1 million of facility related and other costs.

16. SUBSEQUENT EVENT

On April 28, 2016 the Company entered into an agreement to sell its Mastergear Worldwide ("Mastergear") business to Rotork PLC for \$25.0 million. The sale is expected to close in the second quarter of 2016. Mastergear is included in the Company's Power Transmission Solutions segment.

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.

Reportable Segments

Our company is comprised of three reportable segments: Commercial and Industrial Systems, Climate Solutions and Power Transmission Solutions. A description of the three reportable 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 ("OEMs") 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 segment to segment.

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.

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 and handling.

Operating Expenses. Our operating expenses consist primarily of (i) general and administrative expenses; (ii) sales and marketing expenses; and (iii) general engineering and research and development expenses. Personnel related costs are our largest operating expense.

Operating Profit. Our operating profit consists of the segment gross profit less the segment operating expenses. In addition, there are shared operating expenses that cover corporate, engineering and IT 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 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 outlook for 2016 assumes that the weak demand from many of our end markets experienced during the second half of fiscal 2015 will continue through fiscal 2016, putting pressure on our net sales and earnings.

Results of Operations

Three Months Ended April 2, 2016 Compared to April 4, 2015

Net sales decreased \$93.5 million or 10.3% for the first quarter 2016 compared to the first quarter 2015 and included \$35.9 million from the recently acquired businesses, net of dispositions. The decrease consisted of an organic sales decline of 12.9% and a negative foreign currency translation impact of 1.3%, partially offset by a favorable impact from acquisitions of 3.9%. Gross profit for the first quarter 2016 decreased \$3.5 million or 1.6% compared to the first quarter 2015. The first quarter 2015 included non-recurring expenses related to the recognition of the inventory step up in cost of goods sold of \$13.5 million due to purchase accounting adjustments associated with the acquisition of the Power Transmission Solutions ("PTS") business from Emerson Electric Company on January 30, 2015 (the "PTS Acquisition"). Operating expenses for the first quarter 2016 decreased \$9.2 million or 5.8% compared to the same period in the prior year which included \$9.2 million of non-recurring acquisition related transaction costs. In addition, the first quarter 2016 included incremental operating expenses associated with the PTS Acquisition, partially offset by the impact of simplification programs and other cost savings.

Commercial and Industrial Systems segment net sales decreased \$78.8 million or 17.3% for the first quarter 2016 compared to the first quarter 2015. The decrease consisted of an organic sales decline of 15.3% and a negative foreign currency translation impact of 1.9%. Organic sales declines were primarily driven by decreased volume in the oil and gas end markets, weaker demand in Asian industrial markets, slowness in a number of the North American industrial end markets including power generation and distribution, and the effect of contractual two-way material price formulas. Gross profit decreased \$19.3 million or 17.1% primarily due to the impact of lower demand in the oil and gas end markets, and the associated impact of lower production on the absorption of costs, partially offset by benefits from simplification programs and lower commodity costs. Operating expenses for the first quarter 2016 declined 9.8% driven primarily by lower compensation expense and amortization expense compared to the same period in the prior year.

Climate Solutions segment net sales decreased \$40.6 million or 14.5% for the first quarter 2016 compared to the first quarter 2015. The decrease consisted of an organic sales decline of 13.5% and a negative foreign currency translation impact of 1.0%. Organic sales declines were primarily driven by a downturn in the Middle East HVAC market, lower demand in the residential North American HVAC and water heating market, and the effect of contractual two-way material price formulas. Gross profit decreased \$7.5 million or 11.7% primarily due to lower sales, product mix and the impact of lower production on the absorption of costs, partially offset by benefits from simplification programs and lower commodity costs. Operating expenses for the first quarter 2016 increased \$1.3 million or 4.4%.

