



**REGAL**<sup>®</sup>



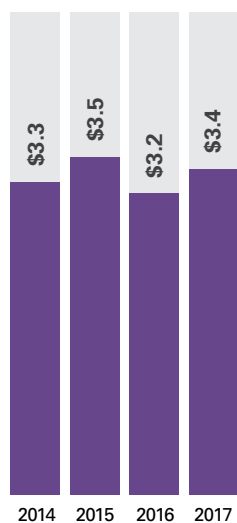
2017  
ANNUAL REPORT



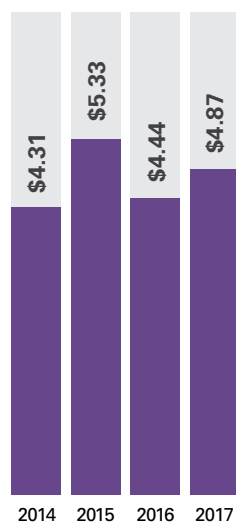
Creating a better tomorrow™...

Employees want to work for a company that makes a difference. That is why in 2017 we updated our business purpose to an aspirational statement that reflects our culture. Our new company purpose is “We create a better tomorrow by efficiently converting power into motion.” This statement describes how our employees and products make a difference in the world—how we are all “Creating a better tomorrow™...”

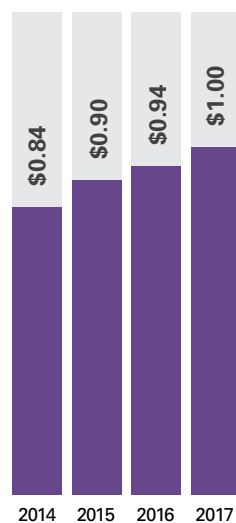
## Creating a better tomorrow™...



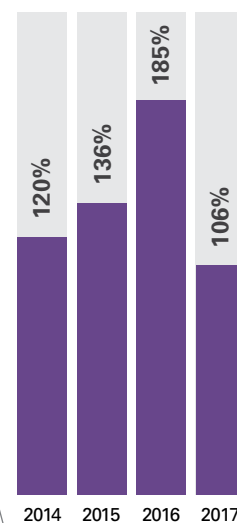
**NET SALES**  
(IN BILLIONS)



**ADJUSTED DILUTED EARNINGS PER SHARE\***



**DIVIDENDS PER SHARE PAID**



**FREE CASH FLOW AS A PERCENTAGE OF ADJUSTED NET INCOME\***

Non-GAAP Measures Referenced Above

\*Management presents these non-GAAP measures to provide investors with additional information regarding our operations and to compare our financial results across fiscal years and to our peers. Please see the reconciliations of non-GAAP financial measures to the most directly comparable GAAP measures included in this Annual Report.

## What to expect from us.

Whether you are an investor, a customer, or a supplier, when you interact with Regal employees here's what you can expect:

### Integrity

Integrity is what we value most.  
We are honest and trustworthy.

### Inclusion

We believe in a globally inclusive and diverse work environment. Our teams contribute their own unique skills, perspectives and experiences to develop innovative solutions for our customers.

### Engagement

Our people are energized and engaged in their work and empowered to accomplish our objectives. Together we work as a team to make Regal successful.

### Responsibility

We have a responsibility to keep employees safe and our environment clean. We are motivated by the fact that the products we make create a better tomorrow by reducing demands for energy. Locally, we encourage and celebrate our employees' active roles in the communities where we work and live.

### Transparency

We have a unique culture built on the core ideas of transparency, candor and best practice sharing. Our leadership team is accessible, and open to all ideas.

### Performance

Our customers, employees and shareholders all have choices. Our performance determines if they choose us. We set ambitious goals and deliver results.

...This is our culture.



# To our **SHAREHOLDERS**

Regal's performance in 2017 laid solid groundwork for our future. Early in the year, we communicated our Enterprise Strategy and defined three-year targets on our key financial metrics: organic sales growth, adjusted operating margins, return on invested capital (ROIC), and free cash flow. In 2017, Regal made meaningful progress on all four key metrics. We grew organic sales in every segment of the company and achieved total sales of \$3.36B—up 4.3 percent. Our adjusted operating margins improved 40 basis points, and we improved our ROIC by 70 basis points. Finally, for the seventh consecutive year we achieved our goal of free cash flow to net income at a ratio greater than 100 percent.

Our Enterprise Strategy outlines the long-term direction of the company. Not only will it deliver continued improvements in key financial metrics, it will also help create a better tomorrow for our customers, employees and shareholders.

## **THE REGAL ENTERPRISE STRATEGY**

Our strategy to win is based on three simple themes: Focus, Simplify and Innovate.

We focus our resources on businesses which have the greatest opportunities to meet customers' expectations, while we simultaneously grow the profitability of our company. Last year, we increased investments in the front end of our core businesses by hiring more feet on the street, and by adding more digital content. These investments enable our customers to more easily market and apply our products.

Complexity can be a barrier to growth. We are on a continuous journey to simplify every aspect of our operations to increase speed, improve responsiveness,

and reduce costs. Last year, we invested \$14 million to restructure our operations, seventy percent of which was targeted at improvements in the Commercial and Industrial Systems segment. We reduced four more factory rooftops and converted three more enterprise resource planning systems to our common global platform. Simplification efforts have the dual benefits of improving the efficiencies of operations while "making it easier for the customer."

We continue to innovate our products around the long-term growth trends of energy efficiency and smart products. Our engineers employ disruptive technology to deliver differentiated value to our customers.

Regal is well positioned to help meet the energy efficiency challenges our customers will face in the future. Regal's patented axial motor technology delivers significant energy efficiency savings and is now featured in Commercial Refrigeration, Commercial Boiler, Commercial HVAC and Residential HVAC applications. These products provide customers with breakthroughs in size, weight, noise, efficiency and airflow performance.

We are excited about the rapidly expanding internet of things. It provides very significant opportunities for Regal and our customers. Each of our businesses is investing in new product developments, software tools, and application knowledge. Regal will be ready to meet tomorrow's connected product needs.

Regal's Enterprise Strategy not only sets forth financial targets that promise to deliver stronger shareholder returns but it also establishes a long-term direction that delivers increased value to our customers and a better tomorrow for our employees and for the communities where we work.

## **CREATING A BETTER TOMORROW™...**

The aspiration of our purpose statement says it all. "We create a better tomorrow by efficiently converting power into motion." Every year at every Regal location, we set targets to decrease our footprint by reducing our usage of energy and water, and limiting the generation of hazardous and non-hazardous waste. Over the past



**FOCUS** We will focus our resources where we have the greatest opportunities to meet customers' expectations, while we grow the company's sales and profitability. Smaller, high efficiency motors with integrated controls, larger energy efficient motors and power transmission products are what we do best.

**INNOVATE** Regal has a reputation for innovation. We will continue to innovate around the central theme of "making it easier for our customers." We view energy efficiency and the internet of things as long-term growth opportunities for innovation.

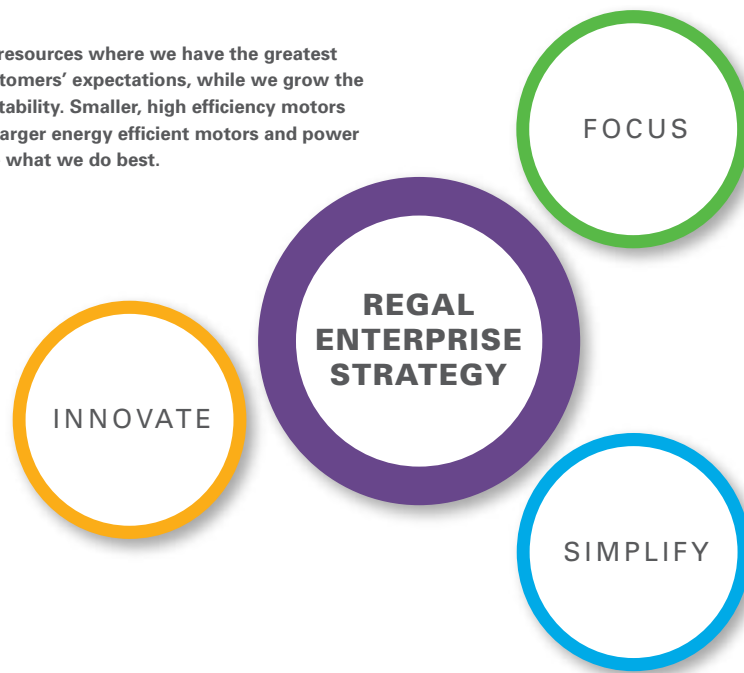
three years, we've made progress on all fronts. We have reduced water usage across the company by over 45 percent, saving over 400 million gallons. While we drive to reduce our footprint every year, we also work hard to increase the impact of our handprint through more sustainable products that offer customers energy efficiency solutions. At Regal, we believe that decreasing our footprint and increasing our handprint are important steps in Creating a better tomorrow™ ...

### WHAT TO EXPECT FROM US

Current social, political and economic times can lead people to question the thoughts and motives of people they work with daily. At Regal, we want all stakeholders to know exactly what to expect from us, regardless of the business situation, political climate or cultural environment. In every interaction with Regal you can expect the highest Integrity and broadest Inclusion. Expect that we will be Engaged with our team members, and we will take Responsibility for the products we make and the way we make them. Finally, in your interactions with us, we will be Transparent in our communications, and we will do everything we can to Perform to your expectations. "What To Expect From Us" was developed by our people, for our people. It defines our culture and helps set us apart from our competition.

### LOOKING FORWARD

We finished 2017 with great momentum. As we look to 2018 and beyond, we are optimistic about the economic backdrop and Regal's competitive position in the marketplace. We see positive megatrends in the global economy that align with Regal's core: a growing global



**SIMPLIFY** We are on a continuous journey to simplify every aspect of our operations to increase speed, improve responsiveness, and reduce costs.

population, investments in infrastructure, the increasing need to conserve natural resources, and a more connected world. These all play to Regal's strengths.

Before closing, I would like to recognize and thank Chuck Hinrichs, our outgoing Chief Financial Officer (CFO), who will be retiring from Regal at the end of the first quarter 2018. Chuck has been our CFO for nearly eight years. He has been a great asset to Regal, and was a trusted advisor to me. We will miss Chuck's passion for Regal, his sound advice, leadership and warmth. We wish Chuck and his wife Linda all the best.

I am deeply grateful for the opportunities given to Regal by our customers, the talent and dedication of our employees, the guidance and support from our board of directors and the ongoing confidence of our shareholders.

Sincerely,

Mark J. Gliebe, Chairman and CEO

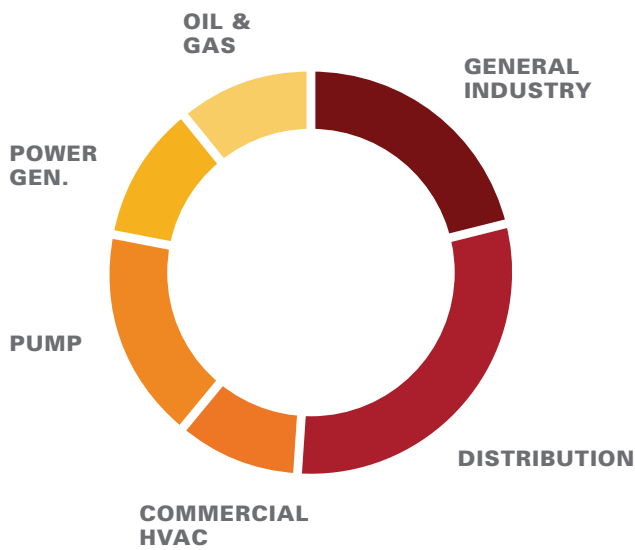
## COMMERCIAL & INDUSTRIAL SYSTEMS

Medium and large motors, power controls, generators, and custom drives.

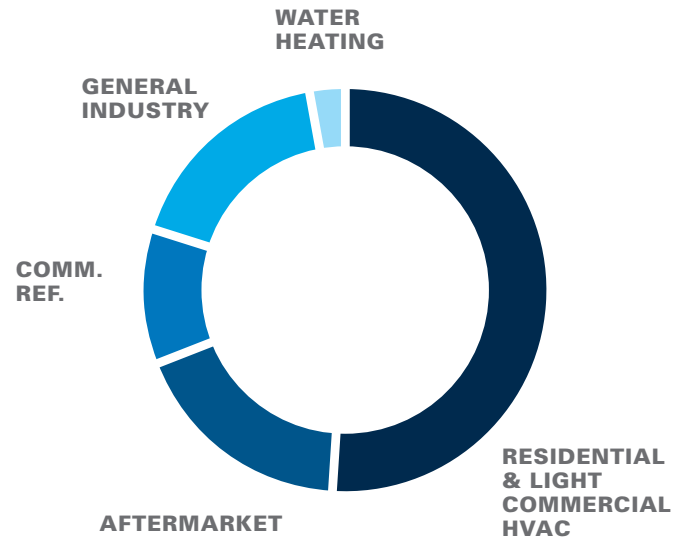
## CLIMATE SOLUTIONS

Small motors, small variable-speed motors and controls, and air moving solutions.

SALES BY END MARKET



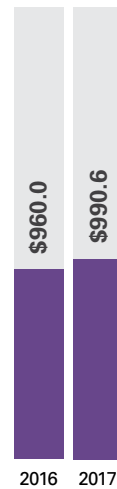
SALES BY END MARKET



TOTAL NET SALES (MILLIONS)



Our UlteMAX™ motor uses innovative axial technology to reduce electric motor size and weight by 50–75 percent while significantly improving energy efficiency.



TOTAL NET SALES (MILLIONS)

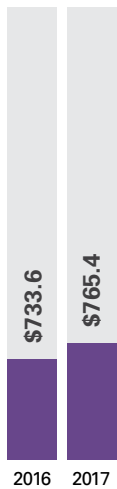
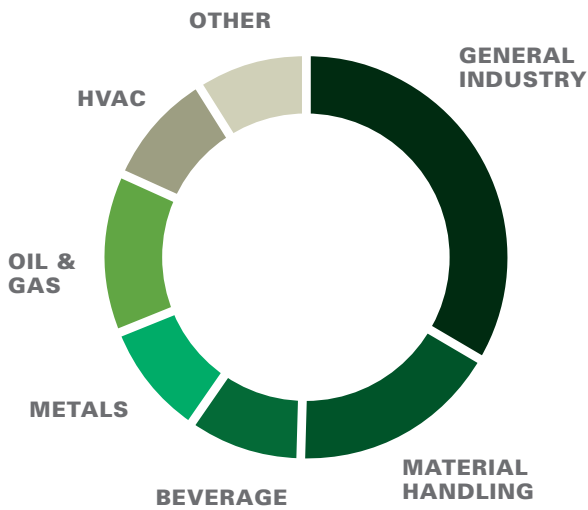


Our innovative Genteq® DEC Star® blower system provides up to 35 percent energy savings while reducing size and weight.

# POWER TRANSMISSION SOLUTIONS

Gearing, bearings, couplings, and conveying components.

## SALES BY END MARKET



TOTAL NET SALES (MILLIONS)



Our new, patented Sealmaster® Time Saving™ Bearing reduces maintenance costs by 50 percent.

**PRODUCTS AND SOLUTIONS ENGINEERED FOR GLOBAL DEMAND.** Our broad range of electric motors and complementary power transmission solutions is meeting the increasing demand for innovation and energy efficiency.

# Increasing our handprint.

## THE BENEFITS ADD UP

**QUICKLY.** Over the past 15 years our draft inducer blowers have helped reduce CO<sub>2</sub> discharged by more than 23 million tons. That is the equivalent of taking over 4,500,000 cars off the road for a year.



## BETTER TOMORROWS START RIGHT

**HERE AT HOME.** In millions of homes, warm air furnaces and hot water heaters accumulate thousands of hours of operation annually. High efficiency furnaces and water heaters using Regal's draft inducer blower technology burn less fossil fuel and produce fewer greenhouse gases.





# Reducing our footprint.

## Using less **ENERGY**



In every Regal facility we are working to save energy. In 2017, our company reduced our energy usage by 15 million Btus.\*



**Across China, we are upgrading to LED lighting, improving equipment efficiency by installing variable speed controls, and simplifying production operations. In 2017 Regal's China operations reduced energy usage an average of 13 percent.\***

## Conserving **WATER**



Water used in Regal manufacturing processes is reduced and recycled to minimize the use of this precious resource. Over the past three years our facilities have saved over 400 million gallons of water.



**In Reynosa and Piedras Negras, Mexico, we installed water treatment systems that are saving over 1 million gallons of water annually.**

## Reducing **WASTE**



Generating less waste avoids the use of natural resources and helps keep the communities where we work and live cleaner. In 2017, Regal reduced waste in our facilities by more than six percent.\*



**In Wausau, USA, 36 tons of fiber material are no longer hauled away for disposal. Rather, it is converted into biomass and used as fuel at a local power plant.**

That is how we create a better tomorrow.

\*per million sales

**PERFORMANCE EXCELLENCE.** It is a journey of continuous improvement, and each of our facilities is challenged to reach new heights. It starts by empowering our people who collaborate in High Energy Teams. These teams learn and apply problem-solving skills using lean methodologies. The goal? Gleaming, five-star facilities that continuously improve safety, quality, delivery and cost.

## Our Five Star Journey to Performance Excellence

To achieve even a one-star rating, a Regal facility must demonstrate exceptional employee engagement, rigorous application of continuous improvement tools, and meet customer KPI performance standards.



### 1 STAR FACILITIES

- Black River Falls
- Bowling Green
- Changzhou
- Faridabad
- Juarez, Commercial Motors
- Monterrey, Industrial Motors
- Morehead
- Piedras Negras, Motors
- Reynosa
- West Plains
- Yueyang



### 2 STAR FACILITIES

- Bangkok
- Juarez, Die-Cast Parts
- Juarez, Pump Motors
- Monterrey, Generators



### 3 STAR FACILITIES

- Juarez, Motor Shafts





**Regal Beloit Corporation**  
**200 State Street**  
**Beloit, WI 53511**  
**(608) 364-8800**

**2017 Annual Report**  
**on Form 10-K**



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

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 30, 2017**

**Commission File number 1-7283**

**Regal Beloit Corporation**

(Exact Name of Registrant as Specified in Its Charter)

**Wisconsin**

(State of Incorporation)

**39-0875718**

(IRS Employer Identification No.)

**200 State Street, Beloit, Wisconsin 53511**

(Address of principal executive offices)

**(608) 364-8800**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Name of Each Exchange on Which Registered
<b>Common Stock (\$.01 Par Value)</b>  <b>Securities registered pursuant to Section 12 (g) of the Act</b>	<b>New York Stock Exchange</b>  <b><u>None</u></b> (Title of Class)

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

- |                         |  |                           |                          |
|-------------------------|--|---------------------------|--------------------------|
| Large Accelerated Filer | <input checked="" type="checkbox"/>                                    | Accelerated Filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller Reporting Company | <input type="checkbox"/> |
|                         |  | Emerging growth company   | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of July 1, 2017 was approximately \$3.6 billion.

On February 23, 2018, the registrant had outstanding 44,318,825 shares of common stock, \$.01 par value, which is registrant's only class of common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information contained in the Proxy Statement for the Annual Meeting of Shareholders to be held on April 30, 2018 is incorporated by reference into Part III hereof.

**REGAL BELOIT CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR YEAR ENDED DECEMBER 30, 2017**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I</b>	
Item 1 <u>Business</u>	<u>4</u>
Item 1A <u>Risk Factors</u>	<u>12</u>
Item 1B <u>Unresolved Staff Comments</u>	<u>19</u>
Item 2 <u>Properties</u>	<u>20</u>
Item 3 <u>Legal Proceedings</u>	<u>21</u>
Item 4 <u>Mine Safety Disclosures</u>	<u>21</u>
<b>PART II</b>	
Item 5 <u>Market for the Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
Item 6 <u>Selected Financial Data</u>	<u>23</u>
Item 7 <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	<u>25</u>
Item 7A <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>34</u>
Item 8 <u>Financial Statements and Supplementary Data</u>	<u>37</u>
Item 9 <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>80</u>
Item 9A <u>Controls and Procedures</u>	<u>80</u>
Item 9B <u>Other Information</u>	<u>80</u>
<b>PART III</b>	
Item 10 <u>Directors, Executive Officers and Corporate Governance</u>	<u>81</u>
Item 11 <u>Executives Compensation</u>	<u>81</u>
Item 12 <u>Security Ownership of Certain Beneficial Owners and Management</u>	<u>81</u>
Item 13 <u>Certain Relationships and Related Transactions and Director Independence</u>	<u>81</u>
Item 14 <u>Principal Accountant Fees and Services</u>	<u>81</u>
<b>PART IV</b>	
Item 15 <u>Exhibits, Financial Statement Schedule</u>	<u>82</u>
Item 16 <u>Form 10-K Summary</u>	<u>85</u>

## CAUTIONARY STATEMENT

Certain statements made in this Annual Report on Form 10-K 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 Annual Report on Form 10-K, 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;
- risks associated with foreign manufacturing;
- issues and costs arising from the integration of acquired companies and businesses and the timing and impact of purchase accounting adjustments;
- prolonged declines in oil and gas up stream capital spending;
- economic changes in global markets where we do business, such as reduced demand for the products we sell, currency exchange rates, inflation rates, interest rates, recession, government policies, including policy changes affecting taxation, trade, immigration and the like, and other external factors that we cannot control;
- product liability and other litigation, or claims by end users, government agencies or others that our products or our customers’ applications failed to perform as anticipated, particularly in high volume applications or where such failures are alleged to be the cause of property or casualty claims;
- unanticipated liabilities of acquired businesses;
- unanticipated costs or expenses we may incur related to product warranty issues;
- our dependence on key suppliers and the potential effects of supply disruptions;
- infringement of our intellectual property by third parties, challenges to our intellectual property and claims of infringement by us of third party technologies;
- effects on earnings of any significant impairment of goodwill or intangible assets;
- losses from failures, breaches, attacks or disclosures involving our information technology infrastructure and data;
- cyclical downturns affecting the global market for capital goods; and
- other risks and uncertainties including but not limited to those described in “Risk Factors” in this Annual Report on Form 10-K and from time to time in our reports filed with US Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements. The forward-looking statements included in this Annual Report on Form 10-K are made only as of their respective dates, and we undertake no obligation to update these statements to reflect subsequent events or circumstances. See also “Risk Factors.”

## PART I

*Unless the context requires otherwise, references in this Annual Report on Form 10-K to “we,” “us,” “our” or the “Company” refer collectively to Regal Beloit Corporation and its subsidiaries.*

*References in an Item of this Annual Report on Form 10-K to information contained in our Proxy Statement for the Annual Meeting of Shareholders to be held on April 30, 2018 (the 2018 Proxy Statement”), or to information contained in specific sections of the 2018 Proxy Statement, incorporate the information into that Item by reference.*

*We operate on a 52/53 week fiscal year ending on the Saturday closest to December 31. We refer to the fiscal year ended December 30, 2017 as “fiscal 2017;” December 31, 2016 as “fiscal 2016;” and the fiscal year ended January 2, 2016 as “fiscal 2015.”*

### ITEM 1 - BUSINESS

#### Our Company

Regal Beloit Corporation is a leading manufacturer of electric motors, electrical motion controls, power generation and power transmission products serving markets throughout the world. Our company is comprised of three operating segments: Commercial and Industrial Systems, Climate Solutions and Power Transmission Solutions. Financial information on our operating segments for fiscal 2017, fiscal 2016, and fiscal 2015 is contained in Note 6 of Notes to the Consolidated Financial Statements.

#### General

##### *Commercial and Industrial Systems Segment*

Our Commercial and Industrial Systems segment designs, manufactures and sells primarily:

- Fractional, integral and large horsepower AC and DC motors and controls for commercial and industrial (“C&I”) applications. These motors are sold directly to original equipment manufacturers (“OEMs”) and end-user customers and through our network of direct and independent sales representatives as well as through regional and national distributors. Typical applications include pumps, fans, compressors, conveyors, augers, blowers, and irrigation equipment. Our customers tend to be the leaders in their industries, and their desire for more efficient motor based solutions is providing an increasing opportunity to add more value to their applications with energy efficient motor and integrated electronic control solutions.
- Fractional and integral horsepower motors, electronic variable speed controls and blowers used in commercial heating, ventilation, and air conditioning (“HVAC”) products. Our primary customers for these products are manufacturers of commercial HVAC and refrigeration systems as well as national and regional distributors of aftermarket products for the repair of these systems.
- Solid state and electro-mechanical starters, contactors, relays, variable frequency drives, and total integrated solutions of these components. The market for these control solutions is driven primarily by applications requiring effective compression, pumping, air moving and conveying systems. Our products are sold primarily to OEM customers and systems integrators, and used in C&I markets such as oil and gas, mining, metals, chemical, water waste, machinery, marine, buildings, cement and glass, and pulp and paper.
- Precision stator and rotor kits from 5 to 2,900 horsepower for air conditioning, heat pump and refrigeration compressor applications, which are sold primarily directly to OEM customers.
- Hazardous duty motors, including low and medium voltage explosion proof motors as well as ATEX and IEC-Ex certified explosion proof motors. These motors are sold primarily into general industrial applications in potentially hazardous conditions such as oil and gas, paint booths, tunnels, and mining.
- Electric generators from 5 kilowatts through 4 megawatts, automatic transfer switches, power generation and distribution switch gear, components and system controls. These products and systems are used in applications including health care, cloud and enterprise data centers, oil and gas, marine, agriculture, transportation, government, construction and other applications. The demand for electric power generation systems is driven by the need for electrical power on demand in cases where utility/grid power is lost or stressed or in prime power applications where utility power is unavailable.



### *Climate Solutions Segment*

Our Climate Solutions segment designs, manufactures and sells primarily:

- Fractional motors, electronic variable speed controls and blowers used in a variety of residential and light commercial air moving applications including HVAC systems and commercial refrigeration. These motors and blowers are vital components of an HVAC system and are used to move air into and away from furnaces, heat pumps, air conditioners, ventilators, fan filter boxes, water heaters and humidifiers. A majority of our HVAC motors replace existing motors, are installed as part of a new HVAC system that replaces an existing HVAC system, or are used in an HVAC system for new home construction. The business enjoys a large installed base of equipment and long-term relationships with its major customers.
- Fractional motors and blowers used across a wide range of other applications including white goods, water heating equipment, and small pumps and compressors and other small appliances. Demand for these products is driven primarily by consumer and light commercial market segments.
- Precision stator and rotor sets from 1.5 to 5 horsepower that are assembled into compressors for air conditioning, heat pump and refrigeration applications.
- Capacitors for use in HVAC systems, high intensity lighting and other applications.

### *Power Transmission Solutions Segment*

Our Power Transmission Solutions segment designs, manufactures and sells primarily:

- Mounted and unmounted bearings. Unmounted bearings are offered in a variety of types and styles. These include cam followers, radial bearings, and thrust bearings. Mounted bearings include industry specific designs that aim to solve customer problems. They are all available with a variety of options and sizes and include aerospace and specialty bearings, mounted bearings, unmounted bearings, and corrosion resistant bearings.
- High quality conveyor products including chains, belts, sprockets, components and guide rails and wear strips. Conveying components assist in these areas: efficiency, noise reduction, wash-down maintenance, lubrication reduction and energy conservation. Our products are highly engineered from industry expert input.
- High performance disc, patented diaphragm and gear couplings for applications including turbines, compressors, generators and pumps in many industries including petrochemical, refinery, power generation, gas pipeline and Liquid Natural Gas ("LNG"). We also produce flexible couplings and transmission elements. Products include gear, grid, jaw, elastomer, disc, and universal joints.
- Mechanical power transmission drives, components and bearings including: belt drives, bushings, chain and sprockets, drive tighteners and idlers, mechanical CAM clutches, and torque overload devices. Our products serve a wide range of industries and applications, such as the following: aggregate, forestry and wood products, grain and biofuels, power generation, food and beverage, and Heating, Ventilation, Air Conditioning, and Refrigeration ("HVACR").
- Gearboxes for motion control within complex equipment and systems used for a variety of applications. We provide a wide array of gear types, shaft configurations, ratios, housing materials and mounting methods. Right angle worm gear and bevel units can be specified for less than 100 inch lbs. of torque to over 132,000 inch lbs. of torque. Helical gear units are offered from 100 inch lbs. to over 500,000 inch lbs. of torque. Our products include worm gearing, shaft mount reducers, helical concentric and right angle, bevel and miter gearing, center pivot gearing, and open gearing. This gearing reduces the speed and increases the torque from an electric motor or other prime mover to meet the requirements of equipment.

Many of our products are originally sold and installed into OEM equipment within these industries. Our reputation and long history of providing highly reliable products creates an end user specification for replacement through the distribution channel. We also provide application and design assistance based on our deep knowledge of our products and their applications.

