REGAL BELOIT CORP
Form 10-Q
November 06, 2014

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended September 27, 2014
or

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES ý NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ý NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a “smaller reporting company.” See the definitions of “large accelerated filer” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ¨ NO ý
As of November 4, 2014 there were 44,688,756 shares of the registrant’s common stock, $.01 par value per share, outstanding.

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CAUTIONARY STATEMENT

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management’s expectations, beliefs, current assumptions, and projections. When used in this Quarterly Report on Form 10-Q, words such as “may,” “will,” “expect,” “intend,” “estimate,” “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:

- 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 the timing and impact of purchase accounting adjustments;
- challenges in our Venezuelan operations, including potential currency devaluations, non-payment of receivables, governmental restrictions such as price and margin controls, as well as other difficult operating conditions;
- 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;
- increases in our overall debt levels as a result of acquisitions or otherwise and our ability to repay principal and interest on our outstanding debt;
- 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;
- effects on earnings of any significant impairment of goodwill or intangible assets;
- cyclical downturns affecting the global market for capital goods;
- difficulties associated with managing foreign operations; and
- other risks and uncertainties including but not limited to those described in “Risk Factors” in this Quarterly Report on Form 10-Q and from time to time in our reports filed with U.S. Securities and Exchange Commission.

Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update these statements to reflect subsequent events or circumstances. Additional information regarding these and other risks and factors is included in Part II-Item 1A-Risk Factors in this Quarterly Report on Form 10-Q and in Part I - Item 1A - Risk Factors in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2014.

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

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

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net Sales	$829.8	$768.2	$2,481.4	$2,368.4
Cost of Sales	626.0	571.7	1,872.2	1,763.2
Gross Profit	203.8	196.5	609.2	605.2
Operating Expenses	129.1	117.7	376.1	369.4
Goodwill Impairment	—	—	1.0	—
Total Operating Expenses	129.1	117.7	377.1	369.4
Income From Operations	74.7	78.8	232.1	235.8
Interest Expense	9.8	10.6	30.5	31.9
Interest Income	2.0	1.3	5.4	3.1
Income Before Taxes	66.9	69.5	207.0	207.0
Provision For Income Taxes	18.1	15.0	55.1	48.2
Net Income	48.8	54.5	151.9	158.8
Less: Net Income Attributable to Noncontrolling Interests	1.3	1.9	4.4	5.6
Net Income Attributable to Regal Beloit Corporation	$47.5	$52.6	$147.5	$153.2
Earnings Per Share Attributable to Regal Beloit Corporation:				
Basic	$1.06	$1.17	$3.27	$3.40
Assuming Dilution	$1.05	$1.16	$3.25	$3.38
Cash Dividends Declared Per Share	$0.22	$0.20	$0.64	$0.59
Weighted Average Number of Shares Outstanding:				
Basic	44.9	45.1	45.1	45.0
Assuming Dilution	45.2	45.4	45.4	45.3

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net Income	$48.8	$ 54.5	$151.9	$ 158.8
Other comprehensive income (loss) net of tax:				
Foreign currency translation adjustments	(17.2)	6.4	(19.0)	(22.4)
Reclassification of foreign currency translation adjustments included in net income, net of immaterial tax effects for the three and nine months ended September 27, 2014	(1.0)	—	(1.0)	—
Hedging Activities:				
Change in fair value of hedging activities, net of tax effects of $(2.2) million and $2.6 million for the three months ended September 27, 2014 and September 28, 2013, and $(3.5) million and $(3.0) million for the nine months ended September 27, 2014 and September 28, 2013, respectively	(3.7)	4.4	(5.7)	(4.8)
Reclassification adjustment for losses included in net income, net of tax effects of $0.4 million and $2.5 million for the three months ended September 27, 2014 and September 28, 2013, and $3.6 million and $3.4 million for the nine months ended September 27, 2014 and September 28, 2013, respectively	0.8	4.0	5.9	5.5
Defined benefit pension plans:				
Increase in prior service cost and unrecognized loss, net of immaterial tax effects for the nine months ended September 27, 2014	—	—	(0.5)	—
Reclassification adjustments for pension benefits included in net income, net of tax effects of $0.3 and $0.4 million for the three months ended September 27, 2014 and September 28, 2013, and $0.7 million and $0.7 million for the nine months ended September 27, 2014 and September 28, 2013, respectively	0.5	0.5	1.2	1.1
Other comprehensive income (loss)	(20.6)	15.3	(19.1)	(20.6)
Comprehensive income	28.2	69.8	132.8	138.2
Less: Comprehensive income attributable to noncontrolling interest	0.6	2.8	2.8	5.5
Comprehensive Income Attributable to Regal Beloit Corporation	$27.6	$ 67.0	$130.0	$ 132.7