Power Transmission Solutions segment net sales increased \$25.9 million or 14.8% for the first quarter 2016 compared to the first quarter 2015. The increase consisted of a favorable impact from the PTS Acquisition of \$36.0 million, partially offset by an organic

sales decline of 5.5% and a negative foreign currency translation impact of 0.2%. Organic sales declines were primarily driven by weak oil & gas, metals, and agricultural end markets, partially offset by strength in renewable energy, food and beverage, and unit material handling end markets. Gross profit for the first quarter 2016 increased \$23.4 million or 52.8% primarily due to the incremental gross profit associated with the PTS Acquisition, partially offset by the impact of the inventory step up in cost of goods sold of \$13.5 million related to the PTS Acquisition included in the same period in the prior year. Operating expenses for the first quarter 2016 decreased \$2.7 million or 5.7%. The first quarter 2016 included incremental operating expenses associated with the PTS Acquisition, partially offset by the impact of simplification programs and other cost savings, while the first quarter 2015 included \$9.2 million of non-recurring acquisition related transaction costs.

| | Three Months | | |
|---|--------------|----------|----|
| | Ended | | |
| | April 2, | April 4, | |
| | 2016 | 2015 | |
| (Dollars in Millions) | | | |
| Net Sales: | | | |
| Commercial and Industrial Systems | \$377.6 | \$456.4 | |
| Climate Solutions | 239.8 | 280.4 | |
| Power Transmission Solutions | 200.8 | 174.9 | |
| Consolidated | \$818.2 | \$911.7 | |
| Gross Profit as a Percent of Net Sales: | | | |
| Commercial and Industrial Systems | 24.8 | % 24.7 | % |
| Climate Solutions | 23.4 | % 22.7 | % |
| Power Transmission Solutions | 33.7 | % 25.3 | % |
| Consolidated | 26.6 | % 24.2 | % |
| Operating Expenses as a Percent of Net Sales: | | | |
| Commercial and Industrial Systems | 19.0 | % 17.4 | % |
| Climate Solutions | 13.2 | % 10.8 | % |
| Power Transmission Solutions | 22.2 | % 27.1 | % |
| Consolidated | 18.1 | % 17.3 | % |
| Income (Loss) from Operations as a Percent of Net Sales: | | | |
| Commercial and Industrial Systems | 5.7 | % 7.3 | % |
| Climate Solutions | 10.3 | % 11.9 | % |
| Power Transmission Solutions | 11.5 | % (1.8) |)% |
| Consolidated | 8.5 | % 7.0 | % |
| Income from Operations | \$69.3 | \$63.6 | |
| Interest Expense | 15.0 | 13.6 | |
| Interest Income | 1.1 | 1.2 | |
| Income before Taxes | 55.4 | 51.2 | |
| Provision for Income Taxes | 12.7 | 13.3 | |
| Net Income | 42.7 | 37.9 | |
| Less: Net Income Attributable to Noncontrolling Interests | 1.1 | 1.5 | |
| Net Income Attributable to Regal Beloit Corporation | \$41.6 | \$36.4 | |

The effective tax rate for the three months ended April 2, 2016 was 23.0% versus 26.0% for the three months ended April 4, 2015. The change in the effective tax rate for the three months ended April 2, 2016 was primarily driven by the mix of earnings. The lower effective rate as compared to the 35.0% statutory Federal income tax rate is driven by lower foreign tax rates.

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, availability of debt financing, and the ability to attract long-term capital at acceptable terms.

Cash flow provided by operating activities was \$58.2 million for the three months ended April 2, 2016, a \$40.7 million increase from the three months ended April 4, 2015. The increase was primarily the result of the lower investment in net working capital and increased net income from PTS for the three months ended April 2, 2016 as compared to the three months ended April 4, 2015.

Cash flow used in investing activities was \$16.6 million for the three months ended April 2, 2016, a \$1,391.5 million decrease from the three months ended April 4, 2015. The decrease was primarily due to the 2015 acquisition of PTS. There were no business acquisitions for the three months ended April 2, 2016 compared to \$1,392.5 million for the three months ended April 4, 2015. Capital expenditures were \$14.9 million for the three months ended April 2, 2016 compared to \$21.2 million for the three months ended April 4, 2015.