OEMs and end users of a variety of motion control and other industrial applications typically combine the types of motors, controls and power transmission products we offer. We seek to take advantage of this practice and to enhance our product penetration by leveraging cross-marketing and product line combination opportunities between our Commercial and Industrial Systems, Climate Solutions and Power Transmission Solution products. Our growth strategy also includes (i) driving organic sales growth through the introduction of innovative new products, (ii) establishing and maintaining new customers, as well as developing new opportunities with existing customers, (iii) participating in higher growth geographic markets, and (iv) identifying and consummating strategic, value creating acquisitions.

### **Acquisitions**

In 2016, we completed one acquisition in the Climate Solutions segment.

- 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 purchase price of Elco is reflected as a component of equity.

In 2015, we completed one acquisition in the Power Transmissions Solutions segment.

- On January 30, 2015, we acquired the Power Transmissions Solutions ("PTS") business from Emerson Electric Co. ("The PTS Acquisition") for \$1,408.9 million. PTS designs, manufactures, and sells and services belt and chain drives, helical and worm gearing, mounted and unmounted bearings, standard and highly engineered, high performance couplings, modular plastic belts and conveying chains and components.

### **Divestitures**

In 2016, we completed two divestitures.

- On June 1, 2016, the Company sold its Mastergear Worldwide ("Mastergear") business to Rotork PLC for a purchase price of \$25.7 million. Mastergear was included in the Company's Power Transmission Solutions segment. Gains related to the sale of \$0.1 million and \$11.6 million were recorded as a reduction to Operating Expenses in the Consolidated Statements of Income during fiscal 2017 and 2016, respectively.
- On July 7, 2016, the Company sold the assets of its Venezuelan subsidiary, which had been included in the Company's Commercial and Industrial Systems segment, to a private company for \$3.0 million. Of this amount, \$1.0 million was received on the transaction closing date and \$2.0 million will be paid in 24 monthly installments. The Company may receive additional amounts in the future related to certain accounts receivable of this business. The gains will be recognized as the cash is received. The Company wrote down its investment and ceased operations of this subsidiary in 2015.

### **Sales, Marketing and Distribution**

We sell our products directly to OEMs, distributors and end-users. We have multiple business units and each unit typically has its own branded product offering and sales organization. These sales organizations consist of varying combinations of our own internal direct sales people as well as exclusive and non-exclusive manufacturers' representative organizations.

We operate large distribution facilities in Plainfield, Indiana; McAllen, Texas; LaVergne, Tennessee; Florence, Kentucky; and Monterrey, Mexico which serve as hubs for our North American distribution and logistics operations. Products are shipped from these facilities to our customers utilizing common carriers and our limited fleet of trucks and trailers. We also operate numerous warehouse and distribution facilities in our global markets to service the needs of our customers. In addition, we have many manufacturer representatives' warehouses located in specific geographic areas to serve local customers.

We derive a significant portion of revenue from our OEM customers. In our HVAC business, our reliance on sales to key OEM customers makes our relationship with each of these customers important to our business, and we expect this customer concentration will continue for the foreseeable future in this portion of our business. Despite this relative concentration, we had no customer that accounted for more than 10% of our consolidated net sales in fiscal 2017, fiscal 2016 or fiscal 2015.

Many of our motors are incorporated into residential applications that OEMs sell to end users. The number of installations of new and replacement HVAC systems, pool pumps and related components is higher during the spring and summer seasons due to the increased use of air conditioning and swimming pools during warmer months. As a result, our revenues tend to be higher in the second and third quarters.

## **Competition**

### *Commercial and Industrial Systems Segment*

Electric motor manufacturing is a highly competitive global industry in which there is emphasis on quality, reliability, and technological capabilities such as energy efficiency, delivery performance, price and service. We compete with a growing number of domestic and international competitors due in part to the nature of the products we manufacture and the wide variety of applications and customers we serve. Many manufacturers of electric motors operate production facilities in many different countries, producing products for both the domestic and export markets. On balance, the demarcation between domestic US and foreign manufacturers is blurring as competition becomes increasingly global. Electric motor manufacturers from abroad, particularly those located in Europe, Brazil, China, India and elsewhere in Asia, provide increased competition as they expand their market penetration around the world, especially in North America.

Our major competitors in the Commercial and Industrial Systems segment include Wolong Electric Group Ltd., Kirloskar Brothers Limited, Crompton Greaves Limited, Lafert, ABB Ltd., Johnson Electric Holdings Limited, Siemens AG, Toshiba Corporation, Cummins, Inc., Leroy-Somer (a division of Nidec Corporation), TECHTOP Electric Motors, Weg S.A., Hyundai, Ziehl-Abegg, and Teco-Westinghouse Motor Company.

### *Climate Solutions Segment*

Our major competitors in the Climate Solutions segment include US Motors (a division of Nidec Corporation), Broad-Ocean Motor Co., ebmpapst Mulfingen GmbH & Co.KG, Welling Holding Ltd., McMillan Motors, Panasonic Corporation, and Bluffton Motor Works.

### *Power Transmission Solutions Segment*

The power transmission products market is fragmented. Many competitors in the market offer limited product lines or serve specific applications, industries or geographic markets. Other larger competitors offer broader product lines that serve multiple end uses in multiple geographies. Competition in the Power Transmission Solutions segment is based on several factors including quality, lead times, custom engineering capability, pricing, reliability, and customer and engineering support. Our major competitors in the Power Transmission Solutions segment include Altra Industrial Motion, Inc., Dodge (a subsidiary of ABB Ltd.), Rexnord Corporation, and Timken Company.

## **Engineering, Research and Development**

We believe that innovation is critical to our future growth and success and are committed to investing in new products, technologies and processes that deliver real value to our customers. Our research and development expenses consist primarily of costs for (i) salaries and related personnel expenses; (ii) the design and development of new energy efficiency products and enhancements; (iii) quality assurance and testing; and (iv) other related overhead. Our research and development efforts tend to be targeted toward developing new products that would allow us to gain additional market share, whether in new or existing segments.

We believe the key driver of our innovation strategy is the development of products that include energy efficiency, embedded intelligence and variable speed technology solutions. With our emphasis on product development and innovation, our businesses filed 46 Non-Provisional United States patents, 14 Provisional United States patents and an additional 77 Non-Provisional foreign patents in fiscal 2017.

Each of our business units has its own, as well as shared, product development and design teams that continuously work to enhance our existing products and develop new products for our growing base of customers that require custom and standard solutions. We believe we have state of the art product development and testing laboratories. We believe these capabilities provide a significant competitive advantage in the development of high quality motors, electric generators, controls and mechanical products incorporating leading design characteristics such as low vibration, low noise, improved safety, reliability, sustainability and enhanced energy efficiency.

For fiscal 2017, 2016 and 2015, research and development expenses, which are solely focused on products or processes that are entirely innovative to our Company or to our industry, were \$29.9 million, \$29.5 million and \$30.1 million, respectively. For the same periods, total research and development and other engineering expenses, which include product and process improvements, were \$80.2 million, \$77.3 million and \$78.7 million, respectively.

## **Manufacturing and Operations**

We have developed and acquired global operations in locations such as China, Mexico, Europe, India and Thailand so that we can sell our products in these faster growing markets, follow our multinational customers, take advantage of global talent and complement our flexible, rapid response operations in the United States, Canada and Europe. Our vertically integrated manufacturing operations, including our own aluminum die casting and steel stamping operations, are an important element of our rapid response capabilities. In addition, we have an extensive internal logistics operation and a network of distribution facilities with the capability to modify stock products to quickly meet specific customer requirements in many instances. This gives us the ability to efficiently and promptly deliver a customer's unique product to the desired location.

We manufacture a majority of the products that we sell, but also strategically outsource components and finished goods from an established global network of suppliers. We aggressively pursue global sourcing to reduce our overall costs. We generally maintain a dual sourcing capability in our existing domestic facilities to ensure a reliable supply source for our customers, although we do depend on a limited number of key suppliers for certain materials and components. We regularly invest in machinery and equipment to improve and maintain our facilities. Additionally, we have typically obtained significant amounts of quality capital equipment as part of our acquisitions, often increasing overall capacity and capability. Base materials for our products consist primarily of steel, copper and aluminum. Additionally, significant components of our product costs consist of bearings, electronics, permanent magnets and ferrous and non-ferrous castings.

We use our Regal Business System to drive Performance Excellence. Our Regal Business System provides us with a common language and a common set of business processes, disciplines and Lean Six Sigma tools. It consists of a set of standard reviews throughout the year to assess team progress in serving our customers, shareholders and employees. It is a significant part of our culture and fuels our continuous performance improvements. We believe our people are at the core of everything we do, and their deployment of these tools lead to operational excellence. We have invested in training hundreds of high energy teams, which have generated significant benefits and driven improvements in safety, speed, quality and cost.

## **Facilities**

We have manufacturing, sales and service facilities in the United States, Mexico, China, Europe, India, Thailand, and Australia, as well as a number of other locations throughout the world. Our Commercial and Industrial Systems segment currently includes 99 manufacturing, service, office and distribution facilities of which 39 are principal manufacturing facilities and 15 are principal warehouse facilities. The Commercial and Industrial Systems segment's present operating facilities contain a total of approximately 7.9 million square feet of space, of which approximately 33% are leased. Our Climate Solutions segment includes 37 manufacturing, service, office and distribution facilities, of which 17 are principal manufacturing facilities and 5 are principal warehouse facilities. The Climate Solutions segment's present operating facilities contain a total of approximately 3.0 million square feet of space, of which approximately 51% are leased. Our Power Transmission Solutions segment currently includes 30 manufacturing, service, office and distribution facilities of which 17 are principal manufacturing facilities and 3 are principal warehouse facilities. The Power Transmission Solutions segment's present operating facilities contain a total of approximately 3.2 million square feet of space, of which approximately 13% are leased. Our principal executive offices are located in Beloit, Wisconsin in an approximately 50,000 square foot owned office building. We believe our equipment and facilities are well maintained and adequate for our present needs.

## **Backlog**

Our business units have historically shipped the majority of their products in the month the order is received. As of December 30, 2017, our backlog was \$447.2 million, as compared to \$355.8 million on December 31, 2016. We believe that virtually all of our backlog will be shipped in 2018.

## **Patents, Trademarks and Licenses**

We own a number of United States patents and foreign patents relating to our businesses. While we believe that our patents provide certain competitive advantages, we do not consider any one patent or group of patents essential to our business as a whole. We also use various registered and unregistered trademarks, and we believe these trademarks are significant in the marketing of most of our products. However, we believe the successful manufacture and sale of our products generally depends more upon our technological, manufacturing and marketing skills.

**Employees**

At the end of fiscal 2017, we employed approximately 23,600 employees worldwide. Of those employees, approximately 10,500 were located in Mexico; approximately 5,400 in the United States; approximately 3,800 in China; approximately 1,300 in India; and approximately 2,600 in the rest of the world. We consider our employee relations to be very good.

**Executive Officers**

The names, ages, and positions of our executive officers as of February 27, 2018 are listed below along with their business experience during the past five years. Officers are elected annually by the Board of Directors. There are no family relationships among these officers, nor any arrangements of understanding between any officer and any other persons pursuant to which the officer was elected.

<b>Executive Officer</b>	<b>Age</b>	<b>Position</b>	<b>Business Experience and Principal Occupation</b>
Mark J. Gliebe	57	Chairman and Chief Executive Officer	Elected Chairman of the Board on December 31, 2011. Elected President and Chief Executive Officer in May 2011. Previously elected President and Chief Operating Officer in December 2005. Joined the Company in January 2005 as Vice President and President - Electric Motors Group, following the acquisition of the HVAC motors and capacitors businesses from General Electric. Previously employed by GE as the General Manager of GE Motors & Controls in the GE Consumer & Industrial business unit from June 2000 to December 2004.
Jonathan J. Schlemmer	52	Chief Operating Officer	Elected Chief Operating Officer in May 2011. Prior thereto served as the Company's Senior Vice President - Asia Pacific from January 2010 to May 2011. Prior thereto, served as the Company's Vice President - Technology from 2005 to January 2010. Before joining the Company, Mr. Schlemmer worked for General Electric in its electric motors business in a variety of roles including quality, Six Sigma and engineering.
Charles A. Hinrichs	64	Vice President and Chief Financial Officer	Joined the Company and was elected Vice President and Chief Financial Officer in September 2010. Prior to joining the Company, Mr. Hinrichs was Senior Vice President and Chief Financial Officer at Smurfit-Stone Container Corporation, where he worked from 1995 to 2009.
Thomas E. Valentyn	58	Vice President, General Counsel and Secretary	Joined the Company in December 2013 as Associate General Counsel and was elected Vice President, General Counsel and Secretary in May 2016. Prior to joining the Company, Mr. Valentyn was General Counsel with Twin Disc, Inc. from 2007 to 2013. From 2000 to 2007 he served as Vice President and General Counsel with Norlight Telecommunications; prior thereto he served as in-house counsel with Johnson Controls, Inc. from 1991-2000.
Terry R. Colvin	62	Vice President, Corporate Human Resources	Joined the Company in September 2006 and was elected Vice President, Corporate Human Resources in January 2007. Prior to joining the Company, Mr. Colvin was an employee of Sigma-Aldrich Corporation for over seventeen years. He served in several human resources positions for Sigma-Aldrich, most recently as Vice President of Human Resources from 1995 to 2003.
John M. Avampato	57	Vice President and Chief Information Officer	Joined the Company in 2006 as Vice President Information Technology. Appointed Vice President and Chief Information Officer in January 2008. In April 2010, Mr. Avampato was elected as an officer of the Company. Prior to joining the Company, Mr. Avampato was employed with Newell Rubbermaid from 1984 to 2006 where he was Vice President, Chief Information Officer from 1999 to 2006.

As previously reported, Mr. Hinrichs will retire as Vice President and Chief Financial Officer on March 31, 2018, and Mr. Robert J. Rehard, currently Vice President Financial Planning & Analysis, will be promoted to the role of Vice President and Chief Financial Officer effective April 1, 2018.

**Website Disclosure**

Our Internet address is [www.regalbeloit.com](http://www.regalbeloit.com). We make available free of charge (other than an investor's own Internet access charges) through our Internet website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. In addition, we have adopted a Code of Business Conduct and Ethics that applies to our officers, directors and employees which satisfies the requirements of the New York Stock Exchange regarding a "code of business conduct." We have also adopted Corporate Governance Guidelines addressing the subjects required by the New York Stock Exchange. We make copies of the foregoing, as well as the charters of our Board committees, available free of charge on our website. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, or waivers from, our Code of Business Conduct and Ethics by posting such information on our web site at the address stated above. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

## ITEM 1A - RISK FACTORS

*You should carefully consider each of the risks described below, together with all of the other information contained in this Annual Report on Form 10-K, before making an investment decision with respect to our securities. If any of the following risks develop into actual events, our business, financial condition, results of operations, or cash flow could be materially and adversely affected and you may lose all or part of your investment.*

**We expect to incur costs and charges as a result of restructuring activities such as facilities and operations consolidations and workforce reductions that we expect will reduce on-going costs, and those restructuring activities also may be disruptive to our business and may not result in anticipated cost savings.**

We have been consolidating facilities and operations in an effort to make our business more efficient and expect to continue to review our overall manufacturing footprint. We have incurred, and expect in the future to incur, additional costs and restructuring charges in connection with such consolidations, workforce reductions and other cost reduction measures that have adversely affected and, to the extent incurred in the future would adversely affect, our future earnings and cash flows. Furthermore, such actions may be disruptive to our business. This may result in production inefficiencies, product quality issues, late product deliveries or lost orders as we begin production at consolidated facilities, which would adversely impact our sales levels, operating results and operating margins. In addition, we may not realize the cost savings that we expect to realize as a result of such actions.

**As a result of the increase in our debt levels and debt service obligations in connection with our acquisition of the Power Transmission Solutions business, we may have less cash flow available for our business operations, we could become increasingly vulnerable to general adverse economic and industry conditions and interest rate trends, and our ability to obtain future financing may be limited.**

At the beginning of fiscal 2015, we significantly increased our overall debt levels in connection with financing the acquisition of PTS. As of December 30, 2017, we had \$1.1 billion in aggregate debt outstanding under our various financing arrangements, \$139.6 million in cash and cash equivalents and \$475.0 million in available borrowings under our current revolving credit facility. Our ability to make required payments of principal and interest on our increased debt levels will depend on our future performance, which, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available under our current credit facilities in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs. In addition, our credit facilities contain financial and restrictive covenants that could limit our ability to, among other things, borrow additional funds or take advantage of business opportunities. Our failure to comply with such covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all our indebtedness or otherwise have a material adverse effect on our business, financial condition, results of operations and debt service capability. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.” Our increased indebtedness may have important consequences. For example, it could:

- make it more challenging for us to obtain additional financing to fund our business strategy and acquisitions, debt service requirements, capital expenditures and working capital;
- increase our vulnerability to interest rate changes and general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the availability of our cash flow to finance acquisitions and to fund working capital, capital expenditures, manufacturing capacity expansion, business integration, research and development efforts and other general corporate activities;
- limit our flexibility in planning for, or reacting to, changes in our business and our markets; and
- place us at a competitive disadvantage relative to our competitors that have less debt.

In addition, our credit facilities require us to maintain specified financial ratios and satisfy certain financial condition tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business strategies. If an event of default under our credit facility or senior notes were to occur then, the lenders could elect to declare all amounts outstanding under the applicable agreement, together with accrued interest, to be immediately due and payable.

**We operate in the highly competitive global electric motor, drives and controls, power generation and power transmission industries.**

The global electric motors, drives and controls, power generation and power transmission industries are highly competitive. We encounter a wide variety of domestic and international competitors due in part to the nature of the products we manufacture and the wide variety of applications and customers we serve. In order to compete effectively, we must retain relationships with major customers and establish relationships with new customers, including those in developing countries. Moreover, in certain applications, customers exercise significant power over business terms. It may be difficult in the short-term for us to obtain new sales to replace any decline in the sale of existing products



that may be lost to competitors. Our failure to compete effectively may reduce our revenues, profitability and cash flow, and pricing pressures resulting from competition may adversely impact our profitability.

We have continued to see a trend with certain customers who are attempting to reduce the number of vendors from which they purchase product in order to reduce their costs and diversify their risk. As a result, we may lose market share to our competitors in some of the markets in which we compete.

In addition, some of our competitors are larger and have greater financial and other resources than we do. There can be no assurance that our products will be able to compete successfully with the products of these other companies.

**Our ability to establish, grow and maintain customer relationships depends in part on our ability to develop new products and product enhancements based on technological innovation.**

The electric motor and power transmission industries in recent years have seen significant evolution and innovation, particularly with respect to increasing energy efficiency and control enhancements. Our ability to effectively compete in these industries depends in part on our ability to continue to develop new technologies and innovative products and product enhancements. Further, many large customers in these industries generally desire to purchase from companies that can offer a broad product range, which means we must continue to develop our expertise in order to design, manufacture and sell these products successfully. This requires that we make significant investments in engineering, manufacturing, customer service, and support, research and development and intellectual property protection, and there can be no assurance that in the future we will have sufficient resources to continue to make such investments. If we are unable to meet the needs of our customers for innovative products or product variety, or if our products become technologically obsolete over time due to the development by our competitors of technological breakthroughs or otherwise, our revenues and results of operations may be adversely affected. In addition, we may incur significant costs and devote significant resources to the development of products that ultimately are not accepted in the marketplace, do not provide anticipated enhancements, or do not lead to significant revenue, which may adversely impact our results of operations.

**Our dependence on, and the price of, raw materials may adversely affect our gross margins.**

Many of the products we produce contain key materials such as steel, copper, aluminum and rare earth metals. Market prices for those materials can be volatile due to changes in supply and demand, manufacturing and other costs, regulations and tariffs, economic conditions and other circumstances. We may not be able to offset any increase in commodity costs through pricing actions, productivity enhancements or other means, and increasing commodity costs may have an adverse impact on our gross margins, which could adversely affect our results of operations and financial condition.

**In each of our Climate Solutions and Commercial and Industrial Systems segments, we depend on revenues from several significant customers, and any loss, cancellation or reduction of, or delay in, purchases by these customers may have a material adverse effect on our business.**

We derive a significant portion of the revenues of our motor businesses from several key OEM customers. Our success will depend on our continued ability to develop and manage relationships with these customers. We expect this customer concentration will continue for the foreseeable future. Our reliance on sales from customers makes our relationship with each of these customers important to our business. We cannot assure you that we will be able to retain these key customers. Some of our customers may in the future shift some or all of their purchases of products from us to our competitors or to other sources. The loss of one or more of our large customers, any reduction or delay in sales to these customers, our inability to develop relationships successfully with additional customers, or future price concessions that we may make could have a material adverse effect on our results of operations and financial condition.

**We manufacture a significant portion of our products outside the United States, and political, societal or economic instability may present additional risks to our business.**

Approximately 18,200 of our approximate 23,600 total employees and 63 of our principal manufacturing and warehouse facilities are located outside the United States. International operations generally are subject to various risks, including political, societal and economic instability, local labor market conditions, breakdowns in trade relations, the imposition of tariffs and other trade restrictions, lack of reliable legal systems, ownership restrictions, the impact of government regulations, the effects of income and withholding taxes, governmental expropriation or nationalization, and differences in business practices. We may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international manufacturing and sales that could cause loss of revenue. Unfavorable changes in the political, regulatory and business climates in countries where we have operations could have a material adverse effect on our financial condition, results of operations and cash flows.

**We may encounter difficulties in integrating the operations of acquired businesses which may have a material adverse impact on our future growth and operating performance.**

Over the past several years, as part of our strategic growth plans, we have acquired multiple businesses. Some of those acquisitions have been significant to our overall growth, such as the acquisition of PTS in fiscal 2015. The full realization of the expected benefits and synergies of PTS and other acquisitions requires integration over time of certain aspects of the manufacturing, engineering, administrative, sales and marketing and distribution functions of the acquired businesses, as well as some integration of information systems platforms and processes. Complete and successful integration of acquired businesses, and realization of expected synergies, can be a long and difficult process and may require substantial attention from our management team and involve substantial expenditures and include additional operational expenses. Even if we are able to successfully integrate the operations of acquired businesses, we may not be able to realize the expected benefits and synergies of the acquisition, either in the amount of time or within the expected time frame, or at all, and the costs of achieving these benefits may be higher than, and the timing may differ from, what we initially expect. Our ability to realize anticipated benefits and synergies from the acquisitions may be affected by a number of factors, including:

- the use of more cash or other financial resources, and additional management time, attention and distraction, on integration and implementation activities than we expect, including restructuring and other exit costs;
- increases in other expenses related to an acquisition, which may offset any potential cost savings and other synergies from the acquisition;
- our ability to realize anticipated levels of sales in emerging markets like China and India;
- our ability to avoid labor disruptions or disputes in connection with any integration;
- the timing and impact of purchase accounting adjustments;
- difficulties in employee or management integration; and
- unanticipated liabilities associated with acquired businesses.

Any potential cost-saving opportunities may take at least several quarters following an acquisition to implement, and any results of these actions may not be realized for at least several quarters following implementation. We cannot assure you that we will be able to successfully integrate the operations of our acquired businesses, that we will be able to realize any anticipated benefits and synergies from acquisitions or that we will be able to operate acquired businesses as profitably as anticipated.

**A small portion of our total sales comes directly from customers in the oil and gas industry. A significant or prolonged decline in oil and gas prices could result in lower capital expenditures by those customers, which could have a material adverse effect on our results of operations and financial condition.**

A small portion of our total sales is dependent directly upon the level of capital expenditures by customers in the oil and gas industry. A significant or prolonged drop in the prevailing market price of oil or gas, such as the drop in oil prices experienced in 2015-2016, may result in some of those customers delaying, canceling or modifying projects, or may result in nonpayment of, amounts that are owed to us. These effects could have a material adverse effect on our results of operations and financial condition.

**We sell certain products for high volume applications, and any failure of those products to perform as anticipated could result in significant liability and expenses that may adversely affect our business and results of operations.**

We manufacture and sell a number of products for high volume applications, including electric motors used in pools and spas, residential and commercial heating, ventilation and air conditioning and refrigeration equipment. Any failure of those products to perform as anticipated could result in significant product liability, product recall or rework, or other costs. The costs of product recalls and reworks are not generally covered by insurance. If we were to experience a product recall or rework in connection with products of high volume applications, our financial condition or results of operations could be materially adversely affected.

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

**We are subject to litigation, including product liability and warranty claims that may adversely affect our financial condition and results of operations.**

We are, from time to time, a party to litigation that arises in the normal course of our business operations, including product warranty and liability claims, contract disputes and environmental, asbestos, employment and other litigation matters. We face an inherent business risk of exposure to product liability and warranty claims in the event that the use of our products is alleged to have resulted in injury or other damage. While we currently maintain general liability and product liability insurance coverage in amounts that we believe are adequate, we cannot assure you that we will be able to maintain this insurance on acceptable terms or that this insurance will provide sufficient coverage against potential liabilities that may arise. Any product liability claim may also include the imposition of punitive damages, the award of which, pursuant to certain state laws, may not be covered by insurance. Any claims brought against us, with or without merit, may have an adverse effect on our business and results of operations as a result of potential adverse outcomes, the expenses associated with defending such claims, the diversion of our management's resources and time and the potential adverse effect to our business reputation.

**We depend on certain key suppliers, and any loss of those suppliers or their failure to meet commitments may adversely affect our business and results of operations.**

We are dependent on a single or limited number of suppliers for some materials or components required in the manufacture of our products. If any of those suppliers fail to meet their commitments to us in terms of delivery or quality, we may experience supply shortages that could result in our inability to meet our customers' requirements, or could otherwise experience an interruption in our operations that could negatively impact our business and results of operations.

**Infringement of our intellectual property by third parties may harm our competitive position, and we may incur significant costs associated with the protection and preservation of our intellectual property.**

We own or otherwise have rights in a number of patents and trademarks relating to the products we manufacture, which have been obtained over a period of years, and we continue to actively pursue patents in connection with new product development and to acquire additional patents and trademarks through the acquisitions of other businesses. These patents and trademarks have been of value in the growth of our business and may continue to be of value in the future. Our inability to protect this intellectual property generally, or the illegal breach of some or a large group of our intellectual property rights, would have an adverse effect on our business. In addition, there can be no assurance that our intellectual property will not be challenged, invalidated, circumvented or designed-around, particularly in countries where intellectual property rights are not highly developed or protected. We have incurred in the past and may incur in the future significant costs associated with defending challenges to our intellectual property or enforcing our intellectual property rights, which could adversely impact our cash flow and results of operations.

**Third parties may claim that we are infringing their intellectual property rights and we could incur significant costs and expenses or be prevented from selling certain products.**

We may be subject to claims from third parties that our products or technologies infringe on their intellectual property rights or that we have misappropriated intellectual property rights. If we are involved in a dispute or litigation relating to infringement of third party intellectual property rights, we could incur significant costs in defending against those claims. Our intellectual property portfolio may not be useful in asserting a counterclaim, or negotiating a license, in response to a claim of infringement or misappropriation. In addition, as a result of such claims of infringement or misappropriation, we could lose our rights to technology that are important to our business, or be required to pay damages or license fees with respect to the infringed rights or be required to redesign our products at substantial cost, any of which could adversely impact our cash flows and results of operations.

**We may suffer losses as a result of foreign currency fluctuations.**

The net assets, net earnings and cash flows from our foreign subsidiaries are based on the US dollar equivalent of such amounts measured in the applicable functional currency. These foreign operations have the potential to impact our financial position due to fluctuations in the local currency arising from the process of re-measuring the local functional currency in the US dollar. Any increase in the value of the US dollar in relation to the value of the local currency, whether by means of market conditions or governmental actions such as currency devaluations, will adversely affect our revenues from our foreign operations when translated into US dollars. Similarly, any decrease in the value of the US dollar in relation to the value of the local currency will increase our operating costs in foreign operations, to the extent such costs are payable in foreign currency, when translated into US dollars.

**Businesses that we have acquired or that we may acquire in the future may have liabilities which are not known to us.**

We have assumed liabilities of acquired businesses and may assume liabilities of businesses that we acquire in the future. There may be liabilities or risks that we fail, or are unable, to discover, or that we underestimate, in the course of performing our due diligence investigations of acquired businesses. Additionally, businesses that we have acquired or may acquire in the future may have made previous acquisitions, and we will be subject to certain liabilities and risks relating to these prior acquisitions as well. We cannot assure you that our rights to indemnification contained in definitive acquisition agreements that we have entered or may enter into will be sufficient in amount, scope or duration to fully offset the possible liabilities associated with the business or property acquired. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations. As we begin to operate acquired businesses, we may learn additional information about them that adversely affects us, such as unknown or contingent liabilities, issues relating to compliance with applicable laws or issues related to ongoing customer relationships or order demand.

