TIMKEN CO
Form 10-Q
July 27, 2017

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

FORM 10-Q

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

For the quarterly period ended June 30, 2017
OR

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

For the transition period from _____ to _____
Commission file number: 1-1169

THE TIMKEN COMPANY
(Exact name of registrant as specified in its charter)

OHIO	**34-0577130**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4500 Mount Pleasant Street NW North Canton, Ohio	**44720-5450**
(Address of principal executive offices)	**(Zip Code)**

234.262.3000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

Emerging growth company o

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. o

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

Yes o No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30, 2017
Common Shares, without par value	77,842,980 shares

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THE TIMKEN COMPANY
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
THE TIMKEN COMPANY AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
(Dollars in millions, except per share data)		(Revised)		(Revised)
Net sales	**$750.6**	$ 673.6	**$1,454.4**	$1,357.6
Cost of products sold	**548.8**	489.1	**1,072.1**	990.0
Gross Profit	**201.8**	184.5	**382.3**	367.6
Selling, general and administrative expenses	**123.8**	108.0	**243.4**	224.1
Pension settlement expenses	**—**	—	**—**	1.2
Impairment and restructuring charges	**0.8**	2.9	**2.5**	13.4
Operating Income	**77.2**	73.6	**136.4**	128.9
Interest expense	**(8.5)**	(8.7)	**(16.4)**	(17.1)
Interest income	**0.7**	0.4	**1.3**	0.7
Continued Dumping & Subsidy Offset Act income, net	**—**	6.1	**—**	53.8
Other income (expense), net	**4.5**	(1.7)	**6.2**	(1.7)
Income Before Income Taxes	**73.9**	69.7	**127.5**	164.6
(Benefit) provision for income taxes	**(8.1)**	21.5	**7.4**	50.6
Net Income	**82.0**	48.2	**120.1**	114.0
Less: Net loss attributable to noncontrolling interest	**(0.5)**	—	**(0.6)**	(0.1)
Net Income attributable to The Timken Company	**$82.5**	$ 48.2	**$120.7**	$114.1
Net Income per Common Share attributable to The Timken Company's Common Shareholders				
Basic earnings per share	**$1.06**	$ 0.61	**$1.55**	$1.44
Diluted earnings per share	**$1.04**	$ 0.61	**$1.53**	$1.43
Dividends per share	**$0.27**	$ 0.26	**$0.53**	$0.52

See accompanying Notes to the Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2017	2016	**2017**	2016
(Dollars in millions)		(Revised)		(Revised)
Net Income	**$82.0**	$ 48.2	**$120.1**	$ 114.0
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	**11.5**	(13.8)	**31.9**	1.5
Pension and postretirement liability adjustment	**—**	0.4	**0.1**	0.8
Change in fair value of derivative financial instruments	**(1.4)**	0.7	**(2.2)**	(1.6)
Other comprehensive income (loss), net of tax	**10.1**	(12.7)	**29.8**	0.7
Comprehensive Income, net of tax	**92.1**	35.5	**149.9**	114.7
Less: comprehensive income (loss) attributable to noncontrolling interest	**(1.1)**	0.1	**1.4**	1.2
Comprehensive Income attributable to The Timken Company	**$93.2**	$ 35.4	**$148.5**	$ 113.5

See accompanying Notes to the Consolidated Financial Statements.

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Consolidated Balance Sheets

(Dollars in millions)	**(Unaudited) June 30, 2017**	(Revised) December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 445.1**	$ 148.8
Restricted cash	**2.8**	2.7
Accounts receivable, less allowances (2017 – $19.2 million; 2016 – $20.2 million)	**501.7**	438.0
Inventories, net	**617.0**	553.7
Deferred charges and prepaid expenses	**37.1**	20.3
Other current assets	**55.8**	48.4
Total Current Assets	**1,659.5**	1,211.9
Property, Plant and Equipment, net	**811.6**	804.4
Other Assets		
Goodwill	**373.4**	357.5
Non-current pension assets	**31.1**	32.1
Other intangible assets	**288.3**	271.0
Deferred income taxes	**46.4**	51.4
Other non-current assets	**28.2**	34.9
Total Other Assets	**767.4**	746.9
Total Assets	**$ 3,238.5**	$ 2,763.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term debt	**$ 49.5**	$ 19.2
Current portion of long-term debt	**5.0**	5.0
Accounts payable, trade	**233.4**	176.2
Salaries, wages and benefits	**93.4**	85.9
Income taxes payable	**6.7**	16.9
Other current liabilities	**149.9**	149.5
Total Current Liabilities	**537.9**	452.7
Non-Current Liabilities		
Long-term debt	**947.1**	635.0
Accrued pension cost	**158.8**	154.7
Accrued postretirement benefits cost	**127.7**	131.5
Deferred income taxes	**3.0**	3.9
Other non-current liabilities	**44.4**	74.5
Total Non-Current Liabilities	**1,281.0**	999.6
Shareholders’ Equity		
Class I and II Serial Preferred Stock, without par value:		
Authorized – 10,000,000 shares each class, none issued	**—**	—
Common stock, without par value:		
Authorized – 200,000,000 shares		

Issued (including shares in treasury) (2017 – 98,375,135 shares; 2016 – 98,375,135 shares)		
Stated capital	**53.1**	53.1
Other paid-in capital	**893.4**	906.9
Earnings invested in the business	**1,367.7**	1,289.3
Accumulated other comprehensive loss	**(50.1)**	(77.9)
Treasury shares at cost (2017 – 20,532,155 shares; 2016 – 20,925,492 shares)	**(877.1)**	(891.7)
Total Shareholders' Equity	**1,387.0**	1,279.7
Noncontrolling Interest	**32.6**	31.2
Total Equity	**1,419.6**	1,310.9
Total Liabilities and Shareholders' Equity	**$ 3,238.5**	$ 2,763.2

See accompanying Notes to the Consolidated Financial Statements.