Cash flow used in financing activities was \$46.6 million for the three months ended April 2, 2016, compared to \$1,288.1 million provided by financing activities for the three months ended April 4, 2015. Net debt repayments were \$17.3 million for the three months ended April 2, 2016 compared to \$15.7 million for the three months ended April 4, 2015. We paid \$10.2 million in dividends to shareholders in the three months ended April 2, 2016, compared to \$9.8 million for the three months ended April 4, 2015. Cash used to purchase additional interest in joint ventures was \$19.6 million for the three months ended April 2, 2016 compared to \$0.8 million for the three months ended April 4, 2015.

Our working capital was \$1,067.6 million at April 2, 2016, compared to \$1,022.4 million at January 2, 2016. At April 2, 2016, our current ratio (which is the ratio of our current assets to current liabilities) was 2.8:1 compared to 2.7:1 at January 2, 2016. Our current ratio increased primarily due to an increase in Trade Receivables of \$36.1 million at April 2, 2016 as compared to January 2, 2016.

The following table presents selected financial information and statistics as of April 2, 2016 and January 2, 2016 (in millions):

| | April 2, 2016 | January 2, 2016 |
|---------------------------|---------------------|-----------------------|
| Cash and Cash Equivalents | \$249.1 | \$252.9 |
| Trade Receivables, Net | 498.1 | 462.0 |
| Inventories, Net | 756.8 | 775.0 |
| Working Capital | 1,067.6 | 1,022.4 |
| Current Ratio | 2.8:1 | 2.7:1 |

At April 2, 2016, our cash and cash equivalents totaled \$249.1 million. At April 2, 2016, \$239.6 million of our cash was held by foreign subsidiaries, and although we do not intend to, this cash could be used in our domestic operations if necessary, but would be subject to repatriation taxes. There are no current trends, demands or uncertainties that we believe are reasonably likely to require repatriation or to have a material impact on our ability to fund U.S. operations.

Predominately all of our expenses are paid in cash, often with payment term provisions that include early payment discounts and time elements. We believe that our ability to generate positive cash flow coupled with our available revolving credit balance will be sufficient to fund our operations for the foreseeable future. We focus on optimizing our investment in working capital through improved and enforced payment terms, maintaining an optimal level of inventory and operational efficiencies. Additionally, we believe that our capital expenditures for maintenance of equipment and facilities will be consistent with prior levels and not present a funding challenge.

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.

The Credit Agreement

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

The Term Facility was drawn in full on January 30, 2015 in connection with the closing of the PTS Acquisition. The loans under the Term Facility require quarterly amortization at a rate starting at 5.0% per annum, increasing to 7.5% per annum after two years

and further increasing to 10.0% per annum for the last two years of the Term Facility. At April 2, 2016 we had borrowings under the Multicurrency Revolving Facility in the amount of \$36.0 million, \$34.6 million of standby letters of credit issued under the facility, and \$429.4 million of available borrowing capacity.

Borrowings under the Credit Agreement bear interest at floating rates based upon indices determined by the currency of the borrowing, plus an applicable margin determined by reference to our consolidated funded debt to consolidated EBITDA ratio or at an alternative base rate. The weighted average interest rate on the Multicurrency Revolving Facility was 1.9 % for the three months ended April 2, 2016 and April 4, 2015. The weighted average interest rate on the Term Facility was 1.9% for the three months ended April 2, 2016 and April 4, 2015. We pay a non-use fee on the aggregate unused amount of the Multicurrency Revolving Facility at a rate determined by reference to its consolidated funded debt to consolidated EBITDA ratio.

The Credit Agreement requires 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.

Senior Notes

At April 2, 2016, we had \$600.0 million of senior notes (the “Notes”) outstanding. The Notes consist of (i) \$500.0 million in senior notes (the “2011 Notes”) in a private placement which were issued in seven tranches with maturities from seven to twelve years and carry fixed interest rates and (ii) \$100.0 million in senior notes (the “2007 Notes”) issued in 2007 with a floating interest rate based on a margin over the London Inter-Bank Offered Rate (“LIBOR”).