**Goodwill and indefinite-lived trade name intangibles comprise a significant portion of our total assets, and if we determine that goodwill and indefinite-lived trade name intangibles have become impaired in the future, our results of operations and financial condition in such years may be materially and adversely affected.**

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. Indefinite-lived trade name intangibles represent long-standing brands acquired in business combinations and assumed to have indefinite lives. We review goodwill and indefinite-lived trade name intangibles at least annually for impairment and any excess in carrying value over the estimated fair value is charged to the results of operations. Our estimates of fair value are based on assumptions about the future operating cash flows, growth rates, discount rates applied to these cash flows and current market estimates of value. A reduction in net income resulting from the write down or impairment of goodwill or indefinite-lived trade name intangibles would affect financial results and could have a material and adverse impact upon the market price of our common stock. If we are required to record a significant charge to earnings in our consolidated financial statements because an impairment of goodwill or indefinite-lived trade name intangibles is determined, our results of operations and financial condition could be materially and adversely affected.

**Commodity, currency and interest rate hedging activities may adversely impact our financial performance as a result of changes in global commodity prices, interest rates and currency rates.**

We use derivative financial instruments in order to reduce the substantial effects of currency and commodity fluctuations and interest rate exposure on our cash flow and financial condition. These instruments may include foreign currency and commodity forward contracts, currency swap agreements and currency option contracts, as well as interest rate swap agreements. We have entered into, and expect to continue to enter into, such hedging arrangements. While limiting to some degree our risk fluctuations in currency exchange, commodity price and interest rates by utilizing such hedging instruments, we potentially forgo benefits that might result from other fluctuations in currency exchange, commodity and interest rates. We also are exposed to the risk that counterparties to hedging contracts will default on their obligations. We manage exposure to counterparty credit risk by limiting our counterparties to major international banks and financial institutions meeting established credit guidelines. However, any default by such counterparties might have an adverse effect on us.

**We may incur costs or suffer reputational damage due to improper conduct of our employees, agents or business partners.**

We are subject to a variety of domestic and foreign laws, rules and regulations relating to improper payments to government officials, bribery, anti-kickback and false claims rules, competition, export and import compliance, money laundering and data privacy. If our employees, agents or business partners engage in activities in violation of these laws, rules or regulations, we may be subject to civil or criminal fines or penalties or other sanctions, may incur costs associated with government investigations, or may suffer damage to our reputation.

**Sales of products incorporated into HVAC systems and other residential applications are seasonal and affected by the weather; mild or cooler weather could have an adverse effect on our operating performance.**

Many of our motors are incorporated into HVAC systems and other residential applications that OEMs sell to end users. The number of installations of new and replacement HVAC systems or components and other residential applications is higher during the spring and summer seasons due to the increased use of air conditioning during warmer months. Mild or cooler weather conditions during the spring and summer season often result in end users deferring the purchase of new or replacement HVAC systems or components. As a result, prolonged periods of mild or cooler weather conditions in the spring or summer season in broad geographical areas could have a negative impact on the demand for our HVAC motors and, therefore, could have an adverse effect on our operating performance. In addition, due to variations in weather conditions from year to year, our operating performance in any single year may not be indicative of our performance in any future year.

**We may be adversely impacted by an inability to identify and complete acquisitions.**

A substantial portion of our growth has come through acquisitions, and an important part of our growth strategy is based upon our ability to execute future acquisitions. We may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms or otherwise complete acquisitions in the future. If we are unable to successfully complete acquisitions, our ability to grow our company may be limited.

**Our success is highly dependent on qualified and sufficient staffing. Our failure to attract or retain qualified personnel could lead to a loss of revenue or profitability.**

Our success depends, in part, on the efforts and abilities of our senior management team and key employees. Their skills, experience and industry contacts significantly benefit our operations and administration. The failure to attract or retain members of our senior management team and key employees could have a negative effect on our operating results.

**Our operations are highly dependent on information technology infrastructure, and failures, attacks or breaches could significantly affect our business.**

We depend heavily on our information technology infrastructure in order to achieve our business objectives. If we experience a problem that impairs this infrastructure, such as a computer virus, a problem with the functioning of an important IT application, or an intentional disruption of our IT systems by a third party, the resulting disruptions could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on our business in the ordinary course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to eliminate these problems and address related security concerns.

IT security threats via computer malware and other “cyber attacks,” which are increasing in both frequency and sophistication, could also result in unauthorized disclosures of information and create financial liability, subject us to legal or regulatory sanctions, or damage our reputation. While we continuously seek to maintain robust information security mechanisms and controls, the impact of a material IT event could have a material adverse effect on our competitive position, results of operations, financial condition and cash flow.

We are in the process of implementing a global Enterprise Resource Planning (“ERP”) system that will redesign and deploy a common information system over a period of several years. The process of implementation can be costly and can divert the attention of management from the day-to-day operations of the business. As we implement the ERP system, some elements may not perform as expected. This could have an adverse effect on our business.

**Worldwide economic conditions may adversely affect our industry, business and results of operations.**

General economic conditions and conditions in the global financial markets can affect our results of operations. Deterioration in the global economy could lead to higher unemployment, lower consumer spending and reduced investment by businesses, and could lead our customers to slow spending on our products or make it difficult for our customers, our vendors and us to accurately forecast and plan future business activities. Worsening economic conditions could also affect the financial viability of our suppliers, some of which we may consider key suppliers. If the commercial and industrial, residential HVAC, power generation and power transmission markets significantly deteriorate, our business, financial condition and results of operations will likely be materially and adversely affected. Additionally, our stock price could decrease if investors have concerns that our business, financial condition and results of operations will be negatively impacted by a worldwide economic downturn.

**We may be adversely affected by environmental, health and safety laws and regulations.**

We are subject to various laws and regulations relating to the protection of the environment and human health and safety and have incurred and will continue to incur capital and other expenditures to comply with these regulations. Failure to comply with any environmental regulations, including more stringent environmental laws that may be imposed in the future, could subject us to future liabilities, fines or penalties or the suspension of production. In addition, if environmental and human health and safety laws and regulations are repealed, made less burdensome or implemented at a later date, demand for our products designed to comply with such regulations may be unfavorably impacted.

**Our operations can be negatively impacted by natural disasters, terrorism, acts of war, international conflict, political and governmental actions which could harm our business.**

Natural disasters, acts or threats of war or terrorism, international conflicts, and the actions taken by the United States and other governments in response to such events could cause damage or disrupt our business operations, our suppliers, or our customers, and could create political or economic instability, any of which could have an adverse effect on our business. Although it is not possible to predict such events or their consequences, these events could decrease demand for our products, could make it difficult or impossible for us to deliver products, or could disrupt our supply chain. We may also be negatively impacted by actions by the United States or foreign governments which could disrupt manufacturing and commercial operations, including policy changes affecting taxation, trade, immigration, currency devaluation, tariffs and the like.

**We are subject to changes in legislative, regulatory and legal developments involving income and other taxes.**

We are subject to US federal, state, and international income, payroll, property, sales and use, fuel, and other types of taxes. Changes in tax rates, enactment of new tax laws, revisions of tax regulations, and claims or litigation with taxing authorities could result in substantially higher taxes, could have a negative impact on our ability to compete in the global marketplace, and could have a significant adverse effect on our results or operations, financial conditions and liquidity.

**We are subject to tax laws and regulations in many jurisdictions and the inability to successfully defend claims from taxing authorities related to our current and/or acquired businesses could adversely affect our operating results and financial position.**

A significant amount of our revenue is generated from customers located outside of the United States, and an increasingly greater portion of our assets and employees are located outside of the United States which requires us to interpret the income tax laws and rulings in each of those taxing jurisdictions. Due to the subjectivity of tax laws between those jurisdictions as well as the subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. Claims from taxing authorities related to these differences could have an adverse impact on our operating results and financial position.

**The effect of recent US Tax Reform legislation is subject to continued regulatory and interpretive guidance, which could impact our financial results.**

On December 22, 2017, the US government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Act"). The Act contains significant changes to corporate taxation including, among other things, reduction of the US corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense (except for certain small businesses), limitation of the deduction for future net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of foreign earnings at reduced rates regardless of whether they are repatriated, elimination of US tax on foreign earnings (subject to certain exceptions), immediate deductions for certain new investments instead of deductions over time, and modifying or repealing many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law. Financial results for fiscal 2017 reflect provisional estimates based on our initial analysis and current interpretation of the legislation. Given the complexity of the legislation, anticipated guidance from the US Treasury, and the potential for additional guidance from the SEC or the Financial Accounting Standards Board, these provisional estimates may be adjusted during fiscal 2018.

**Our stock may be subject to significant fluctuations and volatility.**

The market price of shares of our common stock may be volatile. Among the factors that could affect our common stock price are those discussed above under “Risk Factors” as well as:

- domestic and international economic and political factors unrelated to our performance;
- quarterly fluctuation in our operating income and earnings per share results;
- decline in demand for our products;
- significant strategic actions by our competitors, including new product introductions or technological advances;
- fluctuations in interest rates;
- cost increases in energy, raw materials, intermediate components or materials, or labor; and
- changes in revenue or earnings estimates or publication of research reports by analysts.

In addition, stock markets may experience extreme volatility that may be unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

**ITEM 1B - UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2 - PROPERTIES

Our principal executive offices are located in Beloit, Wisconsin in an owned office building with approximately 50,000 square feet. We have manufacturing, sales and service facilities throughout the United States and in Mexico, China, Europe, India, Thailand, and Australia.

Our Commercial and Industrial Systems segment currently includes 99 facilities, of which 39 are principal manufacturing facilities and 15 are principal warehouse facilities. The Commercial and Industrial Systems segment's present operating facilities contain a total of approximately 7.9 million square feet of space, of which approximately 33% are leased.

The following represents our principal manufacturing and warehouse facilities in the Commercial and Industrial Systems segment (square footage in millions):

Location	Facilities	Square Footage		
		Total	Owned	Leased
US	12	2.3	1.4	0.9
Mexico	11	1.3	0.7	0.6
China	8	1.8	1.7	0.1
India	3	0.6	0.5	0.1
Europe	2	0.2	0.2	—
Other	18	0.8	0.3	0.5
Total	54	7.0	4.8	2.2

Our Climate Solutions segment currently includes 37 facilities, of which 17 are principal manufacturing facilities and 5 are principal warehouse facilities. The Climate Solutions segment's present operating facilities contain a total of approximately 3.0 million square feet of space, of which approximately 51% are leased.

The following represents our principal manufacturing and warehouse facilities in the Climate Solutions segment (square footage in millions):

Location	Facilities	Square Footage		
		Total	Owned	Leased
US	10	1.1	0.7	0.4
Mexico	8	1.0	0.5	0.5
China	1	0.2	—	0.2
India	1	0.2	0.2	—
Europe	1	0.2	—	0.2
Other	1	0.1	—	0.1
Total	22	2.8	1.4	1.4

Our Power Transmission Solutions segment currently includes 30 facilities, of which 17 are principal manufacturing facilities and 3 are principal warehouse facilities. The Power Transmission Solutions segment's present operating facilities contain a total of approximately 3.2 million square feet of space, of which approximately 13% are leased.



The following represents our principal manufacturing and warehouse facilities in the Power Transmission Solutions segment (square footage in millions):

Location	Facilities	Square Footage		
		Total	Owned	Leased
US	11	1.7	1.5	0.2
Mexico	2	0.3	0.3	—
China	1	0.1	—	0.1
Europe	6	0.4	0.4	—
Total	20	2.5	2.2	0.3

### ITEM 3 - LEGAL PROCEEDINGS

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

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

### ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### General

Our common stock, \$.01 par value per share, is traded on the New York Stock Exchange under the symbol "RBC." The following table sets forth the range of high and low closing sales prices for our common stock for the period from January 4, 2016 through December 29, 2017.

Quarter	2017 Price Range			2016 Price Range		
	High	Low	Dividends Declared	High	Low	Dividends Declared
1st	\$ 75.51	\$ 68.77	\$ 0.24	\$ 63.39	\$ 49.38	\$ 0.23
2nd	82.56	73.57	0.26	67.91	51.81	0.24
3rd	86.47	72.56	0.26	64.18	54.51	0.24
4th	81.40	73.80	0.26	75.10	56.90	0.24

We have paid 230 consecutive quarterly dividends through January 2018. The number of registered holders of common stock as of January 26, 2018 was 375.

The following table contains detail related to the repurchase of our common stock based on the date of trade during the quarter ended December 30, 2017.

2017 Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Maximum Number of Shares that May be Purchased Under the Plans or Programs
October 1 to November 4	—	\$ —	1,743,196
November 5 to December 2	—	—	1,743,196
December 3 to December 30	—	—	1,743,196
Total	—		

There were no shares purchased as a part of a publicly announced plan or program during the quarter.

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 December 30, 2017, we did not acquire any shares in connection with transactions pursuant to equity incentive plans.

In November 2013, the Board of Directors approved the repurchase of up to 3.0 million shares of our common stock, which repurchase authority has no expiration date. Management is authorized to effect purchases from time to time in the open market or through privately negotiated transactions. We have entered into a Rule 10b5-1 trading plan for the purpose of repurchasing shares under this authorization. During the quarter ended December 30, 2017, we did not acquire any shares pursuant to this authorization. Pursuant to this authorization, there were 576,804 shares acquired in fiscal 2017 and no shares acquired in fiscal 2016. There are approximately 1.7 million shares of our common stock available for repurchase under this authorization.

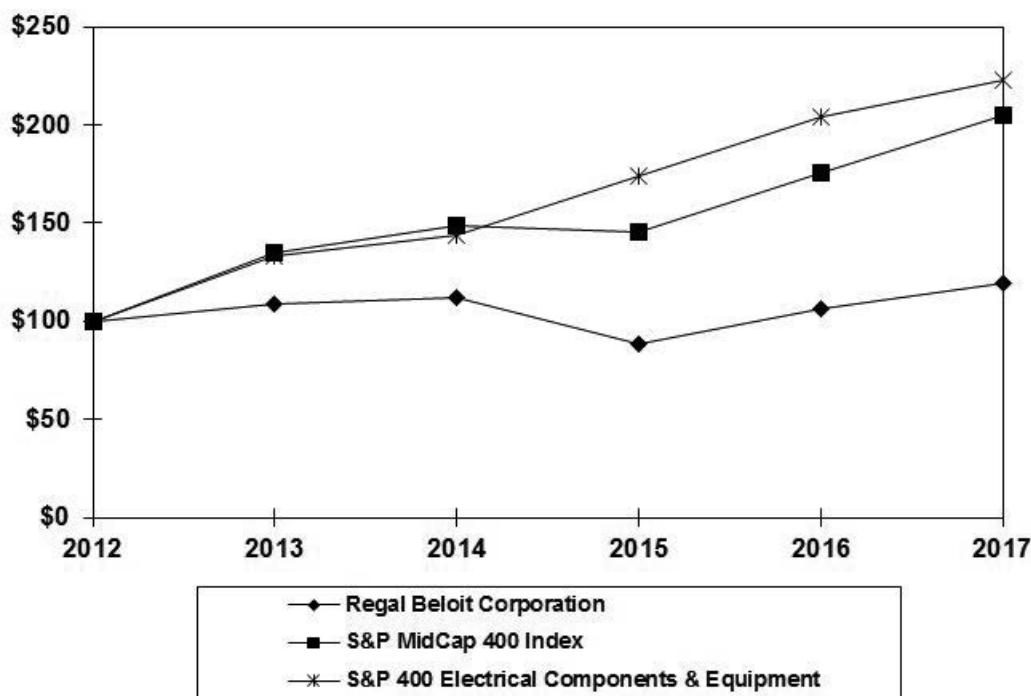
Item 12 of this Annual Report on Form 10-K contains certain information relating to our equity compensation plans.

#### Stock Performance

The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 (the "Exchange Act") or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act.

The following graph compares the hypothetical total shareholder return (including reinvestment of dividends) on an investment in (1) our common stock, (2) the Standard & Poor's Mid Cap 400 Index, and (3) the Standard & Poor's 400 Electrical Components and Equipment Index, for the period January 1, 2013 through December 31, 2017. In each case, the graph assumes the investment of \$100.00 on January 1, 2013.

### Comparison of Cumulative Five Year Total Return



### INDEXED RETURNS

Company / Index	Years Ended				
	2013	2014	2015	2016	2017
Regal Beloit Corporation	\$ 108.33	\$ 112.22	\$ 88.35	\$ 106.21	\$ 119.02
S&P MidCap 400 Index	135.01	148.81	145.68	175.89	204.47
S&P 400 Electrical Components & Equipment	133.06	143.95	174.10	203.59	223.06

### ITEM 6 - SELECTED FINANCIAL DATA

The selected statements of income data for fiscal 2017, 2016 and 2015, and the selected balance sheet data at December 30, 2017 and December 31, 2016 are derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected statement of income data for fiscal 2014 and 2013 are derived from audited consolidated financial statements not included herein. The selected balance sheet data at January 2, 2016, January 3, 2015, and December 28, 2013 are derived from audited consolidated financial statements not included herein.

	<b>Fiscal 2017</b>	<b>Fiscal 2016</b>	<b>Fiscal 2015</b>	<b>Fiscal 2014</b>	<b>Fiscal 2013</b>
	(In Millions, Except per Share Data)				
Net Sales	\$ 3,360.3	\$ 3,224.5	\$ 3,509.7	\$ 3,257.1	\$ 3,095.7
Cost of Sales	2,476.2	2,359.3	2,576.5	2,459.8	2,312.5
Gross Profit	884.1	865.2	933.2	797.3	783.2
Operating Expenses	554.0	544.6	600.5	516.3	494.2
Goodwill Impairment	—	—	79.9	119.5	76.3
Asset Impairments and Other, Net	—	—	—	40.0	4.7
Total Operating Expenses	554.0	544.6	680.4	675.8	575.2
Income from Operations	330.1	320.6	252.8	121.5	208.0
Net Income	218.1	209.3	148.5	36.1	126.0
Net Income Attributable to Regal Beloit Corporation	213.0	203.4	143.3	31.0	120.0
Total Assets	4,388.2	4,358.5	4,591.7	3,357.2	3,611.3
Total Debt	1,141.1	1,411.5	1,721.9	632.5	765.5
Long-Term Debt	1,039.9	1,310.9	1,715.6	624.7	607.7
Regal Beloit Shareholders' Equity	2,325.5	2,038.8	1,937.3	1,934.4	2,056.2
Per Share Data:					
Earnings - Basic	\$ 4.78	\$ 4.55	\$ 3.21	\$ 0.69	\$ 2.66
Earnings - Assuming Dilution	4.74	4.52	3.18	0.69	2.64
Cash Dividends Declared	1.02	0.95	0.91	0.86	0.79
Shareholders' Equity	52.83	46.46	44.32	44.02	46.72
Weighted Average Shares Outstanding:					
Basic	44.6	44.7	44.7	45.0	45.0
Assuming Dilution	44.9	45.0	45.1	45.3	45.4

We have completed various acquisitions that affect the comparability of the selected financial data shown above. The results of operations for acquisitions are included in our consolidated financial results for the period subsequent to their acquisition date. Significant acquisitions include the acquisition of the Power Transmission Solutions business from Emerson Electric Co. (January 2015).

For fiscal 2017 and 2016, there were no impairment charges or significant acquisitions.

In the fourth quarter of fiscal 2015, non-cash impairment charges of \$79.9 million for goodwill were recorded in the Commercial and Industrial Systems segment, reducing Income from Operations by \$79.9 million and Net Income Attributable to Regal Beloit Corporation by \$58.1 million.

In the fourth quarter of fiscal 2014, non-cash impairment charges of \$118.5 million for goodwill and \$40.0 million of asset impairment and other, net, and in the second quarter of 2014 non-cash impairment charges of \$1.0 million of goodwill, reduced Income from Operations by \$159.5 million and Net Income Attributable to Regal Beloit Corporation by \$147.3 million. The impairment charges were recorded in certain reporting units in all three of our reportable segments.

In the fourth quarter of fiscal 2013, non-cash impairment charges of \$76.3 million of goodwill and \$4.7 million of asset impairment and other, net, related to certain reporting units in our Commercial and Industrial Systems and Power Transmission Solutions segments, reduced Income from Operations by \$81.0 million and Net Income Attributable to Regal Beloit Corporation by \$74.7 million.

## ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We operate on a 52/53 week fiscal year ending on the Saturday closest to December 31. We refer to the fiscal year ended December 30, 2017 as fiscal 2017; December 31, 2016 as "fiscal 2016," and the fiscal year ended January 2, 2016 as "fiscal 2015." Fiscal 2017, fiscal 2016, and fiscal 2015 all had 52 weeks.

### Overview

#### General

Regal Beloit Corporation (NYSE: RBC) ("we," "us," "our" or the "Company"), 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. As of the end of fiscal 2017, the Company, including its subsidiaries, employs approximately 23,600 people in its manufacturing, sales, and service facilities and corporate offices throughout the United States, Canada, Mexico, Europe and Asia. In 2017, we reported annual net sales of \$3.4 billion compared to \$3.2 billion in 2016.

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

A description of the three operating segments is as follows:

- Commercial and Industrial Systems produces medium and large motors, commercial and industrial equipment, generator and custom drives and systems. These products serve markets including commercial Heating, Ventilation, and Air Conditioning ("HVAC"), pool and spa, standby and critical power and oil and gas systems.
- Climate Solutions produces small motors, controls and air moving solutions serving markets including residential and light commercial HVAC, water heaters and commercial refrigeration.
- Power Transmission Solutions manufactures, sells and services belt and chain drives, helical and worm gearing, mounted and unmounted bearings, couplings, modular plastic belts, conveying chains and components, hydraulic pump drives, large open gearing and specialty mechanical products serving markets including beverage, bulk handling, metals, special machinery, energy, aerospace and general industrial.

On January 30, 2015, we closed the acquisition of the Power Transmission Solutions ("PTS") business from Emerson Electric Co. The purchase price for PTS was \$1.4 billion in cash and the assumption of \$43.0 million of liabilities. PTS had over 3,200 employees around the world, and effective on the closing date became part of the Power Transmission Solutions segment.

#### 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, who incorporate our products, such as electric motors, into products they manufacture, and many of our products are built to the requirements of our customers. The majority of our sales derive from direct sales, but a significant portion derives from sales made by manufacturer's representatives, who are paid exclusively on commission. Our product sales are made via purchase order, long-term contract, and, in some instances, one-time purchases. Many of our products have broad customer bases, with the levels of concentration of revenues varying from division to division.

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

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

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

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

**Operating Expenses.** Our operating expenses consist primarily of (i) general and administrative expenses; (ii) sales and marketing expenses; (iii) general engineering and research and development expenses; and (iv) handling costs incurred in conjunction with distribution activities. Personnel related costs are our largest operating expense.

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

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

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

**Goodwill & Other Asset Impairments.** We did not record any goodwill or other asset impairments in fiscal 2017 or fiscal 2016; however, we recorded non-cash charges in Operating Expenses related to goodwill impairments in fiscal 2015 (“2015 Impairment”) as detailed below (in millions). See also Note 3 of Notes to the Consolidated Financial Statements.

	<b>Commercial and Industrial Systems</b>	<b>Climate Solutions</b>	<b>Power Transmission Solutions</b>	<b>Total</b>
<b>Impairments during 2015:</b>				
Goodwill and Asset Impairments	\$ 79.9	\$ —	\$ —	\$ 79.9

**Operating Profit.** Our operating profit consists of the segment gross profit less the segment operating expenses. In addition, there are shared operating costs that cover corporate, engineering and 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.

### Outlook

In 2018, we are forecasting another year of low to mid-single digit organic sales growth, and we expect to improve our operating margin. We expect the benefits from our price actions and simplification projects will more than offset the commodity inflation headwind. In 2018, we expect diluted earnings per share to be \$5.19 to \$5.59. Our 2018 diluted earnings per share guidance is based on an effective tax rate of 21%, which includes the impact of the Act.

### Results of Operations

The following table sets forth selected information for the years indicated:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
(Dollars in Millions)			
Net Sales:			
Commercial and Industrial Systems	\$ 1,604.3	\$ 1,530.9	\$ 1,694.9
Climate Solutions	990.6	960.0	1,041.2
Power Transmission Solutions	765.4	733.6	773.6
Consolidated	<u>\$ 3,360.3</u>	<u>\$ 3,224.5</u>	<u>\$ 3,509.7</u>
Gross Profit as a Percent of Net Sales:			
Commercial and Industrial Systems	23.5%	24.8%	26.0%
Climate Solutions	25.8%	25.5%	25.2%
Power Transmission Solutions	32.9%	32.8%	29.7%
Consolidated	<u>26.3%</u>	<u>26.8%</u>	<u>26.6%</u>
Operating Expenses as a Percent of Net Sales:			
Commercial and Industrial Systems	17.3%	18.0%	22.8%
Climate Solutions	11.6%	12.0%	11.1%
Power Transmission Solutions	21.2%	21.0%	23.0%
Consolidated	<u>16.5%</u>	<u>16.9%</u>	<u>19.4%</u>
Income from Operations as a Percent of Net Sales:			
Commercial and Industrial Systems	6.2%	6.8%	3.2%
Climate Solutions	14.2%	13.5%	14.1%
Power Transmission Solutions	11.7%	11.9%	6.8%
Consolidated	<u>9.8%</u>	<u>9.9%</u>	<u>7.2%</u>
Income from Operations	\$ 330.1	\$ 320.6	\$ 252.8
Interest Expense	56.1	58.7	60.2
Interest Income	3.2	4.5	4.3
Income before Taxes	277.2	266.4	196.9
Provision for Income Taxes	59.1	57.1	48.4
Net Income	218.1	209.3	148.5
Net Income Attributable to Noncontrolling Interests	5.1	5.9	5.2
Net Income Attributable to Regal Beloit Corporation	<u>\$ 213.0</u>	<u>\$ 203.4</u>	<u>\$ 143.3</u>

## Fiscal Year Ended 2017 Compared to Fiscal Year Ended 2016

Net sales for fiscal 2017 were \$3.4 billion, a 4.2% increase as compared to fiscal 2016 net sales of \$3.2 billion. The increase consisted of an organic sales increase of 4.3% and a positive foreign currency translation impact of 0.1% that was offset by a negative 0.3% impact from sales of the divested Mastergear Worldwide (“Mastergear”) business in fiscal 2016. Gross profit increased \$18.9 million or 2.2% as compared to the prior year. The increase was largely driven by the increased sales volume that was partially offset by a \$5.4 million charge from an increase in the last-in, first-out (“LIFO”) reserve and an increase in restructuring and related charges. The prior year included a \$14.5 million charge from an increase in the LIFO reserve. Total operating expenses were \$554.0 million which was a \$9.4 million increase from 2016 due primarily to increased compensation and benefits expenses resulting from both wage inflation and investments in the Company’s commercial sales teams as well as increased variable expenses, such as commissions, on higher sales volume. These increases were partially offset with reductions in amortization expense as well as other discretionary spending. Operating expenses for 2017 as a percent of sales was 16.5% as compared to 16.9% for the same period in the prior year. The prior year operating expenses contained a \$11.6 million gain on the sale of the Mastergear business.

Net sales for the Commercial and Industrial Systems segment for fiscal 2017 were \$1.6 billion, a 4.8% increase compared to fiscal 2016 net sales of \$1.5 billion. The increase consisted of 4.6% positive organic growth and 0.2% favorable foreign currency translation. The organic sales increase was primarily driven by broad based global strength in industrial demand for electric motors and higher sales through our distribution channels. Gross profit decreased \$1.9 million or 0.5% primarily due to the impact of increased restructuring charges resulting from the exit of a non-core business and an increase in the LIFO reserve which resulted in a charge of \$12.7 million that was offset by the increased sales volume. The prior year included a charge of \$8.4 million due to an increase in the LIFO reserve. Operating expenses for fiscal 2017 increased \$1.6 million as compared to fiscal 2016. Operating expenses as a percentage of sales decreased 70 basis points as compared to fiscal 2016 with increased expenses to support the higher sales volume for commissions and compensation and benefits that were partially offset by a \$1.1 million gain on the sale of assets and lower amortization expenses.

Net sales for the Climate Solutions segment for fiscal 2017 were \$990.6 million, a 3.2% increase compared to fiscal 2016 net sales of \$960.0 million. The increase consisted of an organic sales increase of 3.1% and a positive foreign currency translation impact of 0.1%. The organic sales increase was primarily driven by growth in North American residential HVAC, Europe and Asia. Gross profit increased \$10.1 million or 4.1% primarily due to higher volumes and a \$4.9 million benefit due to a reduction in the LIFO reserve. The prior year included a benefit of \$6.3 million due to an increase in the LIFO reserve. Operating expenses for 2017 decreased \$0.6 million as compared to the prior year due to leveraging of costs on the higher sales volume and lower discretionary spending.