See accompanying Notes to Condensed Consolidated Financial Statements

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

	September 27, 2014	December 28, 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$327.3	$466.0
Trade Receivables, less allowances of $12.8 million in 2014 and $11.5 million in 2013	545.7	463.8
Inventories	681.7	618.7
Prepaid Expenses and Other Current Assets	116.5	130.6
Deferred Income Tax Benefits	47.5	46.8
Total Current Assets	1,718.7	1,725.9
Net Property, Plant and Equipment	572.0	573.4
Goodwill	1,126.3	1,081.9
Intangible Assets, net of Amortization	234.9	244.2
Other Noncurrent Assets	19.5	18.1
Total Assets	$3,671.4	$3,643.5
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	$347.9	$304.6
Dividends Payable	9.8	9.0
Hedging Obligations	7.8	11.3
Accrued Compensation and Employee Benefits	90.6	85.6
Other Accrued Expenses	128.2	132.0
Current Maturities of Debt	8.3	158.4
Total Current Liabilities	592.6	700.9
Long-Term Debt	668.6	609.0
Deferred Income Taxes	144.9	140.3
Hedging Obligations	14.0	16.8
Pension and Other Post Retirement Benefits	40.0	39.7
Other Noncurrent Liabilities	34.6	34.4
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 shares and 45.1 million shares issued and outstanding in 2014 and 2013, respectively	0.4	0.5
Additional Paid-In Capital	889.9	916.1
Retained Earnings	1,318.1	1,199.4
Accumulated Other Comprehensive Loss	(77.3)	(59.8)
Total Regal Beloit Corporation Shareholders' Equity	2,131.1	2,056.2
Noncontrolling Interests	45.6	46.2
Total Equity	2,176.7	2,102.4
Total Liabilities and Equity	$3,671.4	$3,643.5

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock $.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance as of December 29, 2012	$0.4	$903.3	$1,115.0	$ (65.3)	$43.1	$1,996.5
Net Income	—	—	153.2	—	5.6	158.8
Other Comprehensive Loss	—	—	—	(20.5)	(0.1)	(20.6)
Dividends Declared ($0.59 per share)	—	—	(26.6)	—	—	(26.6)
Stock Options Exercised, including income tax benefit and share cancellations	0.1	1.4	—	—	—	1.5
Share-based Compensation	—	8.3	—	—	—	8.3
Purchase of Subsidiary Shares from Noncontrolling Interest	—	—	—	1.1	(2.8)	$(1.7)
Balance as of September 28, 2013	$0.5	$913.0	$1,241.6	$ (84.7)	$45.8	$2,116.2

	Common Stock $.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance as of December 28, 2013	$0.5	$916.1	$1,199.4	$ (59.8)	$46.2	$2,102.4
Net Income	—	—	147.5	—	4.4	151.9
Other Comprehensive Loss	—	—	—	(17.5)	(1.6)	(19.1)
Dividends Declared ($0.64 per share)	—	—	(28.8)	—	—	(28.8)
Stock Options Exercised, including income tax benefit and share cancellations	—	0.2	—	—	—	0.2
Stock Repurchase	(0.1)	(34.9)	—	—	—	(35.0)
Sale of Joint Venture	—	—	—	—	(3.1)	(3.1)
Dividends Declared to Non-controlling Interests	—	—	—	—	(0.3)	(0.3)
Share-based Compensation	—	8.5	—	—	—	8.5
Balance as of September 27, 2014	$0.4	$889.9	$1,318.1	$ (77.3)	$45.6	$2,176.7