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Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
	2017	2016
(Dollars in millions)		(Revised)
CASH PROVIDED (USED)		
Operating Activities		
Net income attributable to The Timken Company	**$120.7**	$114.1
Net loss attributable to noncontrolling interest	**(0.6)**	(0.1)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**66.8**	65.0
Impairment charges	**—**	2.6
(Gain) loss on sale of assets	**(1.1)**	0.8
Continued Dumping and Subsidy Offset Act receivable	**—**	(6.2)
Deferred income tax provision	**7.7**	2.8
Stock-based compensation expense	**10.4**	6.7
Pension and other postretirement expense	**9.9**	9.7
Pension contributions and other postretirement benefit payments	**(12.2)**	(14.3)
Changes in operating assets and liabilities:		
Accounts receivable	**(46.0)**	4.7
Inventories	**(38.1)**	(8.2)
Accounts payable, trade	**50.5**	12.5
Other accrued expenses	**2.0**	(8.9)
Income taxes	**(56.7)**	26.4
Other, net	**1.2**	(3.5)
Net Cash Provided by Operating Activities	**114.5**	204.1
Investing Activities		
Capital expenditures	**(39.9)**	(50.4)
Acquisitions, net of cash received	**(64.1)**	(0.7)
Proceeds from disposal of property, plant and equipment	**2.5**	0.1
Investments in short-term marketable securities, net	**(7.1)**	(0.1)
Other	**(0.3)**	0.1
Net Cash Used in Investing Activities	**(108.9)**	(51.0)
Financing Activities		
Cash dividends paid to shareholders	**(41.4)**	(41.1)
Purchase of treasury shares	**(27.0)**	(68.2)
Proceeds from exercise of stock options	**25.7**	0.4
Shares surrendered for taxes	**(9.4)**	(1.5)
Accounts receivable facility borrowings	**46.1**	30.0
Accounts receivable facility payments	**(12.1)**	(18.0)
Proceeds from long-term debt	**478.3**	133.1
Payments on long-term debt	**(186.4)**	(170.0)
Short-term debt activity, net	**6.2**	0.5
Increase in restricted cash	**(0.1)**	—
Other	**—**	4.8

Net Cash Provided by (Used in) Financing Activities	**279.9**	(130.0)
Effect of exchange rate changes on cash	**10.8**	3.3
Increase in Cash and Cash Equivalents	**296.3**	26.4
Cash and cash equivalents at beginning of year	**148.8**	129.6
Cash and Cash Equivalents at End of Period	**$445.1**	$156.0

See accompanying Notes to the Consolidated Financial Statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
(Dollars in millions, except per share data)

Note 1 - Basis of Presentation

The accompanying Consolidated Financial Statements (unaudited) for The Timken Company (the "Company") have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by the accounting principles generally accepted in the United States ("U.S. GAAP") for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and disclosures considered necessary for a fair presentation have been included. For further information, refer to the Consolidated Financial Statements and accompanying Notes included in the Company's Annual Report on Form 10-K for the year endedDecember 31, 2016. Certain amounts recorded in 2016 consolidated financial statements and accompanying footnotes have been reclassified to conform to the current presentation.

Note 2 - Change in Accounting Principles

Effective January 1, 2017, the Company voluntarily changed its accounting principles for recognizing actuarial gains and losses and expected returns on plan assets for its defined benefit pension and other postretirement benefit plans, with retrospective application to prior periods. Prior to 2017, the Company amortized, as a component of pension and other postretirement expense, unrecognized actuarial gains and losses (included within accumulated other comprehensive income (loss)) over the average remaining service period of active plan participants expected to receive benefits under the plan, or average remaining life expectancy of inactive plan participants when all or almost all of individual plan participants were inactive. The Company also historically calculated the market-related value of plan assets based on a five-year market adjustment. Under the new principles, actuarial gains and losses will be immediately recognized through net periodic benefit cost in the Statement of Income, upon the annual remeasurement in the fourth quarter, or on an interim basis if specific events trigger a remeasurement. In addition, the Company has changed its accounting policy for measuring the market-related value of plan assets from a calculated amount (based on a five-year smoothing of asset returns) to fair value. The Company believes these changes are preferable as they result in an accelerated recognition of actuarial gains and losses and changes in fair value of plan assets in its Consolidated Statement of Income, which provides greater transparency and better aligns with fair value principles by fully reflecting the impact of interest rate and economic changes on the Company's pension and other postretirement benefit liabilities and assets in the Company's operating results in the year in which the gains and losses are incurred. As of January 1, 2017, the cumulative effect of the change in accounting principles resulted in a decrease of $239 million in earnings invested in the business and a corresponding increase of $244 million in accumulated other comprehensive loss that was partially offset by the net impact of the direct effects of these changes on inventory and deferred taxes of $5 million.