Net sales for the Power Transmission Solutions segment for fiscal 2017 were \$765.4 million, a 4.3% increase compared to fiscal 2016 net sales of \$733.6 million. The increase consisted of an organic sales increase of 5.3% and a positive foreign currency translation impact of 0.2% that was offset by a negative impact from sales of the divested Mastergear business of 1.2%. The organic sales increase was primarily driven by increased North American industrial demand for power transmission products including improved oil and gas and renewable energy end market demand. Gross profit for 2017 increased \$10.7 million or 4.4% primarily due to higher volumes and a benefit of \$2.4 million due to a reduction in the LIFO reserve. The prior year included a benefit of \$0.2 million due to a decrease in the LIFO reserve. Operating expenses for 2017 increased \$8.4 million due to increased variable expenses to support the higher sales volume and increased compensation and benefits expenses resulting from both wage inflation and investments in the Company’s commercial sales teams that was partially offset by a \$2.8 million gain on the sale of assets. The prior year operating expenses included a \$11.6 million gain on the sale of the Mastergear business.

The effective tax rate for fiscal 2017 was 21.3% compared to 21.4% for fiscal 2016. The decrease in the effective rate was due to the Tax Cuts and Jobs Act of 2017 (the “Act”) that was offset by other discrete items. The lower effective tax rate in fiscal 2017 as compared to the 35% statutory US federal income tax rate is driven by a mix of earnings and lower foreign tax rates.

The Act was signed into law on December 22, 2017. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017 and dividends to the US no longer incur tax, however, a one-time tax on the mandatory deemed repatriation of foreign earnings payable over eight years was included. The Company has calculated its best estimate of the impact of the Act in its year end income tax provision based on the Company’s understanding of the Act and guidance available at the date of this filing. The Company recorded a \$1.0 million reduction in tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional benefit related to the remeasurement of certain deferred tax assets and liabilities was \$51.0 million. The provisional expense related to the one-time tax on the mandatory deemed repatriation of foreign earnings was \$40.0 million. The Company also recorded a provisional expense of \$10.0 million for local withholding taxes on foreign earnings not deemed permanently reinvested.



## **Fiscal Year Ended 2016 Compared to Fiscal Year Ended 2015**

Net sales for fiscal 2016 were \$3.2 billion, an 8.1% decrease compared to fiscal 2015 net sales of \$3.5 billion. The decrease consisted of an organic sales decline of 7.9%, and a negative foreign currency translation impact of 0.9% that was partially offset with acquisition growth, net of dispositions of 0.7%. Gross profit decreased \$68.0 million or 7.3% as compared to the prior year. The decrease was largely driven by lower sales volume, and a \$14.5 million LIFO expense which was partially offset by the benefits of the Simplification and cost control initiatives which helped to improve gross profit as a percentage of sales by 20 basis points in 2016 as compared to 2015. The prior year included non-recurring expenses related to the recognition of the inventory step up in cost of goods sold of \$20.7 million due to purchase accounting adjustments associated with the acquired PTS business, \$4.9 million in duty refunds related to the Generalized System of Preferences ("GSP"), a tariff system, which expired in July 2013 and was retroactively renewed in July 2015, and a LIFO benefit of \$18.8 million. Total operating expenses were \$544.6 million which was a \$135.8 million decrease from 2015 due primarily to the \$11.6 million gain on the sale of the Mastergear business in 2016. In addition, 2015 included goodwill impairments of \$79.9 million, \$9.1 million of acquisition related transaction costs, \$12.8 million impact of the Venezuelan asset write down, and a \$3.4 million benefit from the sale of real estate. Additional decreases were due to reduced salaries, commissions, and travel expenses associated with lower sales volume, along with cost controls.

Net sales for the Commercial and Industrial Systems segment for fiscal 2016 were \$1.5 billion, a 9.6% decrease compared to fiscal 2015 net sales of \$1.7 billion. The decrease consisted of 8.3% negative organic growth and 1.3% unfavorable foreign currency translation. Organic sales declines were primarily driven by decreased volume in the oil and gas end markets and weaker demand in the North American and Asian industrial markets. Gross profit decreased \$61.9 million or 14.0% primarily due to the impact of weaker demand in the industrial markets, and \$8.4 million of LIFO expense, that was partially offset by benefits from the Simplification and cost control initiatives. Gross profit in 2015 was impacted by an \$8.0 million LIFO benefit and a \$0.9 million duty refund associated with the GSP tariff rebate noted above. Gross profit as a percentage of sales in 2016 decreased 120 basis points from the prior year primarily due to the favorable non-recurring items that impacted 2015. Operating expenses for 2016 decreased \$111.4 million or 28.8% from 2015 primarily due to reduced salaries, commissions, and travel expenses associated with lower sales volumes, along with cost controls. Operating expenses in 2015 included a \$79.9 million goodwill impairment and the \$12.8 million impact of the Venezuelan asset write down, both of which did not reoccur in 2016.

Net sales for the Climate Solutions segment for fiscal 2016 were \$960.0 million, a 7.8% decrease compared to fiscal 2015 net sales of \$1.0 billion. The decrease consisted of an organic sales decline of 7.1%, and a negative foreign currency translation impact of 0.7%. Organic sales declines were primarily driven by a downturn in the Middle East HVAC market and the effect of contractual two-way material price formulas that was partially offset by stronger demand in the last half of the year for North American residential HVAC products. Gross profit decreased \$17.1 million primarily due to lower volume and a \$6.3 million LIFO expense, partially offset by benefits from the Simplification and cost control initiatives and stronger North American residential HVAC demand in the last six months of 2016. Gross profit in 2015 benefited from a \$9.8 million LIFO benefit and a \$3.8 million duty refund associated with the GSP tariff rebate noted above. Gross profit as a percentage of sales in 2016 increased 30 basis points as compared to 2015. Operating expenses for 2016 decreased \$0.4 million as compared to the prior year with 2015 including a \$3.4 million benefit from the sale of real estate.

Net sales for the Power Transmission Solutions segment for fiscal 2016 were \$733.6 million, a 5.1% decrease compared to fiscal 2015 net sales of \$773.6 million. The decrease consisted of an organic sales decline of 8.1% and a negative foreign currency translation impact of 0.2%. Acquisitions net of divestitures benefited 2016 sales by 3.2% as compared to 2015. Organic sales declines were primarily driven by lower demand from the industrial distribution channel, and weak oil and gas, metals and agricultural end markets. Gross profit for 2016 increased \$11.0 million primarily due to the inventory step up in cost of goods sold of \$20.7 million related to the acquired PTS business included in the prior year, and \$1.0 million of LIFO benefit in 2015. LIFO for 2016 was a slight benefit of \$0.2 million. Gross profit as a percent of sales increased 310 basis points as compared to the prior year. Operating expenses for 2016 decreased \$24.0 million due primarily to the \$9.1 million of acquisition fees incurred in 2015 and the \$11.6 million gain on the sale of the Mastergear business in 2016 as compared to 2015. In addition, current year operating expenses included one month of incremental operating expenses associated with the acquired PTS business.

The effective tax rate for fiscal 2016 was 21.4% compared to 24.6% for fiscal 2015. The decrease in the effective tax rate was due primarily to the fiscal 2015 non-deductible goodwill impairment. The lower effective tax rate in fiscal 2016 as compared to the 35% statutory US federal income tax rate is driven by the mix of earnings and 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 flows include working capital levels, capital expenditures, dividends, share repurchases, acquisitions, and divestitures, availability of debt financing, and the ability to attract long-term capital at acceptable terms.

Cash flow provided by operating activities was \$291.9 million for fiscal 2017, a \$150.4 million decrease from fiscal 2016. The decrease was primarily the result of the higher investment in inventory in fiscal 2017.

Cash flow provided by operating activities was \$442.3 million for fiscal 2016, a \$58.0 million increase from fiscal 2015. The increase was primarily the result of the lower investment in net working capital driven by the planned reduction in inventory during fiscal 2016.

Cash flow used in investing activities was \$57.8 million for fiscal 2017, compared to \$19.6 million used in fiscal 2016. The change was driven primarily by the \$24.6 million received for the sale of our Mastergear business in 2016. The proceeds from the sale of Mastergear were used to reduce debt obligations. Capital expenditures were \$65.2 million both in fiscal 2017 and in fiscal 2016.

Cash flow used in investing activities was \$19.6 million for fiscal 2016, compared to \$1.5 billion used in fiscal 2015. The change was driven by the purchase of PTS for \$1.4 billion, net of cash acquired, in fiscal 2015 versus the \$24.6 million received for the sale of our Mastergear business in 2016. The proceeds from the sale of Mastergear were used to reduce debt obligations. Capital expenditures were \$65.2 million in fiscal 2016 compared to \$92.2 million in fiscal 2015.

Our commitments for property, plant and equipment as of December 30, 2017 were approximately \$4.6 million. In fiscal 2018, we anticipate capital spending to be approximately \$75.0 million. We believe that our present manufacturing facilities will be sufficient to provide adequate capacity for our operations in fiscal 2018. We anticipate funding fiscal 2018 capital spending with operating cash flows.

Cash flow used in financing activities was \$390.6 million for fiscal 2017, compared to \$379.5 million in fiscal 2016. Net debt repayments totaled \$274.7 million in fiscal 2017, compared to net debt repayments of \$315.3 million in fiscal 2016. We paid \$44.5 million in dividends to shareholders in fiscal 2017 compared to \$42.1 million in fiscal 2016. In fiscal 2017 we paid distributions of \$17.4 million to noncontrolling interests compared to \$0.3 million in fiscal 2016. We also repurchased \$45.1 million of our common stock during fiscal 2017. Cash used to purchase additional interest in a joint venture was \$19.6 in fiscal 2016.

Cash flow used in financing activities was \$379.5 million for fiscal 2016, compared to cash flow provided by financing activities of \$1.0 billion for fiscal 2015. A \$1,250.0 million term loan was taken out to finance the acquisition of PTS in fiscal 2015 versus net repayments of \$315.3 million in fiscal 2016. We paid \$42.1 million in dividends to shareholders in fiscal 2016 compared to \$40.2 million in fiscal 2015.

Our working capital was \$862.4 million and \$830.4 million at December 30, 2017 and December 31, 2016, respectively. At December 30, 2017 and December 31, 2016, our current ratio (which is the ratio of our current assets to current liabilities) was 2.2:1. The Company intends to use operating cash flow to meet its current debt repayment obligations.

The following table presents selected financial information and statistics as of December 30, 2017 and December 31, 2016 (in millions):

	<u>December 30, 2017</u>	<u>December 31, 2016</u>
Cash and Cash Equivalents	\$ 139.6	\$ 284.5
Trade Receivables, Net	506.3	462.2
Inventories	757.1	660.8
Working Capital	862.4	830.4
Current Ratio	2.2:1	2.2:1

At December 30, 2017, our cash and cash equivalents totaled \$139.6 million. At December 30, 2017, \$135.9 million of our cash was held by foreign subsidiaries and could be used in our domestic operations if necessary. We periodically evaluate our cash held outside the US and may pursue opportunities to repatriate certain foreign cash amounts. We repatriated \$244.3 million of foreign cash in fiscal 2017. As a result of the Tax Cuts and Jobs Act of 2017 (the "Act"), dividends to the US no longer incur US tax however a one-time tax on the mandatory deemed repatriation of foreign earnings payable over eight years was included in the Act. We recognized a provisional charge of \$40.0 million related to the historical unremitted earnings as a result of the Act payable over eight years.

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

#### *Pension Liabilities and Other Post Retirement Benefits*

Accrued Pension and other post retirement benefits of \$104.8 million at December 30, 2017 was consistent with the prior year amount of \$110.4 million at December 31, 2016.

#### *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”), including a \$100 million letter of credit sub facility available for general corporate purposes. Borrowings under the Credit Agreement bear interest at floating rates based upon indices determined by the currency of the borrowing, plus an applicable margin determined by reference to our consolidated funded debt to consolidated EBITDA ratio, or at an alternative base rate.

The Term Facility was drawn in full on January 30, 2015 in connection with the closing of the PTS Acquisition. The loan under the Term Facility requires quarterly amortization at a rate starting at 5.0% per annum, increasing to 7.5% per annum after two years and further increasing to 10.0% per annum for the last two years of the Term Facility, unless previously prepaid. The weighted average interest rate on the Term Facility was 2.6% and 2.3% for the years ended December 30, 2017 and December 31, 2016, respectively. The Credit Agreement requires we prepay the loans under the Term Facility with 100% of the net cash proceeds received from specified asset sales and borrowed money indebtedness, subject to certain exceptions.

At December 30, 2017, we had borrowings under the Multicurrency Revolving Facility in the amount of \$19.7 million, \$5.3 million of standby letters of credit issued under the facility, and \$475.0 million of available borrowing capacity. The average daily balance in borrowings under the Multicurrency Revolving Facility was \$111.2 and \$21.0 million, and the weighted average interest rate on the Multicurrency Revolving Facility was 2.6% and 2.2% for the years ended December 30, 2017 and December 31, 2016, respectively. 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.

#### *Senior Notes*

At December 30, 2017, we had \$500.0 million of unsecured senior notes (the “Notes”) outstanding. The Notes consist of \$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. As of December 30, 2017, \$400.0 million of the 2011 Notes are included in Long-Term Debt and \$100.0 million of the 2011 Notes are included in Current Maturities of Long-Term Debt on the Consolidated Balance Sheets. We repaid the remaining \$100.0 million of the 2007 Notes in August 2017.

Details on the Notes at December 30, 2017 were (in millions):

	<u>Principal</u>	<u>Interest Rate</u>	<u>Maturity</u>
Fixed Rate Series 2011A	\$ 100.0	4.1%	July 14, 2018
Fixed Rate Series 2011A	230.0	4.8 to 5.0%	July 14, 2021
Fixed Rate Series 2011A	170.0	4.9 to 5.1%	July 14, 2023
Total	<u>\$ 500.0</u>		

#### *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 December 30, 2017.

### Other Notes Payable

At December 30, 2017, other notes payable of \$5.7 million were outstanding with a weighted average interest rate of 5.7%. At December 31, 2016, other notes payable of \$5.1 million were outstanding with a weighted average rate of 5.6%.

Based on rates for instruments with comparable maturities and credit quality. The approximate fair value of our total debt was \$1,165.4 million and \$1,433.4 million as of December 30, 2017 and December 31, 2016, respectively.

### Litigation

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

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

### Off-Balance Sheet Arrangements, Contractual Obligations and Commercial Commitments

The following is a summary of our contractual obligations and payments due by period as of December 30, 2017 (in millions):

<b>Payments Due by Period <sup>(1)</sup></b>	<b>Debt Including Estimated Interest Payments <sup>(2)</sup></b>	<b>Operating Leases</b>	<b>Pension Obligations</b>	<b>Purchase and Other Obligations</b>	<b>Total Contractual Obligations</b>
Less than one year	\$ 142.7	\$ 23.6	\$ 9.3	\$ 282.0	\$ 457.6
1 - 3 years	701.7	22.6	7.2	—	731.5
3 - 5 years	253.7	11.7	6.9	—	272.3
More than 5 years	177.6	12.9	16.7	—	207.2
Total	<u>\$ 1,275.7</u>	<u>\$ 70.8</u>	<u>\$ 40.1</u>	<u>\$ 282.0</u>	<u>\$ 1,668.6</u>

<sup>(1)</sup> The timing and future spot prices affect the settlement values of our hedge obligations related to commodities and currency exchange rates. Accordingly, these obligations are not included above in the table of contractual obligations (See also Item 7A and Note 13 of Notes to the Consolidated Financial Statements). The timing of settlement of our tax contingent liabilities cannot be reasonably determined and they are not included above in the table of contractual obligations. The one-time mandatory transition tax on undistributed earnings of foreign affiliates, which is payable over eight years pursuant to the timeline outlined in the Act, is a provisional estimate and therefore the related payments are not included in the above table of contractual obligations. Future pension obligation payments after fiscal 2017 are subject to revaluation based on changes in the benefit population and/or changes in the value of pension assets based on market conditions that are not determinable as of December 30, 2017.

<sup>(2)</sup> Variable rate debt based on December 30, 2017 rates. See also Note 7 of Notes to the Consolidated Financial Statements.

We utilize blanket purchase orders (“blankets”) to communicate expected annual requirements to many of our suppliers. Requirements under blankets generally do not become “firm” until a varying number of weeks before our scheduled production. The purchase obligations shown in the above table represent the value we consider “firm.”

At December 30, 2017, we had outstanding standby letters of credit totaling approximately \$29.8 million. We had no other material commercial commitments.

We did not have any material variable interest entities as of December 30, 2017 or December 31, 2016. Other than disclosed in the table above and the previous paragraph, we had no other material off-balance sheet arrangements.

### **Critical Accounting Policies**

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions affecting 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. We believe the following critical accounting policies could have the most significant effect on our reported results.

#### *Purchase Accounting and Business Combinations*

Assets acquired and the liabilities assumed as part of a business combination are recognized separately from goodwill at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. We, with the assistance of outside specialists as necessary, use estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable. We may refine these estimates during the measurement period which may be up to one year from the acquisition date. As a result, during the measurement period, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Income.

#### *Goodwill*

We evaluate the carrying amount of goodwill annually, or more frequently if events or circumstances indicate that an asset might be impaired. When applying the accounting guidance, we use estimates to determine when it might be necessary to take an impairment charge. Factors that could trigger an impairment review include significant underperformance relative to historical or forecasted operating results, a significant decrease in the market value of an asset or significant negative industry or economic trends. For goodwill, we may perform a qualitative test to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. We perform our required annual goodwill impairment test as of the end of the October fiscal month.

We use a weighting of the market approach and the income approach (discounted cash flow method) in testing goodwill for impairment. In the market approach, we apply performance multiples from comparable public companies, adjusted for relative risk, profitability, and growth considerations, to the reporting units to estimate fair value. The key assumptions used in the discounted cash flow method used to estimate fair value include discount rates, revenue and operating income projections and terminal value rates because such assumptions are the most sensitive and susceptible to change as they require significant management judgment. Discount rates are determined by using market and industry data as well as Company-specific risk factors for each reporting unit. The discount rate utilized for each reporting unit is indicative of the return an investor would expect to receive for investing in such a business. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant discount rate and long-term growth rates.

The calculated fair values for our 2017 impairment testing exceeded the carrying values by at least 10% for all of our reporting units. Some of the key considerations used in our impairment testing included (i) market pricing of guideline publicly traded companies (ii) cost of capital, including the risk-free interest rate, and (iii) recent historical and projected performance of the subject reporting unit. There is inherent uncertainty included in the assumptions used in goodwill impairment testing. A change to any of the assumptions could lead to a future impairment.

The calculated fair values for our 2016 impairment testing exceeded the carrying values of the reporting units for all of our reporting units. The excess exceeded 10% of the carrying value for all reporting units except for the PTS reporting unit, which is a combination of the acquired PTS business from Emerson Electric and the Company's legacy PTS business. Throughout 2016, the PTS reporting unit was impacted by declines in the oil and gas, distribution, and agricultural end-markets. The PTS reporting unit had goodwill of \$570.8 million as of December 31, 2016. Our impairment test indicated the reporting unit's implied fair value exceeded its book value by approximately 2%. Some of the key considerations used in our impairment testing included (i) market pricing of guideline publicly traded companies (ii) cost of capital, including the risk-free interest rate, and (iii) recent historical and projected performance of the subject reporting unit. There is inherent uncertainty included in the assumptions used in goodwill impairment testing. A change to any of the assumptions could lead to a future impairment.

We aggregate our business units by segment for reporting purposes and the majority of our goodwill is within our Power Transmissions Solutions segment (see also Note 5 of Notes to the Consolidated Financial Statements).

#### *Long-Lived Assets*

We evaluate the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstance indicate that the carrying amount of an asset may not be fully recoverable through future cash flows. When applying the accounting guidance, we use estimates to determine when an impairment is necessary. Factors that could trigger an impairment review include a significant decrease in the market value of an asset or significant negative or economic trends (see also Note 5 of Notes to the Consolidated Financial Statements). For long-lived assets, the Company uses an estimate of the related undiscounted cash flows over the remaining life of the primary asset to estimate recoverability.

#### *Indefinite-Lived Assets*

Indefinite-lived intangible assets consist of the trade names associated with the acquired PTS business. They were evaluated for impairment using fiscal October 2017 information using a relief from royalty method to determine whether their fair values exceed their respective carrying amounts. The Company determined the fair value of these assets using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability. For 2016 and 2017, the fair value of indefinite lived intangible assets exceeded their respective carrying value. Some of the key considerations used in our impairment testing included (i) cost of capital, including the risk-free interest rate, (ii) royalty rate, and (iii) recent historical and projected performance of the subject reporting unit. There is inherent uncertainty included in the assumptions used in indefinite-lived intangible asset testing. A change to any of the assumptions could lead to a future impairment.

#### *Retirement and Post Retirement Plans*

Most of our domestic employees are participants in defined contribution plans and/or defined benefit pension plans. The defined benefit pension plans covering a majority of our domestic employees have been closed to new employees and frozen for existing employees. Certain employees are covered by a post retirement health care plan. Most of our foreign employees are covered by government sponsored plans in the countries in which they are employed. Our obligations under our defined benefit pension plans are determined with the assistance of actuarial firms. The actuaries make certain assumptions regarding such factors as withdrawal rates and mortality rates. The actuaries also provide information and recommendations from which management makes further assumptions on such factors as the long-term expected rate of return on plan assets, the discount rate on benefit obligations and where applicable, the rate of annual compensation increases.

Based upon the assumptions made, the investments made by the plans, overall conditions and movement in financial markets, particularly the stock market and how actual withdrawal rates, life-spans of benefit recipients and other factors differ from assumptions, annual expenses and recorded assets or liabilities of these defined benefit pension plans may change significantly from year to year.

We changed the method used to estimate the service and interest cost components of the net periodic pension and other post retirement benefit costs beginning in 2016. 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 current methodology for selecting the discount rate was to match the plan's cash flows to that of a theoretical bond portfolio yield curve used to measure the benefit obligation at the beginning of the period. 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. We changed the 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 resulted in a \$2.9 million reduction in expense for fiscal 2016 as compared to the previous method.

Further discussion of our accounting policies is contained in Note 3 of Notes to the Consolidated Financial Statements.

### **ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

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

All qualified hedges are recorded on the balance sheet at fair value and are accounted for as cash flow hedges, with changes in fair value recorded in Accumulated Other Comprehensive Loss ("AOCI") in each accounting period. An ineffective portion of the hedges' change in fair value, if any, is recorded in earnings in the period of change.

### Interest Rate Risk

We are exposed to interest rate risk on certain of our short-term and long-term debt obligations used to finance our operations and acquisitions. At December 30, 2017, we had \$504.7 million of fixed rate debt and \$641.8 million of variable rate debt. At December 31, 2016, excluding the impact of interest rate swaps, we had \$504.7 million of fixed rate debt and \$916.5 million of variable rate debt. We have previously utilized interest rate swaps to manage fluctuations in cash flows resulting from exposure to interest rate risk on forecasted variable rate interest payments. The remaining interest rate swap agreement terminated in August 2017.

We have floating rate borrowings, which expose us to variability in interest payments due to changes in interest rates. A hypothetical 10% change in our weighted average borrowing rate on outstanding variable rate debt at December 30, 2017 would result in a \$1.7 million change in after-tax annualized earnings. We had entered into a pay fixed/receive floating interest rate swap to manage fluctuations in cash flows resulting from interest rate risk related to the floating rate interest on our 2007 Notes which were paid in August 2017. This interest rate swap had been designated as a cash flow hedge against forecasted interest payments.

As of December 31, 2016, an interest rate swap liability of \$(3.3) million was included in Current Hedging Obligations. The unrealized loss on the effective portion of the contract, net of tax, of \$(2.1) million as of December 31, 2016, was recorded in AOCI. The interest rate swap matured in August 2017.

### Foreign Currency Risk

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

As of December 30, 2017, derivative currency assets (liabilities) of \$15.6 million, \$2.5 million, \$(8.1) million and \$(0.9) million, are recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Current Hedging Obligations, and Noncurrent Hedging Obligations, respectively. As of December 31, 2016, derivative currency assets (liabilities) of \$2.8 million, \$0.4 million, \$(45.7) million and \$(17.6) million, are recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Current Hedging Obligations, and Noncurrent Hedging Obligations, respectively. The unrealized gains (losses) on the effective portion of the contracts of \$3.3 million net of tax, and \$(34.4) million net of tax, as of December 30, 2017 and December 31, 2016, was recorded in AOCI. At December 30, 2017, we had \$(4.7) million, net of tax, of currency losses on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At December 31, 2016, we had \$(8.0) million, net of tax, of currency losses on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings.

The following table quantifies the outstanding foreign exchange contracts intended to hedge non-US dollar denominated receivables and payables and the corresponding impact on the value of these instruments assuming a hypothetical 10% appreciation/depreciation of their counter currency on December 30, 2017 (dollars in millions):

Currency	Notional Amount	Fair Value	Gain (Loss) From:	
			10% Appreciation of Counter Currency	10% Depreciation of Counter Currency
Mexican Peso	\$ 137.1	\$ (6.3)	\$ 13.7	\$ (13.7)
Chinese Renminbi	214.9	12.6	21.5	(21.5)
Indian Rupee	35.8	2.5	3.6	(3.6)
Euro	26.4	0.3	2.6	(2.6)
Canadian Dollar	47.7	0.3	4.8	(4.8)
Australian Dollar	14.9	(0.4)	1.5	(1.5)
Thai Baht	7.5	0.1	0.8	(0.8)
British Pound	2.7	—	0.3	(0.3)

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

### Commodity Price Risk

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

Derivative commodity assets of \$11.0 million are recorded in Prepaid Expenses at December 30, 2017. Derivative commodity assets of \$0.7 million are recorded in Other Noncurrent Assets at December 30, 2017. Derivative commodity assets of \$7.3 million are recorded in Prepaid Expenses at December 31, 2016. The unrealized gain (loss) on the effective portion of the contracts of \$7.3 million net of tax and \$2.9 million net of tax, as of December 30, 2017 and December 31, 2016, respectively, was recorded in AOCI. At December 30, 2017, we had an additional \$2.7 million, net of tax, of derivative commodity gains on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At December 31, 2016, we had an additional \$0.5 million, net of tax, of derivative commodity gains on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact 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 December 30, 2017 (dollars in millions):

<u>Commodity</u>	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Gain (Loss) From:</u>	
			<u>10% Appreciation of Commodity Prices</u>	<u>10% Depreciation of Commodity Prices</u>
Copper	\$ 80.8	\$ 10.9	\$ 8.1	\$ (8.1)
Aluminum	7.7	0.8	0.8	(0.8)

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

The net AOCI balance related to hedging activities of \$8.6 million gain at December 30, 2017 includes \$11.0 million of net current deferred gains expected to be realized in the next twelve months.

### Counterparty Risk

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



**ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Quarterly Financial Information  
(Unaudited)**

(Amounts in Millions, Except per Share Data)

	<u>1st Quarter</u>		<u>2nd Quarter</u>		<u>3rd Quarter</u>		<u>4th Quarter</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net Sales	\$ 813.5	\$ 818.2	\$ 869.2	\$ 838.6	\$ 856.9	\$ 809.6	\$ 820.7	\$ 758.1
Gross Profit	215.6	217.4	223.0	222.9	227.0	231.7	218.5	193.2
Income from Operations	74.8	69.3	83.0	91.4	94.0	89.8	78.3	70.1
Net Income	47.6	42.7	54.3	58.4	63.6	61.1	52.6	47.1
Net Income Attributable to Regal Beloit Corporation	46.3	41.6	53.0	56.6	62.2	59.6	51.5	45.6
Earnings Per Share Attributable to Regal Beloit Corporation <sup>(1)</sup>								
Basic	1.03	0.93	1.19	1.27	1.40	1.33	1.16	1.02
Assuming Dilution	1.02	0.93	1.18	1.26	1.39	1.32	1.15	1.01
Weighted Average Number of Shares Outstanding								
Basic	44.8	44.7	44.7	44.7	44.4	44.8	44.3	44.8
Assuming Dilution	45.1	45.0	45.1	45.0	44.8	45.0	44.7	45.1
Net Sales								
Commercial and Industrial Systems	\$ 381.2	\$ 377.6	\$ 407.4	\$ 394.7	\$ 408.0	\$ 389.4	\$ 407.7	\$ 369.2
Climate Solutions	247.7	239.8	270.5	254.5	256.0	250.5	216.4	215.2
Power Transmission Solutions	184.6	200.8	191.3	189.4	192.9	169.7	196.6	173.7
Income from Operations								
Commercial and Industrial Systems	25.8	21.7	20.6	25.1	29.6	36.2	24.0	20.5
Climate Solutions	31.2	24.6	40.2	36.1	38.8	42.2	30.4	27.0
Power Transmission Solutions	17.8	23.0	22.2	30.2	25.6	11.4	23.9	22.6

<sup>(1)</sup>Due to the weighting of both earnings and the weighted average number of shares outstanding, the sum of the quarterly earnings per share may not equal the annual earnings per share.