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 27, 2014	September 28, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$151.9	$158.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	103.6	95.1
Goodwill impairment	1.0	—
Excess tax benefits from share-based compensation	(1.2)	(0.7)
Loss on disposition of assets, net	0.4	0.1
Share-based compensation expense	8.5	8.3
Loss on sale of consolidated joint venture	1.9	—
Change in operating assets and liabilities, net of acquisitions	(39.0)	(23.1)
Net cash provided by operating activities	227.1	238.5
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(60.5)	(65.4)
Purchases of investment securities	(38.0)	(24.6)
Proceeds from sale of investment securities	28.1	24.3
Business acquisitions, net of cash acquired	(128.2)	(6.1)
Additions of equipment on operating leases	(4.5)	(3.6)
Grants received for capital expenditures	—	1.6
Proceeds from sale of consolidated joint venture	0.7	—
Proceeds from sale of assets	0.1	1.7
Net cash used in investing activities	(202.3)	(72.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	128.0	20.0
Repayments under revolving credit facility	(68.0)	(20.0)
Proceeds from short-term borrowings	18.8	39.2
Repayments of short-term borrowings	(19.1)	(38.2)
Repayments of long-term debt	(150.1)	(55.8)
Dividends paid to shareholders	(28.0)	(26.1)
Payments of contingent consideration	(8.6)	(0.3)
Proceeds from the exercise of stock options	0.8	2.3
Excess tax benefits from share-based compensation	1.2	0.7
Repurchase of common stock	(35.0)	—
Distributions to noncontrolling interests	(0.3)	—
Purchase of subsidiary shares from noncontrolling interest	—	(1.7)
Net cash used in financing activities	(160.3)	(79.9)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(3.2)	0.9
Net (decrease) increase in cash and cash equivalents	(138.7)	87.4
Cash and cash equivalents at beginning of period	466.0	375.3
Cash and cash equivalents at end of period	$327.3	$462.7
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for:		
Interest	$37.3	$37.3

Income taxes	$34.3	$35.4

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 27, 2014
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet of Regal Beloit Corporation (the “Company”) as of December 28, 2013, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of September 27, 2014 and for the three and nine months ended September 27, 2014 and September 28, 2013, 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 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 2013 Annual Report on Form 10-K filed on February 26, 2014.

In the opinion of management, all adjustments considered necessary for a fair presentation of financial results have been made. Except as otherwise discussed, such adjustments consist of only those of a normal recurring nature. Operating results for the three and nine months ended September 27, 2014 are not necessarily indicative of the results that may be expected for the entire fiscal year ending January 3, 2015.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. The Company uses estimates in accounting for, among other items, allowance for doubtful accounts; excess and obsolete inventory; share-based compensation; acquisitions; product warranty obligations; pension assets and liabilities; derivative fair values; goodwill and intangible impairment; health care; litigation claims and contingencies; and income taxes. The Company accounts for changes to estimates and assumptions when warranted by factually based experience.

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

Accounting for Highly Inflationary Economies

The Company has a subsidiary in Venezuela using accounting for highly inflationary economies. Currency restrictions enacted by the Venezuelan government have the potential to impact the ability of the Company's subsidiary to obtain U.S. dollars in exchange for Venezuelan bolivares fuertes ("Bolivars") at the official foreign exchange rate. In January 2014, the Venezuelan government announced the expansion of its auction-based foreign exchange system (SICAD1). In March 2014, the Venezuelan government introduced an additional auction-based foreign exchange system (SICAD2) which permits all companies incorporated or domiciled in Venezuela to bid for U.S. dollars. As of September 27, 2014, the SICAD1 and SICAD2 exchange rates were 12 and 50 Bolivars per U.S. dollar, respectively. As of September 27, 2014, the Company continued to remeasure local currency transactions and balances into U.S. dollars at the official exchange rate of 6.3 based on charges incurred related to import tariffs. The Company believes that its imports will continue to qualify for the official rate and intends to pursue this rate for future exchanges. To date, the Company has not gained access to U.S. dollars in Venezuela through either SICAD1 or SICAD2 auctions. Whether it will be able to access either SICAD system in the foreseeable future and what volume of currency exchange will transact through these alternative mechanisms is unclear.

At September 27, 2014, the Company had approximately $10.0 million of net monetary assets denominated in Bolivars. In the event of a devaluation of the official exchange rate or if the Company were to determine that it is more appropriate to utilize one of the other legal auction-based exchange rates for financial reporting purposes, it would result in the Company recording a devaluation charge in its Consolidated Statement of Income. Going forward, any devaluation in Venezuela will result in a reduction in the U.S. dollar reported amount of currency denominated

revenues, expenses and, consequently, income before taxes.
New Accounting Standards
In May 2014, the Financial Accounting Standards Board ("FASB") issued Revenue from Contracts with Customers (Accounting Standard Update ("ASU") 2014-09), a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP. This update requires the Company to recognize revenue at amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services at the time of transfer. In doing

so, the Company will need to use more judgment and make more estimates than under today's guidance. Such estimates include identifying performance obligations in the contracts, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company can either apply a full retrospective adoption or a modified retrospective adoption.