The following tables reflect the changes to financial statement line items as a result of the change in accounting principles for the periods presented in the accompanying unaudited consolidated financial statements:

Consolidated Statements of Income:

	Three Months Ended					
	June 30, 2017			June 30, 2016		
	Previous Accounting Method	**As Reported**	**Effect of Accounting Change**	As Previously Reported	Revised	Effect of Accounting Change
Cost of products sold	**$551.1**	**$ 548.8**	**$ (2.3)**	$491.3	$489.1	$ (2.2)
Gross profit	**199.5**	**201.8**	**2.3**	182.3	184.5	2.2
Selling, general and administrative expense	**126.5**	**123.8**	**(2.7)**	110.2	108.0	(2.2)

Pension settlement expenses	**1.1**	**—**	**(1.1)**	0.4	—	(0.4)
Operating income	**71.1**	**77.2**	**6.1**	68.8	73.6	4.8
Income before income taxes	**67.8**	**73.9**	**6.1**	64.9	69.7	4.8
(Benefit) provision for income taxes	**(10.2)**	**(8.1)**	**2.1**	20.0	21.5	1.5
Net income	**78.0**	**82.0**	**4.0**	44.9	48.2	3.3
Net income attributable to The Timken Company	**$78.5**	**$ 82.5**	**$ 4.0**	$44.9	$48.2	$ 3.3
Basic earnings per share	**$1.01**	**$ 1.06**	**$ 0.05**	$0.57	$0.61	$ 0.04
Diluted earnings per share	**$0.99**	**$ 1.04**	**$ 0.05**	$0.57	$0.61	$ 0.04

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Consolidated Statements of Income:

	Six Months Ended June 30, 2017			June 30, 2016		
	Previous Accounting Method	**As Reported**	**Effect of Accounting Change**	As Previously Reported	Revised	Effect of Accounting Change
Cost of products sold	**$1,074.2**	**$1,072.1**	**$ (2.1)**	$994.4	$990.0	$ (4.4)
Gross profit	**380.2**	**382.3**	**2.1**	363.2	367.6	4.4
Selling, general and administrative expense	**247.0**	**243.4**	**(3.6)**	228.5	224.1	(4.4)
Pension settlement expenses	**11.8**	**—**	**(11.8)**	1.6	1.2	(0.4)
Operating income	**118.9**	**136.4**	**17.5**	119.7	128.9	9.2
Income before income taxes	**110.0**	**127.5**	**17.5**	155.4	164.6	9.2
Provision for income taxes	**1.3**	**7.4**	**6.1**	47.6	50.6	3.0
Net income	**108.7**	**120.1**	**11.4**	107.8	114.0	6.2
Net income attributable to The Timken Company	**$109.3**	**$120.7**	**$ 11.4**	$107.9	$114.1	$ 6.2
Basic earnings per share	**$1.40**	**$1.55**	**$ 0.15**	$1.36	$1.44	$ 0.08
Diluted earnings per share	**$1.38**	**$1.53**	**$ 0.15**	$1.35	$1.43	$ 0.08

Consolidated Statements of Comprehensive Income:

	Three Months Ended June 30, 2017			June 30, 2016		
	Previous Accounting Method	**As Reported**	**Effect of Accounting Change**	As Previously Reported	Revised	Effect of Accounting Change
Net Income	**$78.0**	**$82.0**	**$ 4.0**	$44.9	$48.2	$ 3.3
Foreign currency translation adjustments	**11.5**	**11.5**	**—**	(18.4)	(13.8)	4.6
Pension and postretirement liability adjustment	**4.0**	**—**	**(4.0)**	8.3	0.4	(7.9)
Other comprehensive income (loss), net of tax	**14.1**	**10.1**	**(4.0)**	(9.4)	(12.7)	(3.3)
Comprehensive Income, net of tax	**92.1**	**92.1**	**—**	35.5	35.5	—
Less: comprehensive income (loss) attributable to noncontrolling interest	**(1.1)**	**(1.1)**	**—**	0.2	0.1	(0.1)
Comprehensive Income attributable to The Timken Company	**$93.2**	**$93.2**	**$ —**	$35.3	$35.4	$ 0.1

	Six Months Ended June 30, 2017			June 30, 2016		
	Previous Accounting Method	**As Reported**	**Effect of Accounting Change**	As Previously Reported	Revised	Effect of Accounting Change
Net Income	**$108.7**	**$120.1**	**$ 11.4**	$107.8	$114.0	$ 6.2
Foreign currency translation adjustments	**31.9**	**31.9**	**—**	(3.6)	1.5	5.1
Pension and postretirement liability adjustment	**11.5**	**0.1**	**(11.4)**	12.0	0.8	(11.2)
Other comprehensive income, net of tax	**41.2**	**29.8**	**(11.4)**	6.8	0.7	(6.1)
Comprehensive Income, net of tax	**149.9**	**149.9**	**—**	114.6	114.7	0.1
Less: comprehensive income attributable to noncontrolling interest	**1.4**	**1.4**	**—**	1.2	1.2	—
Comprehensive Income attributable to The Timken Company	**$148.5**	**$148.5**	**$ —**	$113.4	$113.5	$ 0.1

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Consolidated Balance Sheets:

	June 30, 2017			December 31, 2016		
	Previous Accounting Method	**As Reported**	**Effect of Accounting Change**	As Previously Reported	Revised	Effect of Accounting Change
Inventories, net	**$609.1**	**$617.0**	**$ 7.9**	$545.8	$553.7	$ 7.9
Total current assets	**1,651.6**	**1,659.5**	**7.9**	1,204.0	1,211.9	7.9
Deferred income taxes	**49.4**	**46.4**	**(3.0)**	54.4	51.4	(3.0)
Total other assets	**770.4**	**767.4**	**(3.0)**	749.9	746.9	(3.0)
Total assets	**3,233.6**	**3,238.5**	**4.9**	2,758.3	2,763.2	4.9
Earnings invested in the business	**1,595.6**	**1,367.7**	**(227.9)**	1,528.6	1,289.3	(239.3)
Accumulated other comprehensive loss	**(282.8)**	**(50.1)**	**232.7**	(322.0)	(77.9)	244.1
Total shareholders' equity	**1,382.2**	**1,387.0**	**4.8**	1,274.9	1,279.7	4.8
Noncontrolling interest	**32.5**	**32.6**	**0.1**	31.1	31.2	0.1
Total equity	**1,414.7**	**1,419.6**	**4.9**	1,306.0	1,310.9	4.9
Total liabilities and shareholders' equity	**$3,233.6**	**$3,238.5**	**$ 4.9**	$2,758.3	$2,763.2	$ 4.9