Details on the Notes at April 2, 2016 were (in millions):

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

(1)

Interest rates

vary as LIBOR varies.

At April 2, 2016, the interest rate was 1.3%.

At January 2, 2016, the interest rate was 1.1%

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

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 April 2, 2016.

Other Notes Payable

At April 2, 2016, other notes payable of approximately \$15.1 million were outstanding with a weighted average interest rate of 2.7%. At January 2, 2016, other notes payable of approximately \$15.5 million were outstanding with a weighted average rate of 2.5%.

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 \$1,743.1 million and \$1,758.2 million as of April 2, 2016 and January 2, 2016, 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 January 2, 2016, 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 strictly 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 Loss ("AOCI") in each accounting period. The ineffective portion of the 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 April 2, 2016, excluding the impact of the interest rate swap, we had \$505.5 million of fixed rate debt and \$1,213.7 million of variable rate debt. As a result, interest rate changes in variable rate debt impact future earnings and cash flow assuming other factors are constant. We utilize our interest rate swap to manage fluctuations in cash flows resulting from exposure to interest rate risk on forecasted variable rate interest payments. We have LIBOR-based floating rate borrowings, which expose us to variability in interest payments due to changes in interest rates. A hypothetical 10% change in the weighted average borrowing rate on outstanding variable rate debt at April 2, 2016 would result in a \$1.3 million change in after-tax annualized earnings.

We entered into a pay fixed/receive LIBOR-based floating interest rate swap to manage fluctuations in cash flows resulting from interest rate risk. This interest rate swap has been designated as a cash flow hedge against forecasted LIBOR-based interest payments. Details regarding this instrument, as of April 2, 2016, are as follows (in millions):

| Instrument | Notional Amount | Maturity | Rate Paid | Rate Received | Fair Value (Loss) |
|------------|-----------------|-----------------|-----------|-----------------|-------------------|
| Swap | \$ 100.0 | August 23, 2017 | 5.4% | LIBOR (3 month) | \$ (7.0) |

As of April 2, 2016, an interest rate swap liability of \$(7.0) million was included in Hedging Obligations (noncurrent). As of January 2, 2016, an interest rate swap liability of \$(7.8) million was included in Hedging Obligations (noncurrent). The unrealized loss on the effective portion of the contract, net of tax, of \$(4.3) million and \$(4.9) million as of April 2, 2016 and January 2, 2016, respectively, was recorded in AOCI.

Foreign Currency Risk

We are also 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. 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 April 2, 2016, derivative currency assets (liabilities) of \$1.7 million, \$0.9 million, \$(26.8) million and \$(14.9) million, are recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Hedging Obligations (current), and Hedging Obligations (noncurrent), respectively. As of January 2, 2016, derivative currency assets (liabilities) of \$1.2 million, \$1.0 million, \$(30.8) million and \$(19.8) million, are recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Hedging Obligations (current), and Hedging Obligations (noncurrent), respectively. The unrealized losses on the contracts of \$(23.5) million net of tax, and \$(29.8) million net of tax, as of April 2, 2016 and January 2, 2016 respectively, were recorded in AOCI. At April 2, 2016, we had \$(4.5) million, net of tax, of derivative currency losses on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At January 2, 2016, we had \$(3.8) million of derivative currency losses on

closed hedge instruments in AOCI that will be realized in earnings when the hedged items impacted earnings.