The Company is required to adopt the new requirements in the first quarter of 2017. The Company is currently evaluating the impact of the new requirements to its consolidated financial statements and does not currently believe the impact will be significant.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends the definition of a discontinued operation and requires entities to provide additional disclosures about disposal transactions that do not meet the discontinued-operations criteria. Under the new guidance, a discontinued operation may include a component or group of components of an entity that has been disposed of by sale or other than sale in accordance with applicable guidance, or is classified as held for sale, and "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." The new guidance also requires entities to provide certain disclosures about disposals that do not meet the criteria to be reported as a discontinued operation but are considered individually significant components.

This ASU is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014, with early adoption permitted.

The Company has elected to early adopt ASU 2014-08, effective June 29, 2014. Consequently, individually significant operations that are sold or classified as held for sale may not qualify for presentation as discontinued operations in the condensed consolidated financial statements, but will be disclosed in the notes to the condensed consolidated financial statements. (See also Note 3 to the Condensed Consolidated Financial Statements.) This ASU did not have a significant impact on the Company's financial position or results of operations for any of the periods presented.

2. OTHER FINANCIAL INFORMATION

Inventories

Inventories are valued at last-in, first-out (LIFO) for approximately 52% and 49% of the Company's inventory as of September 27, 2014 and December 28, 2013, respectively.

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

	September 27, 2014	December 28, 2013
Raw Material and Work in Process	46 %	41 %
Finished Goods and Purchased Parts	54 %	59 %

Property, Plant and Equipment

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

	Useful Life in Years	September 27, 2014	December 28, 2013
Land and Improvements		$72.1	$72.3
Buildings and Improvements	3 - 50	241.3	231.1
Machinery and Equipment	3 - 15	831.7	794.5
Property, Plant and Equipment		1,145.1	1,097.9
Less: Accumulated Depreciation		(573.1)	(524.5)
Net Property, Plant and Equipment		$572.0	$573.4

3. ACQUISITIONS AND DIVESTITURES

Acquisitions

The results of operations for acquired businesses are included in the Condensed Consolidated Financial Statements from the dates of acquisition. Acquisition related expenses, which were recorded in operating expenses as incurred, were $0.2 million and $1.3 million for the three and nine months ended September 27, 2014, respectively, and immaterial and $3.2 million for the three and nine months ended September 28, 2013, respectively.

2014 Acquisitions

On June 30, 2014, the Company acquired all of the stock of Benshaw. Inc., ("Benshaw") for $51.0 million. Benshaw is a manufacturer of custom low and medium voltage variable frequency drives and soft starters. It is reported in the Electrical segment.

The acquisition of Benshaw 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 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 attributable to the allocation of the purchase price is based upon a preliminary valuation of assets acquired and liabilities assumed. The Company expects the amount of goodwill will be deductible for United States tax purposes.

The preliminary purchase price allocation for Benshaw was as follows:

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

On February 7, 2014, the Company acquired Hy-Bon Engineering Company, Inc. ("Hy-Bon") for $78.0 million. Hy-Bon is a leader in vapor recovery solutions for oil and gas applications and is reported in the Electrical segment. The acquisition of Hy-Bon was accounted for as a purchase in accordance with the FASB ASC Topic 805, Business Combinations. Assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The fair values of identifiable intangible assets, which were primarily customer relationships, were based on valuations using the income approach. The excess of the purchase price over the estimated fair values of tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. The goodwill attributable to the allocation of the purchase price is based upon a preliminary valuation of assets acquired and liabilities assumed. The Company does not expect the amount of goodwill will be deductible for tax purposes under current United States tax law.

The purchase price allocation for Hy-Bon was as follows:

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

2013 Acquisitions

On February 8, 2013, the Company acquired the RAM motor business ("RAM") previously owned by Schneider Electric for $6.0 million. This business manufactures hermetic motors from 250 hp to 2,500 hp for commercial HVAC applications and is reported in the Electrical segment.

The acquisition of RAM was accounted for as a purchase in accordance with the FASB ASC Topic 805, Business Combinations. Assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The allocation of the purchase price is based upon a valuation of assets acquired and liabilities assumed.