Consolidated Statements of Cash Flows:

	Six Months Ended					
	June 30, 2017			June 30, 2016		
	Previous Accounting Method	**As Reported**	**Effect of Accounting Change**	As Previously Reported	Revised	Effect of Accounting Change
Net income attributable to The Timken Company	**$109.3**	**$ 120.7**	**$ 11.4**	$107.9	$114.1	$ (6.2)
Deferred income tax provision (benefit)	**1.6**	**7.7**	**6.1**	(0.2)	2.8	(3.0)
Pension and other postretirement expense	**27.4**	**9.9**	**(17.5)**	18.9	9.7	9.2

Note 3 - Recent Accounting Pronouncements

New Accounting Guidance Adopted:

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies various aspects of the accounting for stock-based payments. The simplifications include:

a. recording all tax effects associated with stock-based compensation through the income statement, as opposed to recording certain amounts in other paid-in capital, which eliminates the requirements to calculate a “windfall pool”;
b. 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;
c. 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;
d. 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
e. 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 would be recognized in additional paid-in

capital.

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On January 1, 2017, the Company adopted the provisions of ASU 2016-09. The presentation of the Consolidated Statement of Cash Flows for shares surrendered by employees to meet the minimum statutory withholding requirement was applied retrospectively. As a result of the adoption of ASU 2016-09, $1.5 million was reclassified from the other accrued expenses line in the operating activities section of the Consolidated Statement of Cash Flows to the shares surrendered for taxes line in the financing activities section for the first six months of 2016.

In addition, the adoption of ASU 2016-09 resulted in the Company making an accounting policy election to change how it will recognize the number of stock awards that will ultimately vest. In the past, the Company applied a forfeiture rate to shares granted. With the adoption of ASU 2016-09, the Company will recognize forfeitures as they occur. This change resulted in the Company making a cumulative effect change to retained earnings of $0.9 million. For additional information, refer to *Note 10 - Equity* for the disclosure of the cumulative effect change. In addition, the Company began recording the tax effects associated with stock-based compensation through the income statement on a prospective basis, which resulted in a tax benefit of $1.8 million for the first six months of 2017. Finally, the Company adjusted dilutive shares to remove the excess tax benefits from the calculation of earnings per share on a prospective basis. The revised calculation is more dilutive, but it did not change earnings per share for prior years.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." ASU 2015-11 requires inventory to be measured at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Under existing guidance, net realizable value is one of several acceptable measures of market value that could be used to measure inventory at the lower of cost or market and, as such, the new guidance reduces the complexity in the measurement. On January 1, 2017, the Company adopted the provisions of ASU 2015-11 on a prospective basis. The adoption of ASU 2015-11 did not have a material impact on the Company's results of operations or financial condition.

New Accounting Guidance Issued and Not Yet Adopted:
In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." ASU 2017-09 provides clarity on which changes to the terms or conditions of share-based payment awards require entities to apply the modification accounting provisions required in Topic 718. ASU 2017-09 is effective for all entities for annual reporting periods beginning after December 15, 2017, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company does not expect that the adoption of ASU 2017-09 will have a material impact on the Company's results of operations and financial condition.

In March 2017, the FASB issued ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” ASU 2017-07 impacts where the components of net benefit cost are presented within an entity’s income statement. Service cost will be included in other employee compensation costs within operating income and is the only component that may be capitalized when applicable. The other components of net periodic benefit cost will be presented separately outside of operating income. ASU 2017-07 is effective for annual reporting periods beginning after December 15, 2017 and interim periods within that reporting period. Early adoption will be permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. The Company is currently evaluating the effect that the adoption of ASU 2017-07 will have on the Company's results of operations.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” Prior to the issuance of the new accounting guidance, entities first assessed qualitative factors to determine whether a two-step goodwill impairment test is necessary. When entities bypass or fail the qualitative analysis, they are required to apply a two-step goodwill impairment test. Step 1 compares a reporting unit’s fair value to its carrying amount to determine if there is a potential impairment. If the carrying amount of a reporting unit exceeds its fair value, Step 2 is required to be completed. Step 2 involves determining the implied fair value of goodwill and comparing it to the carrying amount of that goodwill to measure the impairment loss, if any. ASU 2017-04 eliminates Step 2 of the current goodwill impairment test. ASU 2017-04 will require that a goodwill impairment loss be measured at the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for years beginning after December 15, 2019, with early adoption permitted, and must be applied prospectively. The Company is currently evaluating the effect that the adoption of ASU 2017-04 will have on the Company's results of operations and financial condition.