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The following table quantifies the outstanding foreign exchange contracts intended to hedge non-U.S. 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 April 2, 2016 (in millions):

| Currency | Notional Amount | Fair Value | Gain (Loss) From | |
|-------------------|-----------------|------------|--------------------------------------|--------------------------------------|
| | | | 10% Appreciation of Counter Currency | 10% Depreciation of Counter Currency |
| Chinese Renminbi | \$ 210.0 | \$(1.5) | \$ 21.0 | \$ (21.0) |
| Mexican Peso | 251.4 | (35.9) | 25.1 | (25.1) |
| Euro | 37.8 | (1.3) | 3.8 | (3.8) |
| Indian Rupee | 48.8 | 0.6 | 4.9 | (4.9) |
| Canadian Dollar | 20.3 | (0.2) | 2.0 | (2.0) |
| Australian Dollar | 8.5 | (0.5) | 0.9 | (0.9) |
| Japanese Yen | 2.7 | (0.1) | 0.3 | (0.3) |
| Thai Baht | 4.3 | (0.2) | 0.4 | (0.4) |

Gains and losses indicated in the sensitivity analysis would be offset by gains and losses on the underlying forecasted non-U.S. 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. The majority of these 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 \$3.7 million, \$0.3 million, \$(7.3) million and \$(0.1) million were recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Hedging Obligations (current), and Hedging Obligations (noncurrent) respectively, at April 2, 2016. Derivative commodity assets (liabilities) of \$5.2 million, \$(13.9) million are recorded in Prepaid Expenses and Other Current Assets and Hedging Obligations (current) respectively, at January 2, 2016. The unrealized (losses) on the effective portion of the contracts of \$(2.1) million net of tax and \$(5.4) million net of tax, as of April 2, 2016 and January 2, 2016, respectively, were recorded in AOCI. At April 2, 2016, we had \$(2.7) 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 January 2, 2016, there was \$(3.6) million, net of tax, of derivative commodity losses 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 April 2, 2016 (in millions):

| Commodity | Notional Amount | Fair Value | Gain (Loss) From | |
|-----------|-----------------|------------|--------------------------------------|--------------------------------------|
| | | | 10% Appreciation of Commodity Prices | 10% Depreciation of Commodity Prices |
| Copper | \$ 57.4 | \$(3.2) | \$ 5.7 | \$ (5.7) |
| Aluminum | 3.3 | (0.2) | 0.3 | (0.3) |

Gains and losses indicated in the sensitivity analysis would be offset by the actual prices of the commodities. The net AOCI balance of \$(37.1) million loss at April 2, 2016 includes \$(20.8) million of net current deferred losses 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 agreement, 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 January 2, 2016, 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 2015 Annual Report on Form 10-K for the year ended January 2, 2016, which is incorporated here by reference.

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

The following table contains detail related to the repurchase of our common stock based on the date of trade during the quarter ended April 2, 2016.

| 2016 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 |
|-------------------------|----------------------------------|------------------------------|--|--|
| January 3 to February 6 | — | \$ — | — | 2,320,000 |
| February 7 to March 5 | — | — | — | 2,320,000 |
| March 6 to April 2 | — | — | — | 2,320,000 |
| | — | | — | |

Under our equity incentive plans, participants may pay the exercise price or satisfy all or a portion of the federal, state and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold shares of common stock otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned shares of common stock, in each case having a value equal to the exercise price or the amount to be withheld. During the quarter ended April 2, 2016, there were zero shares acquired in connection with transactions pursuant to equity incentive plans.

The Board of Directors has approved a repurchase program for up to 3.0 million shares of our common stock, which repurchase authority has no expiration date. Management is authorized to effect purchases from time to time in the open market or through privately negotiated transactions. From time to time, we may enter into a Rule10b5-1 trading plan for the purpose of repurchasing shares under this authorization. There are approximately 2.3 million shares of our common stock available for repurchase under this program.

ITEM 6. EXHIBITS

| Exhibit Number | Exhibit Description |
|----------------|--|
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 18 | Preferability Letter |
| 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 April 2, 2016, 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/ Charles A. Hinrichs
Charles A. Hinrichs
Vice President
Chief Financial Officer
(Principal Financial Officer)

/s/ Robert J. Rehard
Robert J. Rehard
Vice President
Corporate Controller
(Principal Accounting Officer)

Date: May 12, 2016

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