The purchase price allocation for RAM was as follows:

	As of February 8, 2013
Current assets	$ 1.2
Trade receivables	1.9
Inventories	7.7
Property, plant and equipment	2.1
Other assets	0.1
Total assets acquired	13.0
Accounts payable	1.1
Current liabilities assumed	5.4
Long-term liabilities assumed	0.5
Net assets acquired	$ 6.0

On September 3, 2013, the Company purchased additional shares owned by the noncontrolling interest in its joint venture in a South African distribution business increasing its ownership from 60.0% to 80.0% for $1.7 million. The Company historically consolidated the results of the South African distribution business into the Company's condensed consolidated financial statements and presented the portion of its investment not owned by the Company as noncontrolling interest. The noncontrolling interest in the South African distribution business was reduced to 20.0% as of September 3, 2013.

On November 19, 2013, the Company acquired Cemp s.r.l. ("Cemp"), an Italy based electric motor company for $34.6 million. Cemp is a leading designer, manufacturer and marketer of flameproof electric motors, and is reported in the Electrical segment.

The acquisition of Cemp was accounted for as a purchase in accordance with the FASB ASC Topic 805, Business Combinations. Assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The fair values of identifiable intangible assets, which were primarily customer relationships, were based on valuations using the income approach. The excess of the purchase price over the estimated fair values of tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. The goodwill attributable to the allocation of the purchase price is based upon a valuation of assets acquired and liabilities assumed. The Company does not expect the amount of goodwill be deductible for tax purposes under current Italian tax law.

The purchase price allocation for Cemp was as follows:

	As of November 19, 2013
Current assets	$ 3.1
Trade receivables	6.6
Inventories	7.8
Property, plant and equipment	3.7
Intangible assets, subject to amortization	12.6
Goodwill	14.8
Total assets acquired	48.6
Accounts payable	5.5
Current liabilities assumed	3.0
Long-term liabilities assumed	5.5
Net assets acquired	$ 34.6

Pro Forma Consolidated Results

The following supplemental pro forma information presents the financial results for the three and nine months ended September 27, 2014 and September 28, 2013, respectively, as if the acquisitions of Benshaw and Hy-Bon had occurred on December 29, 2013. Based upon the timing of the Company's fiscal 2014 acquisitions, financial results for the three months ended September 27, 2014 included the financial results of the acquisitions of Benshaw and Hy-Bon. Also presented are the financial results for the three and nine months ended September 28, 2013 as if the acquisitions of Benshaw, Hy-Bon, Cemp and RAM had occurred on December 30, 2012.

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

	Nine Months Ended September 27, 2014
Pro forma net sales	$ 2,515.5
Pro forma net income	145.3
Basic earnings per share as reported	$ 3.27
Pro forma basic earnings per share	3.22
Diluted earnings per share as reported	$ 3.25
Pro forma diluted earnings per share	3.20

	Three Months Ended September 28, 2013	Nine Months Ended September 28, 2013
Pro forma net sales	$ 801.5	$ 2,247.9
Pro forma net income	53.2	156.2
Basic earnings per share as reported	$ 1.17	$ 3.40
Pro forma basic earnings per share	1.18	3.47
Diluted earnings per share as reported	$ 1.16	$ 3.38
Pro forma diluted earnings per share	1.17	3.45

2014 Divestitures

The Company sold its shares of a joint venture located in Shanghai, China ("Jinling") on September 11, 2014 which was previously accounted for as a consolidated joint venture and was reported in the Electrical segment. The disposal of Jinling was determined to not qualify for presentation as discontinued operations in the Company's Condensed Consolidated Financial Statements, in accordance with ASU 2014-08. A loss of approximately $1.9 million was recorded in Operating Expenses in the Condensed Consolidated Statements of Income for the three and nine months ended September 27, 2014.

4. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

The changes in accumulated other comprehensive loss by component, net of tax, for the three and nine months ended September 27, 2014 and September 28, 2013 were as follows (in millions):

	Three Months Ended September 27, 2014			
	Hedging Activities	Pension Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning balance	$(6.4)	$(23.1)	$(27.9)	$(57.4)
Other comprehensive income (loss) before reclassifications	(5.9)	—	(16.5)	(22.4)
Tax (expense) benefit	2.2	—	—	2.2
Amounts reclassified from accumulated other comprehensive income (loss)	1.2	0.8	(1.0)	1.0
Tax (expense) benefit	(0.4)	(0.3)	—	(0.7)
Net current period other comprehensive income (loss)	(2.9)	0.5	(17.5)	(19.9)
Ending balance	$(9.3)	$(22.6)	$(45.4)	$(77.3)