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In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The new guidance will replace the current incurred loss approach with an expected loss model. The new expected credit loss impairment model will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt instruments, net investments in leases, loan commitments and standby letters of credit. Upon initial recognition of the exposure, the expected credit loss model requires entities to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses should consider historical information, current information and reasonable and supportable forecasts, including estimates of prepayments. Financial instruments with similar risk characteristics should be grouped together when estimating expected credit losses. ASU 2016-13 does not prescribe a specific method to make the estimate so its application will require significant judgment. ASU 2016-13 is effective in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the effect that ASU 2016-13 will have on the Company's results of operations and financial condition.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 was issued to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about lease arrangements. ASU 2016-02 is effective for public companies for fiscal years and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the effect that ASU 2016-02 will have on the Company's results of operations and financial condition.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires disclosures sufficient to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments and assets recognized from the costs to obtain or fulfill a contract. On July 9, 2015, the FASB decided to delay the effective date of this new accounting guidance by one year, which will result in it being effective for annual periods beginning after December 15, 2017. Although early adoption is permitted, the Company intends to adopt the new accounting standard effective January 1, 2018.

The two permitted transition methods under the new standard are 1) the full retrospective method, in which case the standard would be applied to each prior reporting period presented, subject to allowable practical expedients and the cumulative effect of applying the standard would be recognized at the earliest period shown and 2) the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application accompanied by additional disclosures comparing the current period results presented under the new standard to the prior periods presented under the current revenue recognition standards. The Company plans to use the modified retrospective method.

The Company is currently assessing the impact of the new standard on its business by reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to its revenue contracts. The assessment phase of the project has identified potential accounting differences that may arise from the application of the new standard. The

Company is in the process of reviewing individual contracts and performing a deeper analysis of the impacts of the new standard. The Company made significant progress on contract reviews during the first half of 2017 and expects to finalize its evaluation of these and other potential differences that may result from applying the new standard to the Company's contracts with customers in 2017 and will provide updates on its progress in future filings.

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Note 4 - Acquisitions

During the first six months of 2017, the Company completed two acquisitions. On May 5, 2017, the Company completed the acquisition of the assets of PT Tech, Inc. ("PT Tech"), a manufacturer of engineered clutches, brakes, hydraulic power take-off units and other torque management devices used in mining, aggregate, wood recycling and metals industries. On April 3, 2017, the Company completed the acquisition of Torsion Control Products, Inc. ("Torsion Control Products"), a manufacturer of engineered torsional couplings used in construction, agriculture and mining industries. Aggregate sales for these companies for the most recent twelve months prior to their respective acquisitions totaled approximately $41.5 million. The total purchase price for these two acquisitions was $63.4 million, net of cash received. Both acquisitions are subject to post-closing working capital adjustments.

results for PT Tech and Torsion Control Products are reported in the Mobile Industries segment.

The following table presents the initial purchase price allocation for acquisitions in 2017:

	Initial Purchase Price Allocation
Assets:	
Accounts receivable, net	**$ 7.5**
Inventories, net	**11.9**
Property, plant and equipment, net	**4.0**
Goodwill	**15.1**
Other intangible assets	**29.5**
Total assets acquired	**$ 68.0**
Liabilities:	
Accounts payable, trade	**$ 2.1**
Salaries, wages and benefits	**0.3**
Other current liabilities	**2.1**
Total liabilities assumed	**$ 4.5**
Net assets acquired	**$ 63.5**

The following table summarizes the initial purchase price allocation for identifiable intangible assets acquired in 2017:

	Initial Purchase Price Allocation	Weighted - Average Life
Trade Name	$1.5	14 years
Know-How	8.5	20 years
All customer relationships	19.1	19 years
Non-competition agreements	0.2	5 years
Capitalized software	0.2	3 years
Total intangible assets	$29.5	

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During 2016, the Company completed two acquisitions. On October 31, 2016, the Company completed the acquisition of EDT Corp. ("EDT"), a manufacturer of polymer housed units and stainless steel ball bearings used primarily in the food and beverage industry. On July 8, 2016, the Company completed the acquisition of Lovejoy Inc. ("Lovejoy"), a manufacturer of premium industrial couplings and universal joints. Aggregate sales for these companies for the most recent twelve months prior to their respective acquisitions totaled approximately $61 million. The total purchase price for these two acquisitions was $74.4 million in cash and $2.2 million in assumed debt. The Company acquired cash of approximately $2.5 million as part of these acquisitions.

In January 2017, the Company paid a net purchase price adjustment of $0.6 million in connection with the EDT acquisition, resulting in an adjustment to goodwill. During the second quarter of 2017, the Company re-evaluated the fair value of certain contingent liabilities assumed in the Lovejoy acquisition, resulting in adjustments to other current assets, goodwill, other current liabilities and other non-current liabilities. The following table presents the final purchase price allocation for both the Lovejoy and the EDT acquisitions:

	Initial Purchase Price Allocation	Adjustment	Final Purchase Price Allocation
Assets:			
Accounts receivable, net	$ 8.4		$ 8.4
Inventories, net	17.8		17.8
Other current assets	5.3	(0.2)	5.1
Property, plant and equipment, net	16.5		16.5
Goodwill	29.9	(1.1)	28.8
Other intangible assets	27.9		27.9
Other non-current assets	0.1		0.1
Total assets acquired	$ 105.9	$ (1.3)	$ 104.6
Liabilities:			
Accounts payable, trade	$ 8.1		$ 8.1
Salaries, wages and benefits	1.3		1.3
Other current liabilities	4.4	(0.6)	3.8
Long-term debt	2.2		2.2
Deferred taxes	10.4		10.4
Other non-current liabilities	7.6	(1.3)	6.3
Total liabilities assumed	$ 34.0	$ (1.9)	$ 32.1
Net assets acquired	$ 71.9	$ 0.6	$ 72.5

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Note 5 - Inventories

The components of inventories at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Manufacturing supplies	**$28.9**	$ 28.2
Raw materials	**71.1**	54.9
Work in process	**214.5**	182.9
Finished products	**331.9**	308.8
Subtotal	**$646.4**	$ 574.8
Allowance for obsolete and surplus inventory	**(29.4)**	(21.1)
Total Inventories, net	**$617.0**	$ 553.7

Inventories are valued at the lower of cost or market, with approximately 55% valued by the first-in, first-out ("FIFO") method and the remaining 45% valued by the last-in, first-out ("LIFO") method. The majority of the Company's domestic inventories are valued by the LIFO method and all of the Company's international (outside the United States) inventories are valued by the FIFO method.