## **Management's Annual Report on Internal Control Over Financial Reporting**

The management of Regal Beloit Corporation (the "Company") is responsible for the accuracy and internal consistency of the preparation of the consolidated financial statements and footnotes contained in this annual report.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting. The Company operates under a system of internal accounting controls designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles. The internal accounting control system is evaluated for effectiveness by management and is tested, monitored and revised as necessary. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 30, 2017. In making its assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on the results of its evaluation, the Company's management concluded that, as of December 30, 2017, the Company's internal control over financial reporting is effective at the reasonable assurance level based on those criteria.

Our internal control over financial reporting as of December 30, 2017 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

February 27, 2018

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the Board of Directors of Regal Beloit Corporation

### **Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheets of Regal Beloit Corporation and subsidiaries (the "Company") as of December 30, 2017 and December 31, 2016, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 30, 2017, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2017 and December 31, 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

### **Basis for Opinions**

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

February 27, 2018

We have served as the Company's auditor since 2002.

**REGAL BELOIT CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in Millions, Except Per Share Data)

	<b>For the Year Ended</b>		
	<b>December 30, 2017</b>	<b>December 31, 2016</b>	<b>January 2, 2016</b>
Net Sales	\$ 3,360.3	\$ 3,224.5	\$ 3,509.7
Cost of Sales	2,476.2	2,359.3	2,576.5
Gross Profit	884.1	865.2	933.2
Operating Expenses	554.0	544.6	600.5
Goodwill Impairment	—	—	79.9
Total Operating Expenses	554.0	544.6	680.4
Income from Operations	330.1	320.6	252.8
Interest Expense	56.1	58.7	60.2
Interest Income	3.2	4.5	4.3
Income before Taxes	277.2	266.4	196.9
Provision for Income Taxes	59.1	57.1	48.4
Net Income	218.1	209.3	148.5
Less: Net Income Attributable to Noncontrolling Interests	5.1	5.9	5.2
Net Income Attributable to Regal Beloit Corporation	\$ 213.0	\$ 203.4	\$ 143.3
Earnings Per Share Attributable to Regal Beloit Corporation:			
Basic	\$ 4.78	\$ 4.55	\$ 3.21
Assuming Dilution	\$ 4.74	\$ 4.52	\$ 3.18
Weighted Average Number of Shares Outstanding:			
Basic	44.6	44.7	44.7
Assuming Dilution	44.9	45.0	45.1

*See accompanying Notes to the Consolidated Financial Statements.*

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

	For the Year Ended					
	December 30, 2017		December 31, 2016		January 2, 2016	
Net Income	\$	218.1	\$	209.3	\$	148.5
Other Comprehensive Income (Loss) Net of Tax:						
Translation:						
Foreign Currency Translation Adjustments		103.1		(68.2)		(94.5)
Hedging Activities:						
Increase (Decrease) in Fair Value of Hedging Activities, Net of Tax Effects of \$26.1 Million in 2017, \$(15.2) Million in 2016 and \$(26.6) Million in 2015	\$	42.4	\$	(24.8)	\$	(43.3)
Reclassification of Gains (Losses) Included in Net Income, Net of Tax Effects of \$4.5 Million in 2017, \$19.1 Million in 2016, and \$16.5 Million in 2015		7.3	49.7	31.2	6.4	26.8
		<u>7.3</u>		<u>31.2</u>		<u>26.8</u>
Pension and Post Retirement Plans:						
Decrease (Increase) in Prior Service Cost and Unrecognized Gain (Loss), Net of Tax Effects of \$0.4 Million in 2017, \$(1.5) Million in 2016 and \$1.8 Million in 2015		1.8		(2.8)		1.2
Amortization of Prior Service Cost and Unrecognized Loss Included in Net Periodic Pension Cost, Net of Tax Effects of \$0.9 Million in 2017, \$1.2 Million in 2016 and \$1.6 Million in 2015		1.6	3.4	2.2	(0.6)	2.9
		<u>1.6</u>	<u>3.4</u>	<u>2.2</u>	<u>(0.6)</u>	<u>2.9</u>
Other Comprehensive Income (Loss)		<u>156.2</u>		<u>(62.4)</u>		<u>(106.9)</u>
Comprehensive Income		374.3		146.9		41.6
Less: Comprehensive Income Attributable to Noncontrolling Interest		<u>7.2</u>		<u>3.9</u>		<u>2.3</u>
Comprehensive Income Attributable to Regal Beloit Corporation	\$	<u>367.1</u>	\$	<u>143.0</u>	\$	<u>39.3</u>

*See accompanying Notes to the Consolidated Financial Statements.*

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

	<u>December 30, 2017</u>	<u>December 31, 2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 139.6	\$ 284.5
Trade Receivables, Less Allowances of \$11.3 Million in 2017 and \$11.5 Million in 2016	506.3	462.2
Inventories	757.1	660.8
Prepaid Expenses and Other Current Assets	171.4	124.5
Total Current Assets	<u>1,574.4</u>	<u>1,532.0</u>
Net Property, Plant and Equipment	623.0	627.5
Goodwill	1,477.1	1,453.2
Intangible Assets, Net of Amortization	670.5	711.7
Deferred Income Tax Benefits	28.5	22.4
Other Noncurrent Assets	14.7	11.7
Total Assets	<u>\$ 4,388.2</u>	<u>\$ 4,358.5</u>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts Payable	\$ 384.3	\$ 334.2
Dividends Payable	11.5	10.7
Current Hedging Obligations	8.1	49.0
Accrued Compensation and Employee Benefits	74.2	70.1
Other Accrued Expenses	132.7	137.0
Current Maturities of Long-Term Debt	101.2	100.6
Total Current Liabilities	<u>712.0</u>	<u>701.6</u>
Long-Term Debt	1,039.9	1,310.9
Deferred Income Taxes	135.3	97.7
Noncurrent Hedging Obligations	0.9	17.6
Pension and Other Post Retirement Benefits	101.0	106.5
Other Noncurrent Liabilities	44.4	46.0
Contingencies (see Note 11)		
Equity:		
Regal Beloit Corporation Shareholders' Equity:		
Common Stock, \$.01 Par Value, 100.0 Million Shares Authorized, 44.3 Million and 44.8 Million Shares Issued and Outstanding at 2017 and 2016, Respectively	0.4	0.4
Additional Paid-In Capital	877.5	904.5
Retained Earnings	1,611.6	1,452.0
Accumulated Other Comprehensive Loss	(164.0)	(318.1)
Total Regal Beloit Corporation Shareholders' Equity	<u>2,325.5</u>	<u>2,038.8</u>
Noncontrolling Interests	29.2	39.4
Total Equity	<u>2,354.7</u>	<u>2,078.2</u>
Total Liabilities and Equity	<u>\$ 4,388.2</u>	<u>\$ 4,358.5</u>

*See accompanying Notes to the Consolidated Financial Statements.*

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

	Common Stock \$.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling 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	—	—	143.3	—	5.2	148.5
Other Comprehensive Income (Loss)	—	—	—	(104.0)	(2.9)	(106.9)
Dividends Declared (\$0.91 Per Share)	—	—	(40.7)	—	—	(40.7)
Stock Options Exercised, Including Income Tax Benefit and Share Cancellations	—	2.4	—	—	—	2.4
Share-Based Compensation	—	13.9	—	—	—	13.9
Stock Repurchase	—	(11.6)	(0.4)	—	—	(12.0)
Purchase of Subsidiary Shares from Noncontrolling Interest	—	—	—	—	(1.4)	(1.4)
Dividends Declared to Noncontrolling Interests	—	—	—	—	(0.3)	(0.3)
Balance as of January 2, 2016	\$ 0.4	\$ 900.8	\$ 1,291.1	\$ (255.0)	\$ 45.5	\$ 1,982.8
Net Income	—	—	203.4	—	5.9	209.3
Other Comprehensive Income (Loss)	—	—	—	(60.4)	(2.0)	(62.4)
Dividends Declared (\$0.95 Per Share)	—	—	(42.5)	—	—	(42.5)
Stock Options Exercised, Including Income Tax Benefit and Share Cancellations	—	(2.4)	—	—	—	(2.4)
Share-Based Compensation	—	13.3	—	—	—	13.3
Purchase of Subsidiary Shares from Noncontrolling Interest	—	(7.2)	—	(2.7)	(9.7)	(19.6)
Dividends Declared to Noncontrolling Interests	—	—	—	—	(0.3)	(0.3)
Balance as of December 31, 2016	\$ 0.4	\$ 904.5	\$ 1,452.0	\$ (318.1)	\$ 39.4	\$ 2,078.2
Net Income	—	—	213.0	—	5.1	218.1
Other Comprehensive Income (Loss)	—	—	—	154.1	2.1	156.2
Dividends Declared (\$1.02 Per Share)	—	—	(45.3)	—	—	(45.3)
Stock Options Exercised	—	(3.6)	—	—	—	(3.6)
Share-Based Compensation	—	13.6	—	—	—	13.6
Stock Repurchase	—	(37.0)	(8.1)	—	—	(45.1)
Dividends Declared to Non-Controlling Interests	—	—	—	—	(17.4)	(17.4)
Balance as of December 30, 2017	\$ 0.4	\$ 877.5	\$ 1,611.6	\$ (164.0)	\$ 29.2	\$ 2,354.7

*See accompanying Notes to the Consolidated Financial Statements.*



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

	For the Year Ended		
	December 30, 2017	December 31, 2016	January 2, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 218.1	\$ 209.3	\$ 148.5
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Net of Acquisitions and Divestitures):			
Depreciation	82.0	93.4	95.5
Amortization	55.2	62.0	63.9
Goodwill Impairment	—	—	79.9
Share-Based Compensation Expense	13.6	13.3	13.9
Benefit from Deferred Income Taxes	(9.7)	(1.6)	(10.4)
Loss on Venezuela Currency Devaluation	—	—	1.5
Loss on Exit of Business	3.9	—	—
Loss (Gain) on Disposition of Assets	(2.5)	1.1	2.4
Provision for Losses on Receivables	1.3	1.6	12.2
Gain on Sale of Businesses	(0.1)	(11.6)	—
Change in Operating Assets and Liabilities, Net of Acquisitions and Divestitures			
Receivables	(31.0)	(10.4)	28.6
Inventories	(83.0)	100.4	11.1
Accounts Payable	37.7	7.6	(22.3)
Current Liabilities and Other	6.4	(22.8)	(40.5)
Net Cash Provided by Operating Activities	291.9	442.3	384.3
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to Property, Plant and Equipment	(65.2)	(65.2)	(92.2)
Purchases of Investment Securities	(0.9)	(53.7)	(55.4)
Sales of Investment Securities	0.9	72.6	45.6
Business Acquisitions, Net of Cash Acquired	—	—	(1,401.4)
Proceeds from Sale of Businesses	1.1	24.6	—
Proceeds from Sale of Assets	6.3	2.1	15.8
Net Cash Used in Investing Activities	(57.8)	(19.6)	(1,487.6)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings Under Revolving Credit Facility	1,247.6	583.7	512.0
Repayments Under Revolving Credit Facility	(1,245.8)	(568.7)	(526.0)
Proceeds from Short-Term Borrowings	25.2	23.8	126.1
Repayments of Short-Term Borrowings	(24.7)	(30.5)	(126.7)
Proceeds from Long-Term Borrowings	0.3	0.2	1,250.0
Repayments of Long-Term Borrowings	(277.3)	(323.8)	(132.3)
Dividends Paid to Shareholders	(44.5)	(42.1)	(40.2)
Proceeds from the Exercise of Stock Options	0.4	0.5	4.1
Shares Surrendered for Taxes	(4.0)	(2.7)	(1.9)
Purchase of Subsidiary Shares from Noncontrolling Interest	—	(19.6)	(1.4)
Financing Fees Paid	—	—	(18.0)
Repurchase of Common Stock	(45.1)	—	(12.0)
Payments of Contingent Consideration	(5.3)	—	—
Distributions to Noncontrolling Interests	(17.4)	(0.3)	(0.3)
Net Cash Provided by (Used in) Financing Activities	(390.6)	(379.5)	1,033.4
EFFECT OF EXCHANGE RATES ON CASH and CASH EQUIVALENTS	11.6	(11.6)	(11.3)
Net (Decrease) Increase in Cash and Cash Equivalents	(144.9)	31.6	(81.2)
Cash and Cash Equivalents at Beginning of Period	284.5	252.9	334.1
Cash and Cash Equivalents at End of Period	\$ 139.6	\$ 284.5	\$ 252.9
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash Paid During the Year for:			
Interest	\$ 53.2	\$ 53.7	\$ 54.6
Income Taxes	59.7	66.9	70.1

*See accompanying Notes to the Consolidated Financial Statements.*

## Notes to the Consolidated Financial Statements

### (1) Nature of Operations

Regal Beloit Corporation (the "Company") is a United States based multi-national corporation. The Company reports in three operating segments: the Commercial and Industrial Systems segment, with its principal lines of business in medium and large electric motors, power generation products, high-performance drives and controls and capacitors; the Climate Solutions segment, with its principal lines of business in small motors, controls and air moving products; and the Power Transmission Solutions segment, with its principal lines of business in power transmission gearing, hydraulic pump drives, large open gearing and specialty mechanical products which control motion and torque.

### (2) Basis of Presentation

The Company operates on a 52/53 week fiscal year ending on the Saturday closest to December 31. The fiscal years ended December 30, 2017, December 31, 2016, and January 2, 2016 were 52 weeks.

### (3) Accounting Policies

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. In addition, the Company has joint ventures that are consolidated in accordance with consolidation accounting guidance. All intercompany accounts and transactions are eliminated.

#### Accounting for Highly Inflationary Economies

The Company had a subsidiary in Venezuela using accounting for highly inflationary economies. Currency restrictions enacted by the Venezuelan government impacted the ability of the Company's subsidiary to obtain US dollars in exchange for Venezuelan bolivars fuertes ("Bolivars") at the official foreign exchange rate.

During the first quarter of 2015, the Venezuelan government announced changes to its exchange rate system that included the launch of a new, market-based system known as the SIMADI. The Company adopted the SIMADI rate after its introduction. The SIMADI exchange rate was approximately 193 Venezuelan Bolivars to the US dollar as of April 4, 2015. The adoption of the SIMADI resulted in a \$1.5 million pretax devaluation charge included in Operating Expenses during the first quarter 2015.

In late 2015, the Company decided to cease doing business in Venezuela due to the inability of collecting payments on its receivables from certain customers in Venezuela, the difficulties in obtaining local currency and the increased economic uncertainty in that country. In the fourth quarter of fiscal 2015, in connection with the decision to cease doing business in Venezuela, the Company wrote off net assets of \$12.8 million.

#### Use of Estimates

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("US 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; 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.

#### Acquisitions

The Company recognizes assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. The operating results of the acquired companies are included in the Company's consolidated financial statements from the date of acquisition.

Acquisition-related costs are expensed as incurred, restructuring costs are recognized as post-acquisition expense and changes in deferred tax asset valuation allowances and income tax uncertainties after the measurement period are recorded in Provision for Income Taxes.

### Revenue Recognition

The Company generally recognizes revenue upon transfer of title, which generally occurs upon shipment of the product to the customer. For a limited number of contracts, the Company recognizes revenue over time in proportion to costs incurred. The pricing of products sold is generally supported by customer purchase orders, and accounts receivable collection is reasonably assured at the time of shipment. Estimated discounts and rebates are recorded as a reduction of gross sales in the same period revenue is recognized. Product returns and credits are estimated and recorded at the time of shipment based upon historical experience. Shipping and handling costs are recorded as revenue when billed to the customers. The costs incurred from shipping are recorded in Cost of Sales and handling costs incurred in connection with selling and distribution activities are recorded in Operating Expenses.

The Company has certain operating leases in the oil and gas industry where revenue is recognized over the term of the lease. The lease revenue is not material for all fiscal periods presented. The related net leased assets were not material at December 30, 2017 or December 31, 2016 and were included in Other Noncurrent Assets.

The Company derives a significant portion of its revenues from several original equipment manufacturing customers. Despite this relative concentration, there were no customers that accounted for more than 10% of consolidated net sales in fiscal 2017, fiscal 2016 or fiscal 2015.

### Research and Development

The Company performs research and development activities relating to new product development and the improvement of current products. The Company's research and development expenses consist primarily of costs for: (i) salaries and related personnel expenses; (ii) the design and development of new energy efficient products and enhancements; (iii) quality assurance and testing; and (iv) other related overhead. The Company's research and development efforts tend to be targeted toward developing new products that would allow it to gain additional market share, whether in new or existing segments. While these costs make up an insignificant portion of operating expenses in the Power Transmission Solutions segment, they are more substantial in the Climate Solutions and Commercial and Industrial Systems segments. In particular, a large driver of research and development efforts in the Climate Solutions and Commercial and Industrial Systems segments is energy efficiency.

Research and development costs are expensed as incurred. For fiscal 2017, 2016 and 2015, research and development costs were \$29.9 million, \$29.5 million and \$30.1 million, respectively. Research and development costs are recorded in Operating Expenses.

### Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments which are readily convertible to cash, present insignificant risk of changes in value due to interest rate fluctuations and have original or purchased maturities of three months or less.

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash equivalents. The Company has material deposits with global financial institutions. The Company performs periodic evaluations of the relative credit standing of its financial institutions and monitors the amount of exposure.

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across many geographic areas. The Company monitors credit risk associated with its trade receivables.

### Investments

Investments include term deposits which have original maturities of greater than three months and remaining maturities of less than one year. The fair value of term deposits approximates their carrying value. These investments are included in Prepaid Expenses and Other Current Assets on the Company's Consolidated Balance Sheets.

### Trade Receivables

Trade receivables are stated at estimated net realizable value. Trade receivables are comprised of balances due from customers, net of estimated allowances. In estimating losses inherent in trade receivables, the Company uses historical loss experiences and applies them to a related aging analysis. Determination of the proper level of allowances requires management to exercise significant judgment about the timing, frequency and severity of losses. The allowances for doubtful accounts take into consideration numerous quantitative and qualitative factors, including historical loss experience, collection experience, delinquency trends and economic conditions.

In circumstances where the Company is aware of a specific customer's inability to meet its obligation, a specific reserve is recorded against amounts receivable to reduce the net recognized receivable to the amount reasonably expected to be collected. Additions to the allowances for doubtful accounts are maintained through adjustments to the provision for doubtful accounts, which are charged to Operating Expenses in the current period; amounts determined to be uncollectable are charged directly against the allowances, while amounts recovered on previously charged-off accounts benefit current period earnings.

### Inventories

The major classes of inventory at year end are as follows:

	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Raw Material and Work in Process	47 %	45 %
Finished Goods and Purchased Parts	53 %	55 %

Inventories are stated at cost, which is not in excess of market. Cost for approximately 52% of the Company's inventory at December 30, 2017 and 55% at December 31, 2016 was determined using the last-in, first-out method. If all inventories were valued on the first-in, first-out method, they would have increased by \$46.0 million and \$43.7 million as of December 30, 2017 and December 31, 2016, respectively. Material, labor and factory overhead costs are included in the inventories.

The Company reviews inventories for excess and obsolete products or components. Based on an analysis of historical usage and management's evaluation of estimated future demand, market conditions and alternative uses for possible excess or obsolete parts, the Company records an excess and obsolete reserve.

### Property, Plant and Equipment

Property, Plant and Equipment are stated at cost. Depreciation of plant and equipment is provided principally on a straight-line basis over the estimated useful lives (3 to 50 years) of the depreciable assets. Accelerated methods are used for income tax purposes.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures which extend the useful lives of existing equipment are capitalized and depreciated.

Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

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

	<b>Useful Life (In Years)</b>	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Land and Improvements		\$ 78.2	\$ 76.7
Buildings and Improvements	3-50	294.5	280.4
Machinery and Equipment	3-15	986.8	929.9
Property, Plant and Equipment		1,359.5	1,287.0
Less: Accumulated Depreciation		(736.5)	(659.5)
Net Property, Plant and Equipment		\$ 623.0	\$ 627.5

### Goodwill

The Company evaluates the carrying amount of goodwill annually or more frequently if events or circumstances indicate that the goodwill might be impaired. Factors that could trigger an impairment review include significant underperformance relative to historical or forecasted operating results, a significant decrease in the market value of an asset or significant negative industry or economic trends. For goodwill, the Company may perform a qualitative test to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. Based on prior goodwill impairment testing, the Company determined the performance of the quantitative impairment test was required for all reporting units in 2017. The Company performs the required annual goodwill impairment test as of the end of the October fiscal month.

The Company uses a weighting of the market approach and the income approach (discounted cash flow method) in testing goodwill for impairment. In the market approach, the Company applies performance multiples from comparable public companies, adjusted for relative risk, profitability, and growth considerations, to the reporting units to estimate fair value. The key assumptions used in the discounted cash flow method used to estimate fair value include discount rates, revenue and operating income projections and terminal value rates because such assumptions are the most sensitive and susceptible to change as they require significant management judgment. Discount rates are determined by using market and industry data as well as Company-specific risk factors for each reporting unit. The discount rate utilized for each reporting unit is indicative of the return an investor would expect to receive for investing in such a business. Terminal value rate determination follows

common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant discount rate and long-term growth rates.

The calculated fair values for the Company's 2017 impairment testing exceeded the carrying values by at least 10% for all of its reporting units. Some of the key considerations used in the Company's impairment testing included (i) market pricing of guideline publicly traded companies (ii) cost of capital, including the risk-free interest rate, and (iii) recent historical and projected performance of the subject reporting unit. There is inherent uncertainty included in the assumptions used in goodwill impairment testing. A change to any of the assumptions could lead to a future impairment.

The calculated fair values for the Company's 2016 impairment testing exceeded the carrying values of the reporting units for all of the Company's reporting units. The excess exceeded 10% of the carrying value for all reporting units except the PTS reporting unit, which is a combination of the acquired PTS business from Emerson Electric and the Company's legacy PTS business. Throughout 2016, the Company's PTS reporting unit was impacted by declines in the oil and gas, distribution, and agricultural end-markets. The PTS reporting unit had goodwill of \$570.8 million as of December 31, 2016. The Company's impairment test indicated the reporting unit's implied fair value exceeded its book value by approximately 2%. Some of the key considerations used in the Company's impairment testing included (i) market pricing of guideline publicly traded companies (ii) cost of capital, including the risk-free interest rate, and (iii) recent historical and projected performance of the subject reporting unit. There is inherent uncertainty included in the assumptions used in goodwill impairment testing. A change to any of the assumptions could lead to a future impairment.

#### Intangible Assets

Intangible assets with finite lives are amortized over their estimated useful lives using the straight line method. The Company evaluates amortizing intangibles whenever events or circumstances have occurred that may indicate that carrying values may not be recoverable. If an indicator is present, the Company evaluates carrying values as compared to undiscounted estimated future cash flows. If such estimated future cash flows are less than carrying value, an impairment would be recognized.

Indefinite-lived intangible assets are not amortized. The Company evaluates the carrying amount of indefinite-lived intangible assets annually or more frequently if events or circumstances indicate that the assets might be impaired. The Company performs the required annual impairment test as of the end of the October fiscal month.

Indefinite-lived intangible assets consist of trade names associated with the acquired Power Transmission Solutions business. They were evaluated for impairment using a relief from royalty method to determine whether their fair values exceed their respective carrying amounts. The Company determined the fair value of these assets using a royalty relief methodology similar to that employed when the associated assets were acquired, but using updated estimates of future sales, cash flows and profitability. For 2016 and 2017, the fair value of indefinite lived intangible assets exceeded their respective carrying value. Some of the key considerations used in our impairment testing included (i) cost of capital, including the risk-free interest rate, (ii) royalty rate and (iii) recent historical and projected performance of the subject reporting unit. There is inherent uncertainty included in the assumptions used in indefinite-lived intangible asset testing. A change to any of the assumptions could lead to a future impairment.

#### Long-Lived Assets

The Company evaluates the recoverability of the carrying amount of property, plant and equipment and amortizing intangible assets (collectively, "long-lived assets") whenever events or changes in circumstance indicate that the carrying amount of an asset may not be fully recoverable through future cash flows. Factors that could trigger an impairment review include a significant decrease in the market value of an asset or significant negative or economic trends. For long-lived assets, the Company uses an estimate of the related undiscounted cash flows over the remaining life of the primary asset to estimate recoverability of the asset group. If the asset is not recoverable, the asset is written down to fair value. The Company concluded it did not have any impairments of long-lived assets in 2017.

### Earnings Per Share

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. Share based compensation awards for common shares where the exercise price was above the market price have been excluded from the calculation of the effect of dilutive securities shown below; the amount of these shares were 0.5 million in 2017, 1.3 million in 2016 and 0.7 million in 2015. The following table reconciles the basic and diluted shares used in earnings per share calculations for the years ended (in millions):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Denominator for Basic Earnings Per Share	44.6	44.7	44.7
Effect of Dilutive Securities	0.3	0.3	0.4
Denominator for Diluted Earnings Per Share	<u>44.9</u>	<u>45.0</u>	<u>45.1</u>

### Retirement and Post Retirement Plans

The Company's domestic employees are covered by defined contribution plans and approximately half of the Company's domestic employees are covered by defined benefit pension plans. The majority of the defined benefit pension plans covering the Company's domestic employees have been closed to new employees and frozen for existing employees. Certain employees are covered by a post retirement health care plan. Most of the Company's foreign employees are covered by government sponsored plans in the countries in which they are employed. The Company's obligations under its defined benefit pension and other post retirement plans are determined with the assistance of actuarial firms. The actuaries, under management's direction, make certain assumptions regarding such factors as withdrawal rates and mortality rates. The actuaries also provide information and recommendations from which management makes further assumptions on such factors as the long-term expected rate of return on plan assets, the discount rate on benefit obligations and where applicable, the rate of annual compensation increases and health care cost trend rates.

Based upon the assumptions made, the investments made by the plans, overall conditions and movement in financial markets, life-spans of benefit recipients and other factors, annual expenses and recorded assets or liabilities of these defined benefit plans may change significantly from year to year.

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 it resulted in a \$2.9 million reduction in expense for fiscal 2016 as compared to the previous method.

### Derivative Financial Instruments

Derivative instruments are recorded on the Consolidated Balance Sheets at fair value. Any fair value changes are recorded in Net Income or Accumulated Other Comprehensive Loss ("AOCI") as determined under accounting guidance that establishes criteria for designation and effectiveness of the hedging relationships.

The Company uses derivative instruments to manage its exposure to fluctuations in certain raw material commodity pricing, fluctuations in the cost of forecasted foreign currency transactions, and variability in interest rate exposure on floating rate borrowings. The majority of derivative instruments have been designated as cash flow hedges (see also Note 13 of Notes to the Consolidated Financial Statements).

### Income Taxes

The Company operates in numerous taxing jurisdictions and is subject to regular examinations by various US federal, state and foreign jurisdictions for various tax periods. The Company's income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which it does business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, estimates of income tax liabilities may differ from actual payments or assessments.

### Foreign Currency Translation

For those operations using a functional currency other than the US dollar, assets and liabilities are translated into US dollars at year-end exchange rates, and revenues and expenses are translated at weighted-average exchange rates. The resulting translation adjustments are recorded as a separate component of Shareholders' Equity.

### Product Warranty Reserves

The Company maintains reserves for product warranty to cover the stated warranty periods for its products. Such reserves are established based on an evaluation of historical warranty experience and specific significant warranty matters when they become known and can reasonably be estimated.

### Accumulated Other Comprehensive Loss

Foreign currency translation adjustments, unrealized gains and losses on derivative instruments designated as hedges and pension and post retirement liability adjustments are included in Shareholders' Equity under AOCI.

The components of the ending balances of AOCI are as follows (in millions):

	<u>2017</u>	<u>2016</u>
Foreign Currency Translation Adjustments	\$ (140.0)	\$ (241.0)
Hedging Activities, Net of Tax of \$5.4 in 2017 and \$(25.2) in 2016	8.6	(41.1)
Pension and Post Retirement Benefits, Net of Tax of \$(18.8) in 2017 and \$(20.1) in 2016	(32.6)	(36.0)
Total	<u>\$ (164.0)</u>	<u>\$ (318.1)</u>

### Legal Claims and Contingent Liabilities

The Company is subject to various legal proceedings, claims and regulatory matters, the outcomes of which are subject to significant uncertainty and will only be resolved when one or more future events occur or fail to occur. Management conducts regular reviews, including updates from legal counsel, to assess the need for accounting recognition or disclosure of these contingencies. The Company records expenses and liabilities when the Company believes that an obligation of the Company or a subsidiary on a specific matter is probable and there is a basis to reasonably estimate the value of the obligation, and such assessment inherently involves an exercise in judgment. This methodology is used for legal claims that are filed against the Company or a subsidiary from time to time. The uncertainty that is associated with such matters frequently requires adjustments to the liabilities previously recorded.