	Three Months Ended September 28, 2013			
	Hedging Activities	Pension Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning balance	$(25.1)	$(41.3)	$(33.8)	$(100.2)
Other comprehensive income (loss) before reclassifications	7.0	—	5.5	12.5
Tax (expense) benefit	(2.6)	—	—	(2.6)
Amounts reclassified from accumulated other comprehensive income (loss)	6.5	0.9	—	7.4
Tax (expense) benefit	(2.5)	(0.4)	—	(2.9)
Purchase of subsidiary shares from noncontrolling interest	—	—	1.1	1.1
Net current period other comprehensive income (loss)	8.4	0.5	6.6	15.5
Ending balance	$(16.7)	$(40.8)	$(27.2)	$(84.7)

	Nine Months Ended September 27, 2014			
	Hedging Activities	Pension Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning balance	$(9.5)	$(23.3)	$(27.0)	$(59.8)
Other comprehensive income (loss) before reclassifications	(9.2)	(0.5)	(17.4)	(27.1)
Tax (expense) benefit	3.5	—	—	3.5
Amounts reclassified from accumulated other comprehensive income (loss)	9.5	1.9	(1.0)	10.4
Tax (expense) benefit	(3.6)	(0.7)	—	(4.3)
Net current period other comprehensive income (loss)	0.2	0.7	(18.4)	(17.5)
Ending balance	$(9.3)	$(22.6)	$(45.4)	$(77.3)

	Nine Months Ended September 28, 2013			
	Hedging Activities	Pension Benefit Adjustments	Foreign Currency Translation Adjustments	Total
Beginning balance	$(17.4)	$(41.9)	$(6.0)	$(65.3)
Other comprehensive income (loss) before reclassifications	(1.8)	—	(22.3)	(24.1)
Tax (expense) benefit	(3.0)	—	—	(3.0)
Amounts reclassified from accumulated other comprehensive income (loss)	8.9	1.8	—	10.7
Tax (expense) benefit	(3.4)	(0.7)	—	(4.1)
Purchase of subsidiary shares from noncontrolling interest	—	—	1.1	1.1
Net current period other comprehensive income (loss)	0.7	1.1	(21.2)	(19.4)
Ending balance	$(16.7)	$(40.8)	$(27.2)	$(84.7)

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

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

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

The Company's reporting unit related to technology that had been deemed substantially impaired during the fourth quarter of 2013 was deemed fully impaired during the nine months ended September 27, 2014 as a result of the closing of the facility. This resulted in a $1.0 million impairment charge to goodwill.

The following information presents changes to goodwill during the nine months ended September 27, 2014 (in millions):

	Total	Electrical Segment	Mechanical Segment
Balance as of December 28, 2013	1,081.9	1,055.0	26.9
Acquisitions and Valuation Adjustments	50.4	50.4	—
Less: Impairment Charges	(1.0)	(1.0)	—
Translation Adjustments	(5.0)	(5.0)	—
Balance as of September 27, 2014	$1,126.3	$1,099.4	$26.9
Cumulative Goodwill Impairment Charges	$77.3	$65.2	$12.1

Intangible Assets

Intangible assets consisted of the following (in millions):

		September 27, 2014		December 28, 2013	
	Weighted Average Amortization Period (years)	Gross Value	Accumulated Amortization	Gross Value	Accumulated Amortization
Customer Relationships	11	$271.0	$118.3	$253.8	$101.4
Technology	9	137.4	70.5	133.0	57.9
Trademarks	12	34.1	19.8	32.6	18.0
Patent and Engineering Drawings	5	16.5	16.2	16.6	15.0
Non-compete Agreements	5	8.7	8.0	8.3	7.8
		$467.7	232.8	$444.3	200.1
Net Values			$234.9		$244.2

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

Year	Estimated Amortization
2014	$45.3
2015	38.3
2016	33.3
2017	26.7
2018	24.6

Amortization expense recorded for the three and nine months ended September 27, 2014 was $11.8 million and $34.7 million, respectively. Amortization expense recorded for the three and nine months ended September 28, 2013 was $10.9 million and $33.0 million, respectively.

6. BUSINESS SEGMENTS

The Company has two reportable segments: Mechanical and Electrical. Segment detail was (in millions):

	Electrical	Mechanical	Eliminations	Total