An actual valuation of the inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected year-end inventory levels and costs. Because these calculations are subject to many factors beyond management's control, annual results may differ from interim results as they are subject to the final year-end LIFO inventory valuation.

The LIFO reserves at June 30, 2017 and December 31, 2016 were $165.3 million and $179.5 million, respectively. The Company recognized a decrease in its LIFO reserve of $14.2 million during the first six months of 2017, compared with a decrease in its LIFO reserve of $5.9 million during the first six months of 2016.

Note 6 - Property, Plant and Equipment

The components of property, plant and equipment at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Land and buildings	**$452.5**	$ 425.4
Machinery and equipment	**1,846.9**	1,807.6
Subtotal	**$2,299.4**	$ 2,233.0
Accumulated depreciation	**(1,487.8)**	(1,428.6)
Property, plant and equipment, net	**$811.6**	$ 804.4

Total depreciation expense for the six months ended June 30, 2017 and 2016 was $48.7 million and $46.9 million, respectively.

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Note 7 - Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2017 were as follows:

	Mobile Industries	Process Industries	Total
Beginning balance	**$ 97.2**	**$ 260.3**	**$357.5**
Acquisitions	**15.1**	**(1.1)**	**14.0**
Foreign currency translation adjustments	**0.4**	**1.5**	**1.9**
Ending balance	**$ 112.7**	**$ 260.7**	**$373.4**

The PT Tech and Torsion Control Products acquisitions in the second quarter resulted in $15.1 million of additional goodwill for the Mobile Industries segment. The Company paid a net purchase price adjustment of $0.6 million in January 2017 in connection with the acquisition of EDT, which resulted in an increase to goodwill. The Company also adjusted its purchase price allocation for the Lovejoy acquisition in 2017, which resulted in a $1.7 million reduction to goodwill. Both EDT and Lovejoy are reported in the Process Industries segment.

The following table displays intangible assets as of June 30, 2017 and December 31, 2016:

	As of June 30, 2017			As of December 31, 2016		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Customer relationships	**$230.9**	**$ 92.2**	**$138.7**	$211.4	$ 84.4	$127.0
Know-how	**49.2**	**9.7**	**39.5**	40.3	8.5	31.8
Industrial license agreements	**0.1**	**0.1**	**—**	0.1	0.1	—
Land-use rights	**8.6**	**4.8**	**3.8**	7.8	4.6	3.2
Patents	**2.1**	**2.1**	**—**	2.1	2.1	—
Technology use	**55.0**	**18.5**	**36.5**	54.9	16.9	38.0
Trademarks	**7.8**	**4.0**	**3.8**	6.5	3.8	2.7
Non-compete agreements	**1.1**	**0.7**	**0.4**	0.9	0.7	0.2
Favorable Leases	**0.1**	**—**	**0.1**	0.1	—	0.1
Capitalized Software	**256.8**	**219.5**	**37.3**	251.7	211.8	39.9
	$611.7	**$ 351.6**	**$260.1**	$575.8	$ 332.9	$242.9
Intangible assets not subject to amortization:						
Tradenames	**$19.5**	**$ —**	**$19.5**	$19.4	$ —	$19.4
FAA air agency certificates	**8.7**	**—**	**8.7**	8.7	—	8.7
	$28.2		**$28.2**	$28.1		$28.1
Total intangible assets	**$639.9**	**$ 351.6**	**$288.3**	$603.9	$ 332.9	$271.0

Amortization expense for intangible assets was $18.2 million and $18.1 million for the six months ended June 30, 2017 and 2016, respectively. Amortization expense for intangible assets is estimated to be $36.1 million in 2017; $30.3 million in 2018; $26.0 million in 2019; $21.4 million in 2020; and $17.8 million in 2021.

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Note 8 - Financing Arrangements

Short-term debt at June 30, 2017 and December 31, 2016, was as follows:

	June 30, 2017	December 31, 2016
Variable-rate Accounts Receivable Facility with an interest rate of 1.88% at June 30, 2017	**$ 22.4**	$ —
Borrowings under variable-rate lines of credit for certain of the Company's foreign subsidiaries with various banks with interest rates ranging from 0.50% to 4.79% at June 30, 2017 and 0.50% at December 31, 2016, respectively.	**27.1**	19.2
Short-term debt	**$ 49.5**	$ 19.2

The Company has a $100 million Amended and Restated Asset Securitization Agreement ("Accounts Receivable Facility") that matures on November 30, 2018. Under the terms of the Accounts Receivable Facility, the Company sells, on an ongoing basis, certain domestic trade receivables to Timken Receivables Corporation, a wholly owned consolidated subsidiary, which, in turn, uses the trade receivables to secure borrowings that are funded through a vehicle that issues commercial paper in the short-term market. Borrowings under the Accounts Receivable Facility are limited by certain borrowing base limitations. These limitations reduced the availability of the Accounts Receivable Facility to $87.2 million at June 30, 2017. As of June 30, 2017, there were outstanding borrowings of $82.9 million under the Accounts Receivable Facility, which reduced the availability under this facility to $4.3 million. The cost of this facility, which is the prevailing commercial paper rate plus program fees, is considered a financing cost and is included in interest expense in the Consolidated Statements of Income. The outstanding balance under the Accounts Receivable Facility was classified as short-term or long-term in accordance with the terms of the agreement and reflects the Company's expectations relative to the minimum borrowing base.