### Fair Values of Financial Instruments

The fair values of cash equivalents, term deposits, trade receivables and accounts payable approximate their carrying values due to the short period of time to maturity. The fair value of debt is estimated using discounted cash flows based on rates for instruments with comparable maturities and credit ratings as further described in Note 7 of Notes to the Consolidated Financial Statements. The fair value of pension assets and derivative instruments is determined based on the methods disclosed in Notes 8 and 14 of Notes to the Consolidated Financial Statements.

### Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2017-12, *Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities*. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The Company plans to adopt this pronouncement for fiscal years beginning December 30, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Stock Compensation - Scope of Modification Accounting*. The ASU amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under Accounting Standards Codification ("ASC") 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted and prospective application is required. The Company plans to adopt this pronouncement for fiscal years beginning December 31, 2017 and will consider the impact that this standard may have on future share based award changes, should they occur.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The ASU amends current guidance to require employers that present a measure of operating income in their statement of income to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in nonoperating expenses. Employers that do not present a measure of operating income are required to include the service cost component in the same line item as other employee compensation costs. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. The changes, which respond to input from financial statement users, are intended to classify costs according to their natures, and better align the effect of defined benefit plans on operating income with International Financial Reporting Standards. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The ASU will impact the components of income before taxes but will not impact the amount of income before taxes. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements. Upon the Company's retrospective adoption of this ASU, post retirement benefit costs, excluding the service cost component, will be reflected in Other Expense (Income) in the Consolidated Statements of Income. Currently, all components of benefit costs are reported in Cost of Sales and Operating Expenses in the Consolidated Statements of Income.

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 fiscal years beginning after December 15, 2018 under a modified retrospective approach and early adoption is permitted. The Company has identified a six step process to successfully implement the new Lease standard: Form a task force to become proficient and take the lead on understanding and implementing the new Lease standard; Update lease inventories; Decide on transition method; Review legal agreements and debt covenants; Consider IT needs; Discuss with stakeholders. The Company is currently evaluating the impact the adoption of ASU 2016-02 will have on its consolidated financial statements. The Company has identified a task force to take the lead in implementing the new Lease standard and has started the process of building an inventory of leases. The Company plans to adopt this pronouncement for its fiscal year beginning December 31, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, a comprehensive new revenue recognition standard that supersedes current revenue recognition requirements. This update requires the Company to recognize revenue at amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services at the time of transfer. The new standard will also require additional qualitative and quantitative disclosures about contracts with customers, significant judgments made in applying the revenue guidance, and assets recognized from the costs to obtain or fulfill a contract. The Company will adopt ASU No. 2014-09 (and related updates) at the beginning of its 2018 fiscal year on December 31, 2017. Accordingly, the Company will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To achieve that core principle, the new model requires financial statement preparers to apply the following five steps:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The standard allows the option of using either a full retrospective or a modified retrospective approach for the adoption of the standard. The Company has decided to adopt this accounting standard update using the modified retrospective method.

The Company completed a comprehensive project plan that included a global cross-functional team of representatives to conduct an assessment of Topic 606 and its potential impacts on the Company. The Company identified and completed a four-step process to implement the new revenue standard - data gathering, assessment, solution development, and solution implementation.



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

In addition, the Company's performance obligations under the new standard are not materially different from the existing standard. The accounting for the estimate of variable consideration (i.e. Warranties, Rebates, and Returns) under the new standard is not materially different compared to the Company's current practice.

Based upon the results of the implementation plan, the Company does not expect the new revenue standard to have a material impact on the Company's pattern of revenue recognition, operating revenue, results of operations, or financial position. In reaching this conclusion, the Company evaluated its different contracting practices including Master Agreements and Purchase Orders. The project plan included analyzing the standard's impact on the Company's revenue streams and above mentioned contracting practices.

The Company has determined that as a result of applying the modified retrospective method, the cumulative effect adjustment to retained earnings as of December 31, 2017 was immaterial.

The Company has also completed the process of updating accounting policies, evaluating new disclosure requirements, and identifying and implementing changes to its business processes, systems and controls to support revenue recognition and disclosure under the new guidance.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. The new guidance includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. The provisions include:

- recording all tax effects associated with stock-based compensation through the income statement, as opposed recording certain amounts in other paid-in capital, which eliminates the requirement to calculate a "windfall pool";
- allowing entities to withhold shares to satisfy the employer's statutory tax withholding requirement up to the highest marginal tax rate applicable to employees rather than the employer's minimum statutory rate, without requiring liability classification for the award;
- modifying the requirement to estimate the number of awards that will ultimately vest by providing an accounting policy election to either estimate the number of forfeitures or recognize forfeitures as they occur;
- changing certain presentation requirements in the statement of cash flows, including removing the requirement to present excess tax benefits as an inflow from financing activities and an outflow from operating activities, and requiring the cash paid to taxing authorities arising from withheld shares to be classified as a financing activity; and
- the assumed proceeds from applying the treasury stock method when computing earnings per share is amended to exclude the amount of excess tax benefits that previously would have been recognized in additional paid-in capital.

The Company adopted the provisions of ASU 2016-09 on January 1, 2017. As a result of adopting the standard, the Changes in Operating Assets and Liabilities, Net of Acquisitions and Divestitures line in the Cash Flows From Operating Activities section on the Consolidated Statements of Cash Flows and the Shares Surrendered for Taxes line in the Cash Flows from Financing Activities section were both adjusted by \$2.7 million and \$1.9 million for 2016 and 2015, respectively. The presentation on the Consolidated Statements of Cash Flows for shares surrendered by employees to meet the minimum statutory withholding requirement and excess tax benefits were applied retrospectively. In addition, the Excess Tax Expense from Share-Based Compensation lines in the Cash Flows from Operating Activities section and the Cash Flows from Financing Activities section were removed. The Company removed the excess tax benefits from the calculation of dilutive shares on a prospective basis. In addition, the Company began recording all tax effects associated with stock-based compensation through the income statement on a prospective basis. The Company did not have any awards classified as liability awards due to the statutory tax withholding requirements as of January 1, 2017. The Company made an accounting policy election to continue to estimate forfeitures as it had previously.

#### **(4) Acquisitions and Divestitures**

There were no acquisition-related expenses in 2017 and 2016. The results of operations for acquired businesses are included in the consolidated financial statements from the dates of acquisition. Acquisition-related expenses were \$9.1 million during 2015.

## 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 a purchase price of \$19.6 million. The purchase price of Elco is reflected as a component of equity.

## 2015 Acquisitions

### *PTS*

On January 30, 2015, the Company acquired the Power Transmission Solutions business of Emerson Electric Co. ("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.

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

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

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

	<u>As of January 30, 2015</u>
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	<u>1,595.4</u>
Accounts Payable	57.2
Current Liabilities Assumed	32.3
Long-Term Liabilities Assumed	97.0
Net Assets Acquired	<u>\$ 1,408.9</u>

The valuation of the net assets acquired of \$1,408.9 million was classified as Level 3 in the valuation hierarchy (See Note 14 of the Notes to the 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):

	<b>Weighted Average Amortization Period (Years)</b>	<b>Gross Value</b>
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		<u>\$ 648.2</u>

Net sales from PTS were \$512.9 million for the year ended January 2, 2016. Operating income from PTS was \$14.5 million for the year ended January 2, 2016. Purchase accounting inventory adjustments and transaction costs of \$29.8 million were included in the PTS operating income for the year ended January 2, 2016.

### **Unaudited Pro Forma Consolidated Financial Information**

The following unaudited pro forma financial information presents the financial results for the fiscal year 2015 as if the acquisition of PTS had occurred on January 3, 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):

	<b>Fiscal 2015</b>
Pro Forma Net Sales	\$ 3,558.3
Pro Forma Net Income Attributable to the Company	174.8
Basic Earnings Per Share as Reported	\$ 3.21
Pro Forma Basic Earnings Per Share	3.91
Diluted Earnings Per Share as Reported	\$ 3.18
Pro Forma Diluted Earnings Per Share	3.88

### **2016 Divestitures**

#### *Mastergear Worldwide*

On June 1, 2016, the Company sold its Mastergear Worldwide ("Mastergear") business to Rotork PLC for a purchase price of \$25.7 million. Mastergear was included in the Company's Power Transmission Solutions segment. Gains related to the sale of \$0.1 million and \$11.6 million were recorded as a reduction to Operating Expenses in the Consolidated Statements of Income during fiscal 2017 and 2016, respectively.

#### *Venezuelan Subsidiary*

On July 7, 2016, the Company sold the assets of its Venezuelan subsidiary, which had been included in the Company's Commercial and Industrial Systems segment, to a private company for \$3.0 million. Of this amount, \$1.0 million was received on the transaction closing date

and \$2.0 million is to be received in 24 monthly installments. The Company may receive additional amounts in the future related to certain accounts receivable of this business. The gains are recognized as the cash is received. The Company received cash and recorded gains of \$1.1 million in fiscal 2017 and \$1.7 million in fiscal 2016. The Company wrote down its investment and ceased operations of this subsidiary in 2015.

##### (5) Goodwill and Intangible Assets

###### Goodwill

The excess of purchase price over estimated fair value is assigned to goodwill. See Note 3 of Notes to the Consolidated Financial Statements, "Goodwill" and "Long-Lived Assets" for additional details.

The following information presents changes to goodwill during the periods indicated (in millions):

	<b>Total</b>	<b>Commercial and Industrial Systems</b>	<b>Climate Solutions</b>	<b>Power Transmission Solutions</b>
Balance as of January 2, 2016	\$ 1,465.6	\$ 547.7	\$ 342.8	\$ 575.1
Acquisitions and Valuation Adjustments	(0.3)	—	—	(0.3)
Translation Adjustments	(12.1)	(7.1)	(1.0)	(4.0)
Balance as of December 31, 2016	<u>\$ 1,453.2</u>	<u>\$ 540.6</u>	<u>\$ 341.8</u>	<u>\$ 570.8</u>
Translation Adjustments	23.9	8.2	0.6	15.1
Balance as of December 30, 2017	<u>\$ 1,477.1</u>	<u>\$ 548.8</u>	<u>\$ 342.4</u>	<u>\$ 585.9</u>
Cumulative Goodwill Impairment Charges	<u>\$ 275.7</u>	<u>\$ 244.8</u>	<u>\$ 7.7</u>	<u>\$ 23.2</u>

###### Intangible Assets

Intangible assets consist of the following (in millions):

	<b>Weighted Average Amortization Period (Years)</b>	<b>December 31, 2016</b>	<b>Translation Adjustments</b>	<b>December 30, 2017</b>
Customer Relationships	16	\$ 703.6	\$ 17.3	\$ 720.9
Technology	13	189.7	2.6	192.3
Trademarks	15	31.8	1.0	32.8
Patent and Engineering Drawings	5	16.6	—	16.6
Non-Compete Agreements	8	8.3	0.2	8.5
		<u>950.0</u>	<u>21.1</u>	<u>971.1</u>
Non-Amortizable Trade Names		120.8	1.7	122.5
Total Gross Intangibles		<u>\$ 1,070.8</u>	<u>\$ 22.8</u>	<u>\$ 1,093.6</u>

Accumulated amortization on intangible assets consists of the following:

	<b>December 31, 2016</b>	<b>Amortization</b>	<b>Translation Adjustments</b>	<b>December 30, 2017</b>
Customer Relationships	\$ 201.6	\$ 41.8	\$ 6.2	\$ 249.6
Technology	109.5	11.8	1.5	122.8
Trademarks	23.3	1.5	0.9	25.7
Patent and Engineering Drawings	16.6	—	—	16.6
Non-Compete Agreements	8.1	0.1	0.2	8.4
Total Accumulated Amortization	<u>\$ 359.1</u>	<u>\$ 55.2</u>	<u>\$ 8.8</u>	<u>\$ 423.1</u>
Intangible Assets, Net of Amortization	<u>\$ 711.7</u>			<u>\$ 670.5</u>

While the Company believes its customer relationships are long-term in nature, the Company's contractual customer relationships are generally short-term. Useful lives are established at acquisition based on historical attrition rates.

Amortization expense was \$55.2 million in fiscal 2017, \$62.0 million in fiscal 2016 and \$63.9 million in fiscal 2015.

The following table presents estimated future amortization expense (in millions):

<b>Year</b>	<b>Estimated Amortization</b>
2018	\$ 54.1
2019	53.6
2020	50.7
2021	43.2
2022	41.6

#### **(6) Segment Information**

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

Commercial and Industrial Systems produces medium and large motors, commercial and industrial equipment, generator and custom drives and systems. These products serve markets including commercial Heating, Ventilation, and Air Conditioning ("HVAC"), pool and spa, standby and critical power and oil and gas systems.

Climate Solutions produces small motors, controls and air moving solutions serving markets including residential and light commercial HVAC, water heaters and commercial refrigeration.

Power Transmission Solutions manufactures, sells and services belt and chain drives, helical and worm gearing, mounted and unmounted bearings, couplings, modular plastic belts, conveying chains and components, hydraulic pump drives, large open gearing and specialty mechanical products serving markets including beverage, bulk handling, metals, special machinery, energy, aerospace and general industrial.

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

The following sets forth certain financial information attributable to the Company's operating segments for fiscal 2017, fiscal 2016 and fiscal 2015, respectively (in millions):

	<b>Commercial and Industrial Systems</b>	<b>Climate Solutions</b>	<b>Power Transmission Solutions</b>	<b>Eliminations</b>	<b>Total</b>
<b>Fiscal 2017</b>					
External Sales	\$ 1,604.3	\$ 990.6	\$ 765.4	\$ —	\$ 3,360.3
Intersegment Sales	66.5	24.9	4.5	(95.9)	—
Total Sales	1,670.8	1,015.5	769.9	(95.9)	3,360.3
Gross Profit	377.3	255.2	251.6	—	884.1
Operating Expenses	277.3	114.6	162.1	—	554.0
Income from Operations	100.0	140.6	89.5	—	330.1
Depreciation and Amortization	59.8	22.1	55.3	—	137.2
Capital Expenditures	39.2	13.4	12.6	—	65.2
<b>Fiscal 2016</b>					
External Sales	\$ 1,530.9	\$ 960.0	\$ 733.6	\$ —	\$ 3,224.5
Intersegment Sales	49.2	24.1	4.3	(77.6)	—
Total Sales	1,580.1	984.1	737.9	(77.6)	3,224.5
Gross Profit	379.2	245.1	240.9	—	865.2
Operating Expenses	275.7	115.2	153.7	—	544.6
Income from Operations	103.5	129.9	87.2	—	320.6
Depreciation and Amortization	74.7	24.4	56.3	—	155.4
Capital Expenditures	36.6	15.0	13.6	—	65.2
<b>Fiscal 2015</b>					
External Sales	\$ 1,694.9	\$ 1,041.2	\$ 773.6	\$ —	\$ 3,509.7
Intersegment Sales	71.2	24.1	4.0	(99.3)	—
Total Sales	1,766.1	1,065.3	777.6	(99.3)	3,509.7
Gross Profit	441.1	262.2	229.9	—	933.2
Operating Expenses	307.2	115.6	177.7	—	600.5
Goodwill Impairment	79.9	—	—	—	79.9
Income from Operations	54.0	146.6	52.2	—	252.8
Depreciation and Amortization	77.5	28.6	53.3	—	159.4
Capital Expenditures	52.3	18.5	21.4	—	92.2

The following table presents identifiable assets information attributable to the Company's operating segments as of December 30, 2017, December 31, 2016, and January 2, 2016 (in millions):

	<b>Commercial and Industrial Systems</b>	<b>Climate Solutions</b>	<b>Power Transmission Solutions</b>	<b>Total</b>
Identifiable Assets as of December 30, 2017	\$ 1,854.1	\$ 909.9	\$ 1,624.2	\$ 4,388.2
Identifiable Assets as of December 31, 2016	\$ 1,872.7	\$ 881.8	\$ 1,604.0	\$ 4,358.5
Identifiable Assets as of January 2, 2016	\$ 1,959.5	\$ 937.2	\$ 1,695.0	\$ 4,591.7

The following sets forth net sales by country in which the Company operates for fiscal 2017, fiscal 2016 and fiscal 2015, respectively (in millions):

	<b>Net Sales</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
United States	\$ 2,267.2	\$ 2,212.6	\$ 2,374.3
Rest of the World	1,093.1	1,011.9	1,135.4
Total	<u>\$ 3,360.3</u>	<u>\$ 3,224.5</u>	<u>\$ 3,509.7</u>

US net sales for 2017, 2016 and 2015 represented 67.5%, 68.6% and 67.6% of total net sales, respectively. No individual foreign country represented a material portion of total net sales for any of the years presented.

The following sets forth long-lived assets (net property, plant and equipment) by country in which the Company operates for fiscal 2017 and fiscal 2016, respectively (in millions):

	<b>Long-lived Assets</b>	
	<b>2017</b>	<b>2016</b>
United States	\$ 263.6	\$ 290.3
Mexico	136.3	120.2
China	99.5	99.6
Rest of the World	123.6	117.4
Total	<u>\$ 623.0</u>	<u>\$ 627.5</u>

No other individual foreign country represented a material portion of long-lived assets for any of the years presented.

#### **(7) Debt and Bank Credit Facilities**

The Company's indebtedness as of December 30, 2017 and December 31, 2016 was as follows (in millions):

	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Term Facility	\$ 621.1	\$ 798.1
Senior Notes	500.0	600.0
Multicurrency Revolving Facility	19.7	18.0
Other	5.7	5.1
Less: Debt Issuance Costs	(5.4)	(9.7)
Total	<u>1,141.1</u>	<u>1,411.5</u>
Less: Current Maturities	101.2	100.6
Non-Current Portion	<u>\$ 1,039.9</u>	<u>\$ 1,310.9</u>

#### *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"), including a \$100 million letter of credit sub facility available for general corporate purposes. Borrowings under the Credit Agreement bear interest at floating rates based upon indices determined by the currency of the borrowing, plus an applicable margin determined by reference to the Company's consolidated funded debt to consolidated EBITDA ratio or at an alternative base rate.

The Term Facility was drawn in full on January 30, 2015 in connection with the closing of the PTS Acquisition. The loan under the Term Facility requires quarterly amortization at a rate starting at 5.0% per annum, increasing to 7.5% per annum after two years and further increasing to 10.0% per annum for the last two years of the Term Facility, unless previously prepaid. The weighted average interest rate on the Term Facility was 2.6% and 2.3% for the years ended December 30, 2017 and December 31, 2016, respectively. The Credit Agreement requires the Company to 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. The Company repaid \$177.0 million in 2017 and \$320.0 million in 2016.

At December 30, 2017 the Company had borrowings under the Multicurrency Revolving Facility in the amount of \$19.7 million, \$5.3 million of standby letters of credit issued under the facility, and \$475.0 million of available borrowing capacity. The average daily balance in borrowings under the Multicurrency Revolving Facility was \$111.2 million and \$21.0 million, and the weighted average interest rate on the Multicurrency Revolving Facility was 2.6% and 2.2% for the years ended December 30, 2017 and December 31, 2016, respectively. 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 December 30, 2017, the Company had \$500.0 million of unsecured senior notes (the “Notes”) outstanding. The Notes consist of \$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. As of December 30, 2017, \$400.0 million of the 2011 Notes are included in Long-Term Debt and \$100.0 million of the 2011 Notes are included in Current Maturities of Long-Term Debt on the Consolidated Balance Sheets. The Company repaid the remaining \$100.0 million of the 2007 Notes in August 2017.

Details on the Notes at December 30, 2017 were (in millions):

	<u>Principal</u>	<u>Interest Rate</u>	<u>Maturity</u>
Fixed Rate Series 2011A	\$ 100.0	4.1%	July 14, 2018
Fixed Rate Series 2011A	230.0	4.8 to 5.0%	July 14, 2021
Fixed Rate Series 2011A	170.0	4.9 to 5.1%	July 14, 2023
Total	<u>\$ 500.0</u>		

#### *Compliance with Financial Covenants*

The Credit Agreement and the Notes require the Company to meet specified financial ratios and to satisfy certain financial condition tests. The Company was in compliance with all financial covenants contained in the Notes and the Credit Agreement as of December 30, 2017.

#### *Other Notes Payable*

At December 30, 2017, other notes payable of \$5.7 million were outstanding with a weighted average interest rate of 5.7%. At December 31, 2016, other notes payable of \$5.1 million were outstanding with a weighted average rate of 5.6%.

#### *Other Disclosures*

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 Consolidated Financial Statements), the approximate fair value of the Company's total debt was \$1,165.4 million and \$1,433.4 million as of December 30, 2017 and December 31, 2016, respectively.



Maturities of long-term debt, excluding debt issuance costs, are as follows (in millions):

Year	Amount of Maturity
2018	\$ 101.2
2019	20.0
2020	621.5
2021	230.4
2022	0.5
Thereafter	172.9
Total	<u>\$ 1,146.5</u>

## (8) Retirement and Post Retirement Health Care Plans

### *Retirement Plans*

The Company's domestic employees are participants in defined benefit pension plans and/or defined contribution plans. The majority of the Company's defined benefit pension plans covering the Company's domestic employees have been closed to new employees and frozen for existing employees. Most foreign employees are covered by government sponsored plans in the countries in which they are employed. The defined contribution plans provide for Company contributions based, depending on the plan, upon one or more of participant contributions, service and profits. Company contributions to domestic defined contribution plans totaled \$9.3 million, \$8.7 million, and \$9.9 million in 2017, 2016 and 2015, respectively. Company contributions to non-US defined contribution plans were \$9.4 million, \$10.4 million and \$9.2 million in 2017, 2016, and 2015, respectively.

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 it resulted in a \$2.9 million reduction in expense for fiscal 2016 as compared to the previous method.

Benefits provided under defined benefit pension plans are based, depending on the plan, on employees' average earnings and years of credited service, or a benefit multiplier times years of service. Funding of these qualified defined benefit pension plans is in accordance with federal laws and regulations. The actuarial valuation measurement date for pension plans is the calendar year end of each year.

The Company's target allocation, target return and actual weighted-average asset allocation by asset category are as follows:

	Target		Actual Allocation	
	Allocation	Return	2017	2016
Equity Investments	76 %	6.3 - 7.5 %	71 %	70 %
Fixed Income	19 %	3.6 - 4.5 %	24 %	25 %
Other	5 %	5.4 %	5 %	5 %
Total	100 %	6.9 %	100 %	100 %

The Company's investment strategy for its defined benefit pension plans is to achieve moderately aggressive growth, earning a long-term rate of return sufficient to allow the plans to reach fully funded status. Accordingly, allocation targets have been established to fit this strategy, with a heavier long-term weighting of investments in equity securities. The long-term rate of return assumptions consider historic returns and volatilities adjusted for changes in overall economic conditions that may affect future returns and a weighting of each investment class.

The following table presents a reconciliation of the funded status of the defined benefit pension plans (in millions):

	<u>2017</u>	<u>2016</u>
<b>Change in Projected Benefit Obligation:</b>		
Obligation at Beginning of Period	\$ 256.9	\$ 255.1
Service Cost	7.2	8.1
Interest Cost	9.3	9.8
Actuarial Loss	16.2	3.6
Less: Benefits Paid <sup>(1)</sup>	13.2	18.9
Foreign Currency Translation	1.6	(0.8)
Obligation at End of Period:	<u>\$ 278.0</u>	<u>\$ 256.9</u>
<b>Change in Fair Value of Plan Assets:</b>		
Fair Value of Plan Assets at Beginning of Period	160.3	162.1
Actual Return on Plan Assets	28.7	7.9
Employer Contributions	8.6	9.2
Less: Benefits Paid <sup>(1)</sup>	13.2	18.9
Foreign Currency Translation	0.9	—
Fair Value of Plan Assets at End of Period	<u>\$ 185.3</u>	<u>\$ 160.3</u>
Funded Status	<u>\$ (92.7)</u>	<u>\$ (96.6)</u>

<sup>(1)</sup> 2016 benefit payments included \$6.6 million of non-recurring lump sum benefit payments.

The Funded Status for fiscal 2017 included domestic plans of \$83.7 million and international plans of \$9.0 million. The Funded Status for fiscal 2016 included domestic plans of \$87.0 million and international plans of \$9.6 million.

#### Pension Assets

The Company classifies the pension plan investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets, Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available, and Level 3, which refers to securities valued based on significant unobservable inputs. Common stocks and mutual funds are valued at the unadjusted quoted market prices for the securities. Real estate fund values are determined using model-based techniques that include relative value analysis and discounted cash flow techniques. Certain common collective trust funds and limited partnership interests are valued based on the net asset value ("NAV") as provided by the administrator of the fund as a practical expedient to estimate fair value. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Investments in units of short-term investment funds, comprised of cash and money market funds, are valued at their respective NAVs as reported by the funds daily.

Pension assets by type and level are as follows (in millions):

	<b>December 30, 2017</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and Cash Equivalents	\$ 4.4	\$ 4.4	\$ —	\$ —
Common Stocks:				
Domestic Equities	27.1	27.1	—	—
International Equities	14.6	14.6	—	—
Mutual Funds:				
US Equity Funds	25.4	25.4	—	—
International Equity Funds	19.0	19.0	—	—
Balanced Funds	8.3	8.3	—	—
Fixed Income Funds	15.1	15.1	—	—
Other	1.5	1.5	—	—
Real Estate Fund	9.6	—	—	9.6
	<u>\$ 125.0</u>	<u>\$ 115.4</u>	<u>\$ —</u>	<u>\$ 9.6</u>
Investments Measured at Net Asset Value	60.3			
Total	<u>\$ 185.3</u>			

	<b>December 31, 2016</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and Cash Equivalents	\$ 3.5	\$ 3.5	\$ —	\$ —
Common Stocks:				
Domestic Equities	22.9	22.9	—	—
International Equities	12.6	12.6	—	—
Mutual Funds:				
US Equity Funds	18.8	18.8	—	—
Balanced funds	8.4	8.4	—	—
International Equity Funds	16.2	16.2	—	—
Fixed Income Funds	15.1	15.1	—	—
Other	1.3	1.3	—	—
Real Estate Fund	10.0	—	—	10.0
	<u>\$ 108.8</u>	<u>\$ 98.8</u>	<u>\$ —</u>	<u>\$ 10.0</u>
Investments Measured at Net Asset Value	51.5			
Total	<u>\$ 160.3</u>			

The following table sets forth additional disclosures for the fair value measurement of the fair value of pension plan assets that calculate fair value based on NAV per share practical expedient as of December 30, 2017 and December 31, 2016 (in millions):

	<b>2017</b>	<b>2016</b>
Common Collective Trust Funds	\$ 51.7	\$ 45.1
Global Emerging Markets Fund Limited Partnership	8.6	6.4
Total	<u>\$ 60.3</u>	<u>\$ 51.5</u>

The common collective trust funds are investments in the Northern Trust Collective S&P 500 Index Fund and the Northern Trust Collective Aggregate Bond Index Fund. The Northern Trust Collective S&P 500 Index Fund seeks to provide investment results that approximate the overall performance of the common stocks in that index. The Northern Trust Collective Aggregate Bond Index Fund seeks to provide investment results that approximate the overall performance of the Barclays Capital US Aggregate Index by investing primarily, but not exclusively, in securities that comprise that index. The common collective trust funds are available for immediate redemption. The global emerging markets fund limited partnership interest is an investment in the Vontobel Global Emerging Markets Fund, which seeks to provide capital appreciation by investing in a diversified portfolio consisting primarily of equity based securities. The global emerging markets fund limited partnership interest can be redeemed on a monthly basis with immediate payment.

The Level 3 assets noted below represent investments in real estate funds managed by a major US insurance company and a global emerging markets fund limited partnership. Estimated values provided by fund management approximate the cost of the investments. In determining the reasonableness of the methodology used to value the Level 3 investments, the Company evaluates a variety of factors including reviews of economic conditions, industry and market developments, and overall credit ratings. The real estate fund can be redeemed on a quarterly basis and paid within two weeks of the request for redemption.