The lines of credit for certain of the Company's foreign subsidiaries provide for short-term borrowings up to $243.4 million in the aggregate. Most of these lines of credit are uncommitted. At June 30, 2017, the Company's foreign subsidiaries had borrowings outstanding of$27.1 million and bank guarantees of $1.9 million, which reduced the aggregate availability under these facilities to $214.4 million.

Long-term debt at June 30, 2017 and December 31, 2016 was as follows:

	June 30, 2017	December 31, 2016
Fixed-rate Medium-Term Notes, Series A, maturing at various dates through May 2028, with interest rates ranging from 6.74% to 7.76%	**$159.5**	$ 159.5
Fixed-rate Senior Unsecured Notes, maturing on September 1, 2024, with an interest rate of 3.875%	**346.4**	345.9
Variable-rate Senior Credit Facility with a weighted-average interest rate of 1.67% at June 30, 2017 and 1.50% at December 31, 2016	**384.0**	83.8
Variable-rate Accounts Receivable Facility with an interest rate of 1.88% at June 30, 2017 and 1.65% at December 31, 2016	**60.5**	48.9
Other	**1.7**	1.9
	$952.1	$ 640.0
Less current maturities	**5.0**	5.0
Long-term debt	**$947.1**	$ 635.0

The Company has a $500 million Amended and Restated Credit Agreement ("Senior Credit Facility"), which matures on June 19, 2020. At June 30, 2017, the Company had $384.0 million of outstanding borrowings under the Senior Credit Facility, which reduced the availability under this facility to $116.0 million. The increased borrowings under the Company's Senior Credit Facility were primarily needed to fund the acquisition of Groeneveld Group ("Groeneveld") that closed on July 3, 2017. Refer to *Note 21 - Subsequent Events* for additional information. The Senior Credit Facility has two financial covenants: a consolidated leverage ratio and a consolidated interest coverage ratio. At June 30, 2017, the Company was in full compliance with both of these covenants under the Senior Credit Facility.

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Note 9 - Contingencies

Product Warranties:

The Company provides limited warranties on certain of its products. The following is a rollforward of the warranty liability for the six months ended June 30, 2017 and the twelve months ended December 31, 2016:

	June 30, 2017	December 31, 2016
Beginning balance, January 1	**$ 6.9**	$ 5.4
Additions	**1.9**	2.4
Payments	**(1.1)**	(0.9)
Ending balance	**$ 7.7**	$ 6.9

The product warranty liability at June 30, 2017 and December 31, 2016 was included in other current liabilities on the Consolidated Balance Sheets.

Currently, the Company is evaluating claims raised by certain customers with respect to the performance of bearings sold into the wind energy sector. Accruals related to this matter are included in the table above. Management believes that the outcome of these claims will not have a material effect on the Company's consolidated financial position; however, the effect of any such outcome may be material to the results of operations of any particular period in which costs in excess of amounts provided, if any, are recognized.

Note 10 - Equity

The changes in the equity components for the six months ended June 30, 2017 were as follows:

		The Timken Company Shareholders					
	Total	Stated Capital	Other Paid-In Capital	Earnings Invested in the Business	Accumulated Other Comprehensive (Loss)	Treasury Stock	Non-controlling Interest
Balance at December 31, 2016	$1,310.9	$53.1	$906.9	$1,289.3	$ (77.9)	$(891.7)	$ 31.2
Cumulative effect of ASU 2016-09	0.5		1.4	(0.9)			
Net income (loss)	120.1			120.7			(0.6)
Foreign currency translation adjustment	31.9				29.9		2.0
Pension and postretirement liability adjustments (net of $0.1 income tax benefit)	0.1				0.1		
Change in fair value of derivative financial instruments, net of reclassifications	(2.2)				(2.2)		
Dividends – $0.53 per share	(41.4)			(41.4)			
Stock-based compensation expense	10.4		10.4				
Stock purchased at fair market value	(27.0)					(27.0)	
Stock option exercise activity	25.7		(9.4)			35.1	
Restricted share activity	—		(15.9)			15.9	
Shares surrendered for taxes	(9.4)					(9.4)	
Balance at June 30, 2017	**$1,419.6**	**$53.1**	**$893.4**	**$1,367.7**	**$ (50.1)**	**$(877.1)**	**$ 32.6**

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Note 11 - Accumulated Other Comprehensive Income (Loss)

The following tables present details about components of accumulated other comprehensive loss for the three and six months ended June 30, 2017 and 2016, respectively:

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at March 31, 2017	$ (62.0)	$ 1.6	$ (0.4)	$ (60.8)
Other comprehensive income (loss) before reclassifications and income tax	11.5	—	(2.0)	9.5
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	0.1	(0.3)	(0.2)
Income tax expense (benefit)	—	(0.1)	0.9	0.8
Net current period other comprehensive income (loss), net of income taxes	11.5	—	(1.4)	10.1
Noncontrolling interest	0.6	—	—	0.6
Net current period comprehensive income (loss), net of income taxes and noncontrolling interest	12.1	—	(1.4)	10.7
Balance at June 30, 2017	**$ (49.9)**	**$ 1.6**	**$ (1.8)**	**$ (50.1)**