The table below sets forth a summary of changes in the Company's Level 3 assets in its pension plan investments as of December 30, 2017 and December 31, 2016 (in millions):

	<u>December 30, 2017</u>	<u>December 31, 2016</u>
Beginning Balance	\$ 10.0	\$ 8.1
Net Purchases (Sales)	(0.5)	1.7
Net Gains	0.1	0.2
Ending Balance	<u>\$ 9.6</u>	<u>\$ 10.0</u>

The following table sets forth a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of the Level 3 real estate fund as of December 30, 2017 (in millions):

<u>Fair Value</u>	<u>Significant Unobservable Inputs</u>	
\$ 9.6	Exit Capitalization Rate	4.9% to 7.0%
	Discount Rate	6.6% to 8.0%

The following table sets forth a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of the Level 3 real estate fund as of December 31, 2016 (in millions):

<u>Fair Value</u>	<u>Significant Unobservable Inputs</u>	
\$ 10.0	Exit Capitalization Rate	4.9% to 7.0%
	Discount Rate	6.6% to 8.0%

#### Funded Status and Expense

The Company recognized the funded status of its defined benefit pension plans on the Consolidated Balance Sheets as follows (in millions):

	<u>2017</u>	<u>2016</u>
Accrued Compensation and Employee Benefits	\$ 2.9	\$ 2.8
Pension and Other Post Retirement Benefits	89.8	93.8
Total	<u>\$ 92.7</u>	<u>\$ 96.6</u>
Amounts Recognized in Accumulated Other Comprehensive Loss		
Net Actuarial Loss	\$ 51.3	\$ 54.5
Prior Service Cost	1.0	1.2
Total	<u>\$ 52.3</u>	<u>\$ 55.7</u>

The accumulated benefit obligation for all defined benefit pension plans was \$251.7 million and \$232.9 million at December 30, 2017 and December 31, 2016, respectively.

The accumulated benefit obligation exceeded plan assets for all pension plans as of December 30, 2017 and December 31, 2016.

The following weighted average assumptions were used to determine the projected benefit obligation at December 30, 2017 and December 31, 2016, respectively:

	<u>2017</u>	<u>2016</u>
Discount Rate	3.8%	4.3%

The objective of the discount rate assumption is to reflect the rate at which the pension benefits could be effectively settled. In making the determination, the Company takes into account the timing and amount of benefits that would be available under the plans. The methodology for selecting the discount rate was to match the plan's cash flows to that of a theoretical bond portfolio yield curve.

Certain of the Company's defined benefit pension plan obligations are based on years of service rather than on projected compensation percentage increases. For those plans that use compensation increases in the calculation of benefit obligations and net periodic pension cost, the Company used an assumed rate of compensation increase of 3.0% for the years ended December 30, 2017 and December 31, 2016.

Net periodic pension benefit costs and the net actuarial loss and prior service cost recognized in other comprehensive income ("OCI") for the defined benefit pension plans were as follows (in millions):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Service Cost	\$ 7.2	\$ 8.1	\$ 10.0
Interest Cost	9.3	9.8	10.7
Expected Return on Plan Assets	(11.2)	(11.9)	(11.5)
Amortization of Net Actuarial Loss	2.3	3.1	4.3
Amortization of Prior Service Cost	0.2	0.2	0.2
Net Periodic Benefit Cost	<u>\$ 7.8</u>	<u>\$ 9.3</u>	<u>\$ 13.7</u>

Change in Obligations Recognized in OCI, Net of Tax

Prior Service Cost	\$ 0.1	\$ 0.1	\$ 0.1
Net Actuarial Loss	1.5	2.0	2.8
Total Recognized in OCI	<u>\$ 1.6</u>	<u>\$ 2.1</u>	<u>\$ 2.9</u>

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

As permitted under relevant accounting guidance, the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plans.

The following weighted average assumptions were used to determine net periodic pension cost for fiscal years 2017, 2016 and 2015, respectively.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Discount Rate	4.3%	4.6%	4.2%
Expected Long-Term Rate of Return on Assets	7.0%	7.2%	7.5%

The Company made contributions to its defined benefit plan of \$8.6 million and \$9.2 million for the fiscal years ended December 30, 2017 and December 31, 2016, respectively.

The Company estimates that in 2018 it will make contributions in the amount of \$8.3 million to fund its defined benefit pension plans.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in millions):

Year	Expected Payments
2018	\$ 14.1
2019	13.9
2020	14.6
2021	15.6
2022	15.2
2023-2027	84.6

*Post Retirement Health Care Plan*

In connection with the PTS acquisition, the Company established an unfunded post retirement health care plan for certain domestic retirees and their dependents.

The following table presents a reconciliation of the benefit obligation of the post retirement health care plan (in millions):

Change in Accumulated Post Retirement Benefit Obligation	2017	2016
Obligation at Beginning of Period	\$ 13.8	\$ 16.8
Service Cost	0.1	0.1
Interest Cost	0.4	0.5
Actuarial Gain	(1.3)	(2.4)
Participant Contributions	0.5	0.2
Less: Benefits Paid	1.4	1.4
Obligation at End of Period	\$ 12.1	\$ 13.8

The Company recognized the funded status of its post retirement health care plan on the balance sheet as follows (in millions):

	2017	2016
Accrued Compensation and Employee Benefits	\$ 0.9	\$ 1.1
Pension and Other Post Retirement Benefits	11.2	12.7
Total	\$ 12.1	\$ 13.8
Amounts Recognized in Accumulated Other Comprehensive Loss		
Net Actuarial (Gain) Loss	\$ (0.9)	\$ 0.4

Net periodic benefit costs for the post retirement health care plan were as follows (in millions):

	2017	2016
Service Cost	\$ 0.1	\$ 0.1
Interest Cost	0.4	0.5
Amortization of Net Actuarial Loss	—	0.2
Net Periodic Benefit Cost	\$ 0.5	\$ 0.8

There was no amortization of prior service cost recognized in OCI, net of tax, for fiscal 2017. There will be no amortization of net actuarial loss for the post retirement health care plan from OCI into net periodic benefit cost during the 2018 fiscal year.

The following assumptions were used to determine the projected benefit obligation at December 30, 2017 and December 31, 2016, respectively.

	<u>2017</u>	<u>2016</u>
Discount Rate	3.5%	3.9%

The health care cost trend rate for 2018 is 8.0% for pre-65 participants and 5.4% for post-65 participants, decreasing to 4.5% in 2026. The health care cost trend rate for 2017 is 7.0% for pre-65 participants and 5.4% for post-65 participants, decreasing to 4.5% in 2025. A one percentage point change in the health care cost trend rate assumption would have a \$0.3 million impact on the benefit obligation and an immaterial impact on post retirement benefits expense.

The Company contributed \$0.9 million and \$1.2 million to the post retirement health care plan in 2017 and 2016, respectively. The Company estimates that in 2018 it will make contributions of \$0.9 million to the post retirement health care plan.

The following post retirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in millions):

<u>Year</u>	<u>Expected Payments</u>	
2018	\$	0.9
2019		1.0
2020		1.1
2021		1.1
2022		1.1
2023-2027		4.6

## **(9) Shareholders' Equity**

### Common Stock

The Company acquired and retired 576,804 shares of its common stock in fiscal 2017, at an average cost of \$78.12 per share for a total cost of \$45.1 million. The Company acquired and retired 180,000 shares of its common stock in fiscal 2015 at an average cost of \$66.56 per share for a total cost of \$12.0 million. The repurchases were under the 3.0 million share repurchase program approved by the Company's Board of Directors. There are approximately 1.7 million shares of common stock available for repurchase under this program.

### Share Based Compensation

The Company recognized approximately \$13.6 million, \$13.3 million and \$13.9 million in share-based compensation expense in 2017, 2016 and 2015, respectively. The total income tax benefit recognized in the Consolidated Statements of Income for share-based compensation expense was \$5.2 million, \$5.1 million, and \$5.3 million in 2017, 2016 and 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 fair value of shares and options vested was \$11.9 million, \$11.3 million, and \$10.9 million in 2017, 2016 and 2015, respectively. As of December 30, 2017, total unrecognized compensation cost related to share-based compensation awards was approximately \$24.8 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 2.0 years.

During 2013, the Company's shareholders approved the 2013 Equity Incentive Plan ("2013 Plan"). The 2013 Plan authorizes the issuance of 3.5 million shares of common stock for equity-based awards, and terminates any further grants under prior equity plans. Approximately 1.0 million shares were available for future grant or payment under the 2013 Plan at December 30, 2017.

### Options and Stock Appreciation Rights

The Company uses stock settled stock appreciation rights ("SARs") as a form of share-based incentive awards. SARs are the right to receive stock in an amount equal to the appreciation in value of a share of stock over the base price per share that generally vest over 5 years and expire 10 years from the grant date. All grants are made at prices equal to the fair market value of the stock on the grant date. For years ended December 30, 2017, December 31, 2016, and January 2, 2016, expired and canceled shares were immaterial.

The table below presents share-based compensation activity for the three fiscal years ended 2017, 2016 and 2015 (in millions):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Intrinsic Value of Share-Based Incentive Awards Exercised	\$ 4.3	\$ 2.5	\$ 4.3
Cash Received from Stock Option Exercises	0.4	0.5	4.1
Total Fair Value of Share-Based Incentive Awards Vested	4.3	4.9	4.9

The weighted average assumptions used in the Company's Black-Scholes valuation related to grants for SARs were as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Per Share Weighted Average Fair Value of Grants	\$ 23.31	\$ 15.22	\$ 27.15
Risk-Free Interest Rate	2.1 %	1.4 %	1.9 %
Expected Life (Years)	7.0	7.0	7.0
Expected Volatility	28.6 %	29.6 %	35.6 %
Expected Dividend Yield	1.3 %	1.7 %	1.2 %

The average risk-free interest rate is based on US Treasury security rates in effect as of the grant date. The expected dividend yield is based on the projected annual dividend as a percentage of the estimated market value of the Company's common stock as of the grant date. The Company estimated the expected volatility using a weighted average of daily historical volatility of the Company's stock price over the expected term of the award. The Company estimated the expected term using historical data.

Following is a summary of share-based incentive plan activity (options and SARs) for fiscal 2017:

<u>Number of Shares Under Options and SARs</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Contractual Term (years)</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Exercisable at December 31, 2016	1,610,499	\$ 63.16		
Granted	195,207	80.72		
Exercised	(184,191)	52.89		
Forfeited	(10,239)	65.13		
Expired	(9,485)	64.21		
Outstanding at December 30, 2017	<u>1,601,791</u>	\$ 66.46	5.7	\$ 17.2
Exercisable at December 30, 2017	<u>940,751</u>	\$ 64.47	3.9	\$ 11.5

Compensation expense recognized related to options and SARs was \$4.1 million for fiscal 2017.

As of December 30, 2017, there was \$10.1 million of unrecognized compensation cost related to non-vested options and SARs that is expected to be recognized as a charge to earnings over a weighted average period of 3.3 years.

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

#### Restricted Stock Awards and Restricted Stock Units

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



Following is a summary of RSA activity for fiscal 2017:

	<u>Shares</u>	<u>Weighted Average Fair Value at Grant Date</u>	<u>Weighted Average Remaining Contractual Term (years)</u>
Unvested RSAs at December 31, 2016	19,593	\$ 57.43	0.4
Granted	13,941	80.70	
Vested	(19,593)	57.43	
Unvested RSAs December 30, 2017	<u>13,941</u>	<u>\$ 80.70</u>	0.4

The weighted average grant date fair value of awards granted was \$80.70, \$57.43 and \$78.15 in 2017, 2016 and 2015, respectively.

RSAs vest on the one year 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 \$1.1 million for fiscal 2017.

As of December 30, 2017, there was \$0.4 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 0.4 years.

Following is a summary of RSU activity for fiscal 2017:

	<u>Shares</u>	<u>Weighted Average Fair Value at Grant Date</u>	<u>Weighted Average Remaining Contractual Term (years)</u>
Unvested RSUs at December 31, 2016	277,863	\$ 69.23	1.7
Granted	76,030	80.48	
Vested	(85,790)	74.50	
Forfeited	(7,570)	68.02	
Unvested RSUs at December 30, 2017	<u>260,533</u>	<u>\$ 70.81</u>	1.7

The weighted average grant date fair value of awards granted was \$80.48, \$57.50 and \$77.38 in 2017, 2016 and 2015, respectively.

RSUs 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 \$6.2 million for fiscal 2017.

As of December 30, 2017, there was \$8.8 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 1.7 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. PSUs have a performance period of 3 years, and vest three years from the grant date. The PSUs have performance criteria based on a return on invested capital metric or they have performance criteria using returns relative to the Company's peer group. As set forth in the individual 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.

The assumptions used in the Company's Monte Carlo simulation related to grants for performance share units were as follows:

	<u>December 30, 2017</u>	<u>December 31, 2016</u>
Risk-free interest rate	1.6 %	0.9 %
Expected life (years)	3.0	3.0
Expected volatility	24.0 %	23.0 %
Expected dividend yield	1.3 %	1.7 %

Following is a summary of PSU activity for fiscal 2017:

	Shares	Weighted Average Fair Value at Grant Date	Weighted Average Remaining Contractual Term (years)
Unvested PSUs at December 31, 2016	133,340	\$ 65.28	2.0
Granted	48,666	90.82	
Vested	(110)	83.74	
Forfeited	(26,780)	81.76	
Unvested PSUs December 30, 2017	<u>155,116</u>	<u>\$ 70.43</u>	2.0

The weighted average grant date fair value of awards granted was \$90.82, \$51.84 and \$89.98 in 2017, 2016 and 2015, respectively.

Compensation expense for awards granted are recognized based on the Monte Carlo simulation value or the expected payout ratio depending upon the performance criterion for the award, net of estimated forfeitures. Compensation expense recognized related to PSUs was \$2.2 million for fiscal 2017. Total unrecognized compensation expense for all PSUs granted as of December 30, 2017 was \$5.5 million and it is expected to be recognized as a charge to earnings over a weighted average period of 2.0 years.

#### (10) Income Taxes

Income before taxes consisted of the following (in millions):

	2017	2016	2015
United States	\$ 147.4	\$ 143.4	\$ 25.8
Foreign	129.8	123.0	171.1
Total	<u>\$ 277.2</u>	<u>\$ 266.4</u>	<u>\$ 196.9</u>

The provision for income taxes is summarized as follows (in millions):

	2017	2016	2015
Current			
Federal	\$ 36.9	\$ 23.1	\$ 13.5
State	(0.3)	3.5	0.2
Foreign	32.2	30.4	45.1
	<u>\$ 68.8</u>	<u>\$ 57.0</u>	<u>\$ 58.8</u>
Deferred			
Federal	\$ (7.2)	\$ 5.6	\$ (2.0)
State	2.2	1.8	(0.9)
Foreign	(4.7)	(7.3)	(7.5)
	<u>(9.7)</u>	<u>0.1</u>	<u>(10.4)</u>
Total	<u>\$ 59.1</u>	<u>\$ 57.1</u>	<u>\$ 48.4</u>

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law revising the US corporate income tax. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the elimination of certain deductions and imposing a mandatory one-time tax on accumulated earnings of foreign subsidiaries. The primary impacts of the Act reflected in the consolidated financial statements relate to the remeasurement of deferred tax assets and liabilities resulting from the change in the corporate tax rate; a one-time mandatory transition tax on undistributed earnings of foreign affiliates; and deferred taxes in connection with a change in the Company's intent to permanently reinvest the historical undistributed earnings of its foreign affiliates. The SEC provided guidance that allows the Company to record provisional amounts if the accounting assessment is incomplete for impacts of the Act, with the requirement that the accounting be finalized in a period not to exceed one year from the date of enactment. As of December 30, 2017, the Company has not completed the accounting for the tax effects of the Act. Therefore, the Company has recorded provisional amounts for certain effects of the Act. These estimates may be impacted by the need for further analysis and future clarification and guidance regarding

available tax accounting methods and elections, earnings and profits computations and state conformity to federal changes. The Act also creates a new requirement that certain income earned by controlled foreign corporations must be included currently in gross income of the controlled foreign corporations' US shareholder. Due to the complexity of the new Global Intangible Low Taxed Income tax rules, the Company is currently evaluating this provision of the Act and its application under the applicable accounting guidance. Therefore, the Company has not recognized any provisional amounts for this provision of the Act in its consolidated financial statements.

The Company recorded a net \$1.0 million reduction in tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional benefit recognized related to the remeasurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse was \$51.0 million. The provisional expense recognized related to the one-time tax on the mandatory deemed repatriation of foreign earnings was \$40.0 million of which the Company will elect to pay the one-time tax over a period of eight years. The Company also recognized a provisional expense of \$10.0 million for local withholding taxes on foreign earnings not deemed permanently reinvested. Additional analysis of historical foreign earnings is necessary to finalize the tax impact of the Act and any subsequent adjustment to these amounts will be recorded as current tax expense in the quarter of 2018 in which the analysis is complete.

On February 13, 2018 the Internal Revenue Service issued Revenue Proclamation 2018-17 modifying existing procedures for changing the annual accounting period of certain foreign corporations whose US shareholders are subject to the new mandatory deemed repatriation of deferred foreign earnings. The Company is currently analyzing the impact of Revenue Proclamation 2018-17 and anticipates the impact to tax expense to be between \$4.0 million to \$5.0 million. As the Revenue Proclamation was issued after the Company's fiscal year end, the current consolidated financial statements do not reflect this impact.

A reconciliation of the statutory federal income tax rate and the effective tax rate reflected in the consolidated statements of income follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Federal Statutory Rate	35.0 %	35.0 %	35.0 %
State Income Taxes, Net of Federal Benefit	0.3 %	1.5 %	(0.2) %
Domestic Production Activities Deduction	(1.0) %	(1.1) %	(1.0) %
Foreign Rate Differential - China	(2.1) %	(2.0) %	(3.3) %
Foreign Rate Differential - All Other	(4.3) %	(6.0) %	(7.2) %
Research and Development Credit	(3.0) %	(2.3) %	(4.1) %
Goodwill Impairment	— %	— %	4.0 %
Valuation Allowance	(0.6) %	— %	— %
Tax Cuts and Jobs Act of 2017	(0.4) %	— %	— %
Adjustments to Tax Accruals and Reserves	(1.9) %	0.7 %	2.1 %
Write Down of Venezuelan Assets	— %	— %	2.3 %
Other	(0.7) %	(4.4) %	(3.0) %
Effective Tax Rate	<u>21.3 %</u>	<u>21.4 %</u>	<u>24.6 %</u>

Deferred taxes arise primarily from differences in amounts reported for tax and financial statement purposes. The Company's net deferred tax liability was \$(106.8) million as of December 30, 2017, classified on the consolidated Balance Sheet as a net non-current deferred tax asset of \$28.5 million and a net non-current deferred income tax liability of \$(135.3) million. As of December 31, 2016, the Company's net deferred tax liability was \$(75.3) million classified on the consolidated Balance Sheet as a net non-current deferred income tax benefit of \$22.4 million and a net non-current deferred income tax liability of \$(97.7) million. The Company remeasured its US deferred assets and liabilities at the applicable tax rate of 21% in accordance with the Act. The remeasurement resulted in a decrease of \$51.0 million to the net deferred tax liability.

The components of this net deferred tax liability are as follows (in millions):

	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Accrued Employee Benefits	\$ 53.4	\$ 75.1
Bad Debt Allowances	2.3	2.7
Warranty Accruals	3.1	5.5
Inventory	12.9	21.3
Accrued Liabilities	(5.3)	9.2
Derivative Instruments	(4.3)	25.9
Tax Loss Carryforward	12.9	12.4
Valuation Allowance	(5.9)	(6.8)
Other	1.2	5.0
Deferred Tax Assets	<u>70.3</u>	<u>150.3</u>
Property Related	(26.2)	(31.4)
Intangible Items	<u>(150.9)</u>	<u>(194.2)</u>
Deferred Tax Liabilities	<u>(177.1)</u>	<u>(225.6)</u>
Net Deferred Tax Liability	<u>\$ (106.8)</u>	<u>\$ (75.3)</u>

Following is a reconciliation of the beginning and ending amount of unrecognized tax benefits (in millions):

Unrecognized Tax Benefits, January 3, 2015	\$	5.8
Gross Increases from Prior Period Tax Positions		—
Gross Increases from Current Period Tax Positions		4.0
Settlements with Taxing Authorities		(1.3)
Lapse of Statute of Limitations		(0.2)
Unrecognized Tax Benefits, January 2, 2016	<u>\$</u>	<u>8.3</u>
Gross Increases from Prior Period Tax Positions		—
Gross Increases from Current Period Tax Positions		2.0
Settlements with Taxing Authorities		—
Lapse of Statute of Limitations		(0.3)
Unrecognized Tax Benefits, December 31, 2016	<u>\$</u>	<u>10.0</u>
Gross Increases from Prior Period Tax Positions		—
Gross Increases from Current Period Tax Positions		2.7
Settlements with Taxing Authorities		(5.3)
Lapse of Statute of Limitations		(0.7)
Unrecognized Tax Benefits, December 30, 2017	<u>\$</u>	<u>6.7</u>

Unrecognized tax benefits as of December 30, 2017 amount to \$6.7 million, 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. During fiscal 2017, 2016 and 2015, the Company recognized approximately \$(0.2) million, \$0.2 million and \$0.6 million in net interest (income) expense, respectively. The Company had approximately \$1.7 million, \$1.9 million and \$1.7 million of accrued interest as of December 30, 2017, December 31, 2016 and January 2, 2016, respectively.

Due to statute expirations, approximately \$0.4 million of the unrecognized tax benefits, including accrued interest, could reasonably change in the coming year.

With few exceptions, the Company is no longer subject to US federal and state/local income tax examinations by tax authorities for years prior to 2012, and the Company is no longer subject to non-US income tax examinations by tax authorities for years prior to 2010.

At December 30, 2017, the Company had approximately \$12.9 million of tax effected net operating losses in various jurisdictions with a portion expiring over a period of up to 15 years and the remaining without expiration. At December 31, 2016, the Company had approximately \$12.4 million of tax effected net operating losses in various jurisdictions with a portion expiring over a period up to 15 years and the remaining without expiration.

Valuation allowances totaling \$5.9 million and \$6.8 million as of December 30, 2017 and December 31, 2016, respectively, have been established for deferred income tax assets primarily related to certain subsidiary loss carryforwards that may not be realized. Realization of the net deferred income tax assets is dependent on generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more-likely-than-not that the net deferred income tax assets will be realized. The amount of the net deferred income tax assets considered realizable, however, could change in the near term if future taxable income during the carryforward period fluctuates.

The Company has been granted tax holidays for some of its Chinese subsidiaries. These tax holidays expire in 2020 and are renewable subject to certain conditions with which the Company expects to comply. In 2017, these holidays decreased the Provision for Income Taxes by \$4.2 million.

The Act included a mandatory one-time tax on all accumulated earnings of foreign subsidiaries, and as a result, all previously unremitted earnings for which no US tax liability had been accrued have now been subject to US tax. The Company recognized a provisional one-time tax of \$40.0 million and a provisional expense of \$10.0 million for local withholding taxes on foreign earnings not deemed permanently reinvested. As a result, earnings in foreign jurisdictions are available for distribution without incremental US tax cost.

#### (11) Contingencies

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

The Company is, from time to time, party to litigation and other legal or regulatory proceedings that arise in the normal course of its business operations and the outcomes of which are subject to significant uncertainty, including product warranty and liability claims, contract disputes and environmental, asbestos, intellectual property, employment and other litigation matters. The Company's products are used in a variety of industrial, commercial and residential applications that subject the Company to claims that the use of its products is alleged to have resulted in injury or other damage. Many of these matters will only be resolved when one or more future events occur or fail to occur. Management conducts regular reviews, including updates from legal counsel, to assess the need for accounting recognition or disclosure of these contingencies, and such assessment inherently involves an exercise in judgment. The Company accrues for exposures in amounts that it believes are adequate, and the Company does not believe that the outcome of any such lawsuit individually or collectively will have a material effect on the Company's financial position, results of operations or 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 2017 and 2016 (in millions):

	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Beginning Balance	\$ 20.3	\$ 19.1
Less: Payments	23.5	20.6
Provisions	19.0	21.9
Translation Adjustments	0.2	(0.1)
Ending Balance	<u>\$ 16.0</u>	<u>\$ 20.3</u>

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

## (12) Leases and Rental Commitments

Rental expenses charged to operations amounted to \$35.1 million in 2017, \$31.9 million in 2016 and \$45.1 million in 2015. The Company has future minimum rental commitments under operating leases as shown in the following table (in millions):

Year	Expected Payments
2018	\$ 23.6
2019	13.0
2020	9.6
2021	6.9
2022	4.8
Thereafter	12.9

## (13) Derivative Financial Instruments

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

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

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the 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 December 30, 2017 or December 31, 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 AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or changes in market value of derivatives not designated as hedges are recognized in current earnings.

At December 30, 2017 and December 31, 2016, the Company had \$(2.0) million and \$(7.5) 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.

As of December 30, 2017, the Company had the following commodity forward contracts outstanding (with maturities extending through June 2019) to hedge forecasted purchases of commodities (notional amounts expressed in terms of the dollar value of the hedged item (in millions):

	December 30, 2017	December 31, 2016
Copper	\$ 80.8	\$ 50.7
Aluminum	7.7	4.9

As of December 30, 2017, the Company had the following currency forward contracts outstanding (with maturities extending through October 2019) to hedge forecasted foreign currency cash flows (in millions):

	<u>December 30, 2017</u>	<u>December 31, 2016</u>
Mexican Peso	\$ 137.1	\$ 230.1
Chinese Renminbi	214.9	275.5
Indian Rupee	35.8	43.6
Euro	26.4	69.0
Canadian Dollar	47.7	41.8
Australian Dollar	14.9	12.1
Thai Baht	7.5	4.9
Japanese Yen	—	2.8
British Pound	2.7	4.3

As of December 31, 2016, the total notional amount of the Company's receive-variable/pay-fixed interest rate swap was \$100.0 million. The interest rate swap agreement matured in August 2017.

Fair values of derivative instruments as of December 30, 2017 and December 31, 2016 were (in millions):

	<u>December 30, 2017</u>			
	<u>Prepaid Expenses and Other Current Assets</u>	<u>Other Noncurrent Assets</u>	<u>Current Hedging Obligations</u>	<u>Noncurrent Hedging Obligations</u>
Designated as Hedging Instruments:				
Currency Contracts	\$ 11.5	\$ 2.5	\$ 7.9	\$ 0.9
Commodity Contracts	10.8	0.7	—	—
Not Designated as Hedging Instruments:				
Currency Contracts	4.1	—	0.2	—
Commodity Contracts	0.2	—	—	—
Total Derivatives	<u>\$ 26.6</u>	<u>\$ 3.2</u>	<u>\$ 8.1</u>	<u>\$ 0.9</u>
	<u>December 31, 2016</u>			
	<u>Prepaid Expenses and Other Current Assets</u>	<u>Other Noncurrent Assets</u>	<u>Current Hedging Obligations</u>	<u>Noncurrent Hedging Obligations</u>
Designated as Hedging Instruments:				
Interest Rate Swap Contracts	\$ —	\$ —	\$ 3.3	\$ —
Currency Contracts	1.3	0.4	39.7	17.6
Commodity Contracts	4.7	—	—	—
Not Designated as Hedging Instruments:				
Currency Contracts	1.5	—	6.0	—
Commodity Contracts	2.6	—	—	—
Total Derivatives	<u>\$ 10.1</u>	<u>\$ 0.4</u>	<u>\$ 49.0</u>	<u>\$ 17.6</u>

## Derivatives Designated as Cash Flow Hedging Instruments

The effect of derivative instruments designated as cash flow hedges on the Consolidated Statements of Income and Consolidated Statements of Comprehensive Income for fiscal 2017, 2016 and 2015 were (in millions):

	Fiscal 2017			
	Commodity Forwards	Currency Forwards	Interest Rate Swaps	Total
Gain Recognized in Other Comprehensive Income	\$ 21.7	\$ 46.3	\$ 0.5	\$ 68.5
Amounts Reclassified from Other Comprehensive Income (Loss):				
Gain Recognized in Net Sales	—	0.9	—	0.9
Gain (Loss) Recognized in Cost of Sales	12.2	(22.1)	—	(9.9)
Loss Recognized in Interest Expense	—	—	(2.8)	(2.8)
	Fiscal 2016			
	Commodity Forwards	Currency Forwards	Interest Rate Swaps	Total
Gain (Loss) Recognized in Other Comprehensive Loss	\$ 6.4	\$ (46.1)	\$ (0.3)	\$ (40.0)
Amounts Reclassified from Other Comprehensive Income (Loss):				
Gain Recognized in Net Sales	—	0.2	—	0.2
Loss Recognized in Cost of Sales	(13.6)	(32.1)	—	(45.7)
Loss Recognized in Interest Expense	—	—	(4.8)	(4.8)
	Fiscal 2015			
	Commodity Forwards	Currency Forwards	Interest Rate Swaps	Total
Loss Recognized in Other Comprehensive Loss	\$ (22.3)	\$ (46.5)	\$ (1.1)	\$ (69.9)
Amounts Reclassified from Other Comprehensive Income (Loss):				
Gain Recognized in Net Sales	—	0.2	—	0.2
Loss Recognized in Cost of Sales	(19.8)	(18.5)	—	(38.3)
Loss Recognized in Interest Expense	—	—	(5.2)	(5.2)

The ineffective portion of hedging instruments recognized was immaterial for all periods presented.



## Derivatives Not Designated as Cash Flow Hedging Instruments

The effect of derivative instruments not designated as cash flow hedges on the Consolidated Statements of Income for fiscal 2017, 2016 and 2015 were (in millions):

	<b>Fiscal 2017</b>		
	<b>Commodity Forwards</b>	<b>Currency Forwards</b>	<b>Total</b>
Loss Recognized in Cost of Sales	\$ (1.1)	\$ —	\$ (1.1)
Gain Recognized in Operating Expenses	\$ —	\$ 14.3	\$ 14.3

	<b>Fiscal 2016</b>		
	<b>Commodity Forwards</b>	<b>Currency Forwards</b>	<b>Total</b>
Gain Recognized in Cost of Sales	\$ 2.6	\$ —	\$ 2.6
Loss Recognized in Operating Expenses	\$ —	\$ (5.2)	\$ (5.2)

	<b>Fiscal 2015</b>		
	<b>Commodity Forwards</b>	<b>Currency Forwards</b>	<b>Total</b>
Loss Recognized in Cost of Sales	\$ —	\$ (8.8)	\$ (8.8)

The net AOCI balance related to hedging activities of a \$8.6 million gain at December 30, 2017 includes \$11.0 million of net deferred gains expected to be reclassified to the Consolidated Statement of Comprehensive Income in the next twelve months. There were no gains or losses reclassified from AOCI to earnings based on the probability that the forecasted transaction would not occur.

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 Consolidated Balance Sheets on a gross basis for the periods ended December 30, 2017 and December 31, 2016.

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

	<b>December 30, 2017</b>		
	<b>Gross Amounts as Presented in the Consolidated Balance Sheet</b>	<b>Derivative Contract Amounts Subject to Right of Offset</b>	<b>Derivative Contracts as Presented on a Net Basis</b>
Prepaid Expenses and Other Current Assets:			
Derivative Currency Contracts	\$ 15.6	\$ (5.9)	\$ 9.7
Derivative Commodity Contracts	11.0	—	11.0
Other Noncurrent Assets:			
Derivative Currency Contracts	2.5	(0.7)	1.8
Derivative Commodity Contracts	0.7	—	0.7
Current Hedging Obligations:			
Derivative Currency Contracts	8.1	(5.9)	2.2
Noncurrent Hedging Obligations:			
Derivative Currency Contracts	0.9	(0.7)	0.2

**December 31, 2016**

	<b>Gross Amounts as Presented in the Consolidated Balance Sheet</b>	<b>Derivative Contract Amounts Subject to Right of Offset</b>	<b>Derivative Contracts as Presented on a Net Basis</b>
Prepaid Expenses and Other Current Assets:			
Derivative Currency Contracts	\$ 2.8	\$ (1.7)	\$ 1.1
Derivative Commodity Contracts	7.3	—	7.3
Other Noncurrent Assets:			
Derivative Currency Contracts	0.4	(0.2)	0.2
Current Hedging Obligations:			
Derivative Currency Contracts	45.7	(1.7)	44.0
Noncurrent Hedging Obligations:			
Derivative Currency Contracts	17.6	(0.2)	17.4

**(14) Fair Value**

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

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

The Company uses the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 30, 2017 and December 31, 2016, respectively (in millions):

	<b>December 30, 2017</b>	<b>December 31, 2016</b>	<b>Classification</b>
Assets:			
Prepaid Expenses and Other Current Assets:			
Derivative Currency Contracts	\$ 15.6	\$ 2.8	Level 2
Derivative Commodity Contracts	11.0	7.3	Level 2
Other Noncurrent Assets:			
Assets Held in Rabbi Trust	5.7	5.4	Level 1
Derivative Currency Contracts	2.5	0.4	Level 2
Derivative Commodity Contracts	0.7	—	Level 2
Liabilities:			
Current Hedging Obligations:			
Interest Rate Swap	—	3.3	Level 2
Derivative Currency Contracts	8.1	45.7	Level 2
Noncurrent Hedging Obligations:			
Derivative Currency Contracts	0.9	17.6	Level 2

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

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

The Company did not change its valuation techniques during fiscal 2017.

### (15) Restructuring Activities

The Company incurred restructuring and restructuring related costs on projects beginning in 2014. Restructuring costs include employee termination and plant relocation costs. Restructuring-related costs include costs directly associated with actions resulting from 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 2017 and 2016 (in millions):

	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Beginning Balance	\$ 0.6	\$ 1.3
Provision	14.1	6.8
Less: Payments	13.5	7.5
Ending Balance	<u>\$ 1.2</u>	<u>\$ 0.6</u>

The following is a reconciliation of expenses by type for the restructuring projects in fiscal 2017 and fiscal 2016 (in millions):

	<b>2017</b>			<b>2016</b>		
	<b>Cost of Sales</b>	<b>Operating Expenses</b>	<b>Total</b>	<b>Cost of Sales</b>	<b>Operating Expenses</b>	<b>Total</b>
Restructuring Costs:						
Employee Termination Expenses	\$ 2.6	\$ 1.7	\$ 4.3	\$ 0.5	\$ 0.3	\$ 0.8
Facility Related Costs	4.3	0.9	5.2	2.9	0.3	3.2
Other Expenses	3.9	—	3.9	0.8	0.9	1.7
Total Restructuring Costs	<u>\$ 10.8</u>	<u>\$ 2.6</u>	<u>\$ 13.4</u>	<u>\$ 4.2</u>	<u>\$ 1.5</u>	<u>\$ 5.7</u>
Restructuring Related Costs:						
Other Employment Benefit Expenses	\$ 0.7	\$ —	\$ 0.7	\$ 0.5	\$ 0.6	\$ 1.1
Total Restructuring Related Costs	<u>\$ 0.7</u>	<u>\$ —</u>	<u>\$ 0.7</u>	<u>\$ 0.5</u>	<u>\$ 0.6</u>	<u>\$ 1.1</u>
Total Restructuring and Restructuring Related Costs	<u>\$ 11.5</u>	<u>\$ 2.6</u>	<u>\$ 14.1</u>	<u>\$ 4.7</u>	<u>\$ 2.1</u>	<u>\$ 6.8</u>

The following table shows the allocation of Restructuring Expenses by segment for fiscal 2017 and fiscal 2016 (in millions):

	<b>Total</b>	<b>Commercial and Industrial Systems</b>	<b>Climate Solutions</b>	<b>Power Transmission Solutions</b>
Restructuring Expenses - 2017	\$ 14.1	\$ 10.9	\$ 2.5	\$ 0.7
Restructuring Expenses - 2016	<u>\$ 6.8</u>	<u>\$ 2.5</u>	<u>\$ 2.6</u>	<u>\$ 1.7</u>

The Company's current restructuring activities are expected to continue into 2018. The Company expects to record aggregate future charges of approximately \$5.3 million related to announced projects as of year-end fiscal 2017, which includes \$0.5 million of employee termination expenses and \$4.8 million of facility related and other costs.

## **ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A - CONTROLS AND PROCEDURES**

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(d) and 15(e) under the Exchange Act) as of the end of the year ended December 30, 2017. Based upon their evaluation of these disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 30, 2017 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 we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### **Management's Report on Internal Control over Financial Reporting.**

The report of management required under this Item 9A is contained in Item 8 of Part II of this Annual Report on Form 10-K under the heading "Management's Annual Report on Internal Control over Financial Reporting."

#### **Report of Independent Registered Public Accounting Firm.**

The attestation report required under this Item 9A is contained in Item 8 of Part II of this Annual Report on Form 10-K under the heading "Report of Independent Registered Public Accounting Firm."

#### **Changes in Internal Controls.**

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **ITEM 9B - OTHER INFORMATION**

None.

### PART III

#### ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in the sections titled “Proposal 1: Election of Directors,” “Board of Directors” and “Stock Ownership” in our proxy statement for the 2018 annual meeting of shareholders (the “2018 Proxy Statement”) is incorporated by reference herein. Information with respect to our executive officers appears in Part I of this Annual Report on Form 10-K.

We have adopted a Code of Business Conduct and Ethics (the “Code”) that applies to all our directors, officers and employees. The Code is available on our website, along with our current Corporate Governance Guidelines, at [www.regalbeloit.com](http://www.regalbeloit.com). The Code and our Corporate Governance Guidelines are also available in print to any shareholder who requests a copy in writing from the Secretary of Regal Beloit Corporation. We intend to disclose through our website any amendments to, or waivers from, the provisions of these codes.

#### ITEM 11 - EXECUTIVE COMPENSATION

The information in the sections titled “Compensation Discussion and Analysis,” “Executive Compensation,” “Report of the Compensation and Human Resources Committee,” and “Director Compensation” in the 2018 Proxy Statement is incorporated by reference herein.

#### ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information in the sections titled “Stock Ownership” in the 2018 Proxy Statement is incorporated by reference herein.

##### Equity Compensation Plan Information

The following table provides information about our equity compensation plans as of December 30, 2017.

	<b>Number of Securities to be Issued upon the Exercise of Outstanding Options, Warrants and Rights (1)</b>	<b>Weighted-average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in the column 1)</b>
Equity Compensation Plans Approved by Security Holders	1,601,791	\$ 66.46	970,324
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	<u>1,601,791</u>		<u>970,324</u>

(1) Represents options to purchase our Common Stock and stock-settled appreciation rights granted under our 2003 Equity Incentive Stock Option Plan, 2007 Equity Incentive Plan and 2013 Equity Incentive Plan.

#### ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information in the section titled “Board of Directors” in the 2018 Proxy Statement is incorporated by reference herein.

#### ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the section titled “Proposal 3: Ratification of Deloitte & Touche LLP as our Independent Registered Public Accounting Firm for the year ending December 29, 2018” in the 2018 Proxy Statement is incorporated by reference herein.

## PART IV

### ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULE

- (a) 1. Financial statements - The financial statements listed in the accompanying index to financial statements and financial statement schedule are filed as part of this Annual Report on Form 10-K.
2. Financial statement schedule - The financial statement schedule listed in the accompanying index to financial statements and financial statement schedule are filed as part of this Annual Report on Form 10-K.
3. Exhibits required by Item 601 of Regulation S-K:

#### Exhibit Index

<b>Exhibit Number</b>	<b>Exhibit Description</b>
3.1	Amended and Restated Articles of Incorporation of Regal Beloit Corporation. [Incorporated by reference to Exhibit 3 to Regal Beloit Corporation's Current Report on Form 8-K filed on May 1, 2015]
3.2	Amended and Restated Bylaws of Regal Beloit Corporation. [Incorporated by reference to Exhibit 3.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on October 30, 2017]
4.1	Amended and Restated Articles of Incorporation and Amended and Restated Bylaws of Regal Beloit Corporation [Incorporated by reference to Exhibits 3.1 and 3.2 hereto]
4.2	Credit Agreement, dated as of June 30, 2011, among Regal Beloit Corporation, the financial institutions party thereto, Bank of America, N.A., as syndication agent, Wells Fargo Bank, N.A., US Bank National Association and Fifth Third Bank, as co-documentation agents, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and joint book managers. [Incorporated by reference to Exhibit 4.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on July 7, 2011]
4.3	First Amendment, dated as of June 30, 2011, among Regal Beloit Corporation, the financial institutions party thereto, US Bank National Association and Wells Fargo Bank, N.A., as co-documentation agents, Bank of America, N.A., as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent, to Term Loan Agreement, dated as of June 16, 2008, among Regal Beloit Corporation, the financial institutions party thereto, US Bank National Association and Wells Fargo Bank, N.A., as co-documentation agents, Bank of America, N.A., as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent. [Incorporated by reference to Exhibit 4.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on July 7, 2011]
4.4	Note Purchase Agreement, dated as of August 23, 2007, by and among Regal Beloit Corporation and Purchasers listed in Schedule A attached thereto. [Incorporated by reference to Exhibit 4.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 24, 2007]
4.5	Subsidiary Guaranty Agreement, dated as of August 23, 2007, from certain subsidiaries of Regal Beloit Corporation. [Incorporated by reference to Exhibit 4.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 24, 2007]
4.6	Note Purchase Agreement, dated as of July 14, 2011, by and among Regal-Beloit Corporation and Purchasers listed in Schedule A attached thereto. [Incorporated by reference to Exhibit 4.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on July 20, 2011]
4.7	Subsidiary Guaranty Agreement, dated as of July 14, 2011, from certain subsidiaries of Regal-Beloit Corporation [Incorporated by reference to Exhibit 4.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on July 20, 2011]
4.8	First Amendment, dated as of August 16, 2011, to Note Purchase Agreement dated as of July 14, 2011, by and among Regal-Beloit Corporation, certain subsidiaries of Regal-Beloit Corporation and the Purchasers listed on the signature pages thereto. [Incorporated by reference to Exhibit 4.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 22, 2011]
4.9	Credit Agreement, dated as of January 30, 2015, by and among Regal Beloit Corporation, certain of its subsidiaries, JPMorgan Chase Bank, N.A., as Administrative Agent, and the lenders named therein. [Incorporated by reference to Exhibit 10.1 to Regal Beloit Corporation's Quarterly Report on Form 10-Q for the quarterly period ended April 4, 2015]
10.1*	2003 Equity Incentive Plan [Incorporated by reference to Exhibit B to Regal Beloit Corporation's Definitive Proxy Statement on Schedule 14A for the 2003 Annual Meeting of Shareholders]
10.2*	Regal Beloit Corporation 2007 Equity Incentive Plan [incorporated by reference to Appendix B to Regal Beloit Corporation's definitive proxy statement on Schedule 14A for the Regal Beloit Corporation 2007 annual meeting of shareholders held April 20, 2007]
10.3*	Regal Beloit Corporation 2013 Equity Incentive Plan. [Incorporated by reference to Appendix A to Regal Beloit Corporation's definitive proxy statement on Schedule 14A for the Regal Beloit Corporation 2013 annual meeting of shareholders held April 29, 2013]

- 10.4\* Form of Key Executive Employment and Severance Agreement between Regal Beloit Corporation and Mark J. Gliebe. [Incorporated by reference to Exhibit 10.6 to Regal Beloit Corporation's Annual Report on Form 10-K for the year ended December 29, 2007]
- 10.5\* Form of Key Executive Employment and Severance Agreement between Regal Beloit Corporation and Terry R. Colvin. [Incorporated by reference to Exhibit 10.7 to Regal Beloit Corporation's Annual Report on Form 10-K for the year ended December 29, 2007]
- 10.6\* Form of Key Executive Employment and Severance Agreement between Regal Beloit Corporation and each of Jonathan J. Schlemmer, Charles A Hinrichs, and John M. Avampato. [Incorporated by reference to Exhibit 10.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on November 2, 2010]
- 10.7\* Form of Agreement for Stock Option Grant. [Incorporated by reference to Exhibit 10.9 to Regal Beloit Corporation's Annual Report on Form 10-K for the year ended December 31, 2005]
- 10.8\* Form of Restricted Stock Agreement. [Incorporated by reference to Exhibit 10.10 to Regal Beloit Corporation's Annual Report on Form 10-K for the year ended December 31, 2005]
- 10.9\* Form of Restricted Stock Unit Award Agreement under the Regal Beloit Corporation 2003 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.10 to Regal Beloit Corporation's Annual Report on Form 10-K for the year ended December 29, 2007]
- 10.10\* Form of Stock Option Award Agreement under the Regal Beloit Corporation 2007 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 25, 2007]
- 10.11\* Form of Restricted Stock Award Agreement under the Regal Beloit Corporation 2007 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.3 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 25, 2007]
- 10.12\* Form of Restricted Stock Unit Award Agreement under the Regal Beloit Corporation 2007 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.4 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 25, 2007]
- 10.13\* Form of Stock Appreciation Right Award Agreement under the Regal Beloit Corporation 2007 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.5 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 25, 2007]
- 10.14\* Target Supplemental Retirement Plan for designated Officers and Key Employees, as amended and restated. [Incorporated by reference to Exhibit 10.2 to Regal Beloit Corporation's Current Report on Form 8-K dated November 2, 2010]
- 10.15\* Form of Participation Agreement for Target Supplemental Retirement Plan. [Incorporated by reference to Exhibit 10.12 to Regal Beloit Corporation's Annual Report on Form 10-K for the year ended December 31, 2005]
- 10.16\* Regal Beloit Corporation 2016 Incentive Compensation Plan. [Incorporated by reference to Appendix A to Regal Beloit Corporation's definitive proxy statement on Schedule 14A for the 2016 annual meeting of shareholders held April 25, 2016]
- 10.17\* Form of Stock Appreciation Rights Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on May 2, 2013]
- 10.18\* Form of Restricted Stock Unit Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.3 to Regal Beloit Corporation's Current Report on Form 8-K filed on May 2, 2013]
- 10.19\* Form of TSR Based Performance Share Unit Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.4 to Regal Beloit Corporation's Current Report on Form 8-K filed on May 2, 2013]
- 10.20\* Form of EBIT Based Performance Share Unit Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.21 to Regal Beloit Corporation's Annual Report on Form 10-K filed on March 2, 2016]
- 10.21\* Form of ROIC Based Performance Share Unit Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan [Incorporated by reference to Exhibit 10.22 to Regal Beloit Corporation's Annual Report on Form 10-K filed on March 1, 2017]
- 10.22\* Key Executive Employment and Severance Agreement, dated as of October 26, 2016, between Regal Beloit Corporation and Thomas E. Valentyn [Incorporated by reference to Exhibit 10.23 to Regal Beloit Corporation's Annual Report on Form 10-K filed on March 1, 2017]
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 21 Significant Subsidiaries of Regal Beloit Corporation.
- 23 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32	Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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\* A management contract or compensatory plan or arrangement.

\*\* Furnished herewith.

(b) Exhibits- see (a)(3) above.

(c) See (a)(2) above.



**ITEM 16 - FORM 10-K SUMMARY**

Not Applicable



Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>/s/ MARK J. GLIEBE</u> Mark J. Gliebe	Chairman and Chief Executive Officer (Principal Executive Officer)	February 27, 2018
<u>/s/ STEPHEN M. BURT</u> Stephen M. Burt	Director	February 27, 2018
<u>/s/ CHRISTOPHER L. DOERR</u> Christopher L. Doerr	Director	February 27, 2018
<u>/s/ THOMAS J. FISCHER</u> Thomas J. Fischer	Director	February 27, 2018
<u>/s/ DEAN A. FOATE</u> Dean A. Foate	Director	February 27, 2018
<u>/s/ HENRY W. KNUEPPEL</u> Henry W. Kneuppel	Director	February 27, 2018
<u>/s/ RAKESH SACHDEV</u> Rakesh Sachdev	Director	February 27, 2018
<u>/s/ ANESA T. CHAIBI</u> Anesa Chaibi	Director	February 27, 2018
<u>/s/ CURTIS W. STOELTING</u> Curtis W. Stoelting	Director	February 27, 2018
<u>/s/ JANE L. WARNER</u> Jane L. Warner	Director	February 27, 2018

**REGAL BELOIT CORPORATION**  
**Index to Financial Statements**  
**And Financial Statement Schedule**

	<u>Page(s) In</u> <u>Form 10-K</u>
(1) Financial Statements:	
Report of Independent Registered Public Accounting Firm	39
Consolidated Statements of Income for the fiscal years ended December 30, 2017, December 31, 2016, and January 2, 2016	41
Consolidated Statements of Comprehensive Income for the fiscal years ended December 30, 2017, December 31, 2016, and January 2, 2016	42
Consolidated Balance Sheets at December 30, 2017 and December 31, 2016	43
Consolidated Statements of Equity for the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016	44
Consolidated Statements of Cash Flows for the fiscal years ended December 30, 2017, December 31, 2016, and January 2, 2016	45
Notes to the Consolidated Financial Statements	46
(2) Financial Statement Schedule:	
For the fiscal years ended December 30, 2017, December 31, 2016, and January 2, 2016 Schedule II -Valuation and Qualifying Accounts	88*

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

\*Due to page breaks different from the Form 10-K filing, this schedule appears on page 89 below.

**SCHEDULE II**  
**REGAL BELOIT CORPORATION**  
**VALUATION AND QUALIFYING ACCOUNTS**

	<u>Balance Beginning of Year</u>	<u>Charged to Expenses</u>	<u>Deductions (a)</u>	<u>Adjustments (b)</u>	<u>Balance End of Year</u>
			(Dollars in Millions)		
Allowance for Receivables:					
Fiscal 2017	\$ 11.5	1.3	(2.8)	1.3	\$ 11.3
Fiscal 2016	11.3	1.6	(1.2)	(0.2)	11.5
Fiscal 2015	11.6	12.2	(12.4)	(0.1)	11.3

<sup>(a)</sup> Deductions consist of write offs charged against the allowance for doubtful accounts and warranty claim costs.

<sup>(b)</sup> Adjustments related to acquisitions and translation.

## CASH DIVIDENDS AND STOCK SPLITS

During 2017, four quarterly cash dividends were declared on Regal Beloit Corporation common stock. If you have not received all dividends to which you are entitled, please write or call the Company's Transfer Agent.

Regal has paid a cash dividend every quarter since January 1961. We have increased the amount of our cash dividend 45 times in the 57 years these dividends have been paid. The dividend has never been reduced. We have also declared and issued 15 stock splits/dividends since inception.

## NOTICE OF ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 9:00AM CDT, on Monday, April 30, 2018, at Regal Beloit Corporation Headquarters, Packard Learning Center, 200 State Street, Beloit, WI 53511-6254.

## AUDITORS

Deloitte & Touche LLP, Milwaukee, Wisconsin

## PUBLIC INFORMATION AND REPORTS

Shareholders can view Company documents on the Company's website at [www.regalbeloit.com](http://www.regalbeloit.com) that also includes a link to the Security and Exchange Commission's EDGAR website. From the website, shareholders may also request copies of news releases and Forms 10-K and 10-Q as filed by the Company with the Securities and Exchange Commission.

Please direct information requests to:

Regal Beloit Corporation  
Attn: Investor Relations  
200 State Street  
Beloit, WI 53511-6254  
Email: [investor@regalbeloit.com](mailto:investor@regalbeloit.com)  
[www.regalbeloit.com](http://www.regalbeloit.com)

## TRANSFER AGENT

Computershare Investor Services  
PO Box 30170  
College Station, TX 77842-3170

Regal Beloit Corporation is a Wisconsin corporation listed on the NYSE under the symbol RBC.

## ADDITIONAL INFORMATION FOR NON-GAAP MEASURES

We prepare financial statements in accordance with accounting principles generally accepted in the United States ("GAAP"). We also periodically disclose certain financial measures in our quarterly earnings releases, on investor conference calls, and in investor presentations and similar events that may be considered "non-GAAP" financial measures. We believe that these non-GAAP financial measures are useful measures for providing investors with additional information regarding our results of operations and for helping investors understand and compare our operating results across accounting periods and compared to our peers. In addition, since our management often uses these non-GAAP financial measures to manage and evaluate our business, make operating decisions, and forecast our future results, we believe disclosing these measures helps investors evaluate our business in the same manner as management. This additional information is not meant to be considered in isolation or as a substitute for our results of operations prepared and presented in accordance with GAAP.

### ADJUSTED DILUTED EARNINGS PER SHARE

	Twelve Months Ended			
	Jan 3, 2015	Jan 2, 2016	Dec 31, 2016	Dec 30, 2017
Diluted Earnings Per Share	\$ 0.69	\$ 3.18	\$ 4.52	\$ 4.74
Goodwill Impairment	2.59	1.29	-	-
Asset Impairments and Other, Net	0.66	-	-	-
Purchase Accounting and Transaction Costs	0.14	0.47	-	-
Restructuring Costs	0.18	0.13	0.10	0.22
Venezuelan Currency Devaluation	0.15	0.02	-	-
Venezuelan Asset Write Down	-	0.28	-	-
Gain on Disposal of Real Estate	(0.23)	(0.04)	-	-
Loss on Divestiture Bankruptcy	0.09	-	-	-
Loss (Gain) on Disposal of Business	0.04	-	(0.18)	(0.07)
Provisional Benefit of the New US Tax Legislation	-	-	-	(0.02)
Adjusted Diluted Earnings Per Share	<u>\$ 4.31</u>	<u>\$ 5.33</u>	<u>\$ 4.44</u>	<u>\$ 4.87</u>

(Dollars in Millions)

### FREE CASH FLOW

	Twelve Months Ended				
	Dec 28, 2013	Jan 3, 2015	Jan 2, 2016	Dec 31, 2016	Dec 30, 2017
Net Cash Provided by Operating Activities	\$ 305.0	\$ 298.2	\$ 384.3	\$ 442.3	\$ 291.9
Additions to Property, Plant and Equipment	(82.7)	(83.6)	(92.2)	(65.2)	(65.2)
Grants Received for Capital Expenditures	1.6	-	-	-	-
Free Cash Flow	<u>\$ 223.9</u>	<u>\$ 214.6</u>	<u>\$ 292.1</u>	<u>\$ 377.1</u>	<u>\$ 226.7</u>

(Dollars in Millions)

### ADJUSTED NET INCOME

	Twelve Months Ended				
	Dec 28, 2013	Jan 3, 2015	Jan 2, 2016	Dec 31, 2016	Dec 30, 2017
GAAP Net Income Attributable to Regal Beloit Corporation	\$ 120.0	\$ 31.0	\$ 143.3	\$ 203.4	\$ 213.0
Goodwill and Asset Impairments and Other, Net	81.0	159.5	92.7	-	-
Tax Effect from Goodwill and Asset Impairments and Other, Net	(6.4)	(12.3)	(21.8)	-	-
Adjusted Net Income Attributable to Regal Beloit Corporation	<u>\$ 194.6</u>	<u>\$ 178.2</u>	<u>\$ 214.2</u>	<u>\$ 203.4</u>	<u>\$ 213.0</u>

Free Cash Flow as a Percentage of Adjusted Net Income

Attributable to Regal Beloit Corporation

	115.1%	120.4%	136.4%	185.4%	106.4%
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**Company Officers:**  
 (standing left to right)  
 John Avampato  
 Tom Valentyn  
 Terry Colvin  
 (seated left to right)  
 Chuck Hinrichs  
 Mark Gliebe  
 Jon Schlemmer

## Corporate Information

### BOARD OF DIRECTORS

**Stephen M. Burt (1)\***  
 Managing Director  
 Duff & Phelps  
 Director since 2010

**Anesa T. Chaibi (3)**  
 Chief Executive Officer  
 Optimas OE Solutions LLC  
 Director since 2014

**Christopher L. Doerr (2)**  
 Chief Executive Officer  
 Passage Partners LLC  
 Former President and Co-Chief  
 Executive Officer  
 Leeson Electric Corporation  
 Director since 2003

**Thomas J. Fischer (1)**  
 Former Managing Partner,  
 Milwaukee Office  
 Arthur Andersen LLP  
 Director since 2004

**Dean A. Foate (1)(3)**  
 Director and  
 Chairman of the Board  
 Plexus Corporation  
 Director since 2005

**Mark J. Gliebe**  
 Chairman and Chief Executive Officer  
 Regal Beloit Corporation  
 Director since 2007

**Henry W. Kneuppel**  
 Former Chairman and Chief Executive  
 Officer  
 Regal Beloit Corporation  
 Director since 1987

**Rakesh Sachdev (2)(4)**  
 Chief Executive Officer  
 Platform Specialty Products Corporation  
 Director since 2007

**Curtis W. Stoelting (2)\***  
 Chief Executive Officer  
 Roadrunner Transportation Systems, Inc.  
 Director since 2005

**Jane L. Warner (3)\***  
 Former Executive Vice President  
 Decorative Surfaces and Finishing Systems  
 Illinois Tool Works  
 Director since 2013

*Committee assignments as of April 2017*  
 (1) Member of Audit Committee  
 (2) Member of Compensation and Human  
 Resources Committee

### COMPANY OFFICERS

**John Avampato**  
 VP Chief Information Officer

**Terry Colvin**  
 VP Corporate Human Resources

**Mark Gliebe**  
 Chairman and Chief Executive Officer

**Chuck Hinrichs**  
 VP Chief Financial Officer

**Jon Schlemmer**  
 Chief Operating Officer

**Tom Valentyn**  
 VP General Counsel & Secretary

(3) Member of Corporate Governance and  
 Director Affairs Committee

(4) Presiding Director

\* Committee Chairperson



**REGAL**<sup>®</sup>

**Regal Beloit Corporation**

200 State Street  
Beloit, Wisconsin 53511  
608-364-8800

**[regalbeloit.com](http://regalbeloit.com)**