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at December 31, 2016	$ (79.8)	$ 1.5	$ 0.4	$ (77.9)
Other comprehensive income (loss) before reclassifications and income tax	31.9	—	(3.1)	28.8
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	0.2	(0.5)	(0.3)
Income tax expense (benefit)	—	(0.1)	1.4	1.3
Net current period other comprehensive income (loss), net of income taxes	31.9	0.1	(2.2)	29.8
Noncontrolling interest	(2.0)	—	—	(2.0)
Net current period comprehensive income (loss), net of income taxes and noncontrolling interest	29.9	0.1	(2.2)	27.8
Balance at June 30, 2017	**$ (49.9)**	**$ 1.6**	**$ (1.8)**	**$ (50.1)**

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	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at March 31, 2016	$ (41.2)	$ 0.8	$ (2.0)	$ (42.4)
Other comprehensive (loss) income before reclassifications and income tax	(13.8)	—	0.9	(12.9)
Amounts reclassified from accumulated other comprehensive income, before income tax	—	0.7	0.2	0.9
Income tax benefit	—	(0.3)	(0.4)	(0.7)
Net current period other comprehensive (loss) income, net of income taxes	(13.8)	0.4	0.7	(12.7)
Noncontrolling interest	(0.1)	—	—	(0.1)
Net current period comprehensive (loss) income, net of income taxes and noncontrolling interest	(13.9)	0.4	0.7	(12.8)
Balance at June 30, 2016	$ (55.1)	$ 1.2	$ (1.3)	$ (55.2)

	Foreign currency translation adjustments	Pension and postretirement liability adjustments	Change in fair value of derivative financial instruments	Total
Balance at December 31, 2015	$ (55.3)	$ 0.4	$ 0.3	$ (54.6)
Other comprehensive income (loss) before reclassifications and income tax	1.5	—	(2.0)	(0.5)
Amounts reclassified from accumulated other comprehensive income (loss), before income tax	—	1.3	(0.6)	0.7
Income tax (benefit) expense	—	(0.5)	1.0	0.5
Net current period other comprehensive income (loss), net of income taxes	1.5	0.8	(1.6)	0.7
Noncontrolling interest	(1.3)	—	—	(1.3)
Net current period comprehensive income (loss), net of income taxes and noncontrolling interest	0.2	0.8	(1.6)	(0.6)
Balance at June 30, 2016	$ (55.1)	$ 1.2	$ (1.3)	$ (55.2)

Other comprehensive (loss) income before reclassifications and income taxes includes the effect of foreign currency.

The before-tax reclassification of pension and postretirement liability adjustments was due to the amortization of prior service costs and was included in costs of products sold and selling, general and administrative ("SG&A") expenses in the Consolidated Statement of Income. The reclassification of the remaining components of accumulated other comprehensive loss was included in other (expense) income, net in the Consolidated Statement of Income.

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Note 12 - Earnings Per Share

The following table sets forth the reconciliation of the numerator and the denominator of basic earnings per share and diluted earnings per share for the three months ended June 30, 2017 and 2016, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
Numerator:				
Net income attributable to The Timken Company	**$82.5**	$ 48.2	**$120.7**	$ 114.1
Less: undistributed earnings allocated to nonvested stock	**—**	—	**—**	—
Net income available to common shareholders for basic earnings per share and diluted earnings per share	**$82.5**	$ 48.2	**$120.7**	$ 114.1
Denominator:				
Weighted average number of shares outstanding, basic	**77,931,576**	78,671,509	**77,814,438**	78,425,703
Effect of dilutive securities:				
Stock options and awards based on the treasury stock method	**1,097,821**	1,041,265	**1,129,991**	954,519
Weighted average number of shares outstanding, assuming dilution of stock options and awards	**79,029,397**	79,712,774	**78,944,429**	79,380,222
Basic earnings per share	**$1.06**	$ 0.61	**$1.55**	$ 1.44
Diluted earnings per share	**$1.04**	$ 0.61	**$1.53**	$ 1.43

The exercise prices for certain stock options that the Company has awarded exceed the average market price of the Company’s common shares. Such stock options are antidilutive and were not included in the computation of diluted earnings per share. The antidilutive stock options outstanding during the three months ended June 30, 2017 and 2016 were 465,826 and 3,440,775, respectively. During the six months ended June 30, 2017 and 2016, the antidilutive stock options outstanding were 556,683 and 3,266,844, respectively.

Note 13 - Segment Information

The primary measurement used by management to measure the financial performance of each segment is EBIT (earnings before interest and taxes).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
Net sales:				
Mobile Industries	**$408.4**	$367.8	**$791.4**	$751.0
Process Industries	**342.2**	305.8	**663.0**	606.6
	$750.6	$673.6	**$1,454.4**	$1,357.6
Segment EBIT:				
Mobile Industries	**$34.4**	$37.4	**$65.2**	$69.4
Process Industries	**60.2**	47.9	**103.2**	81.7
Total EBIT, for reportable segments	**$94.6**	$85.3	**$168.4**	$151.1
Corporate expenses	**(12.9)**	(13.4)	**(25.8)**	(23.9)
Continued Dumping & Subsidy Offset Act income, net	**—**	6.1	**—**	53.8
Interest expense	**(8.5)**	(8.7)	**(16.4)**	(17.1)
Interest income	**0.7**	0.4	**1.3**	0.7

Income before income taxes	**$73.9**	$69.7	**$127.5**	$164.6

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Note 14 - Impairment and Restructuring Charges

Impairment and restructuring charges by segment are comprised of the following:

For the three months ended June 30, 2017:

	Mobile Industries	**Process Industries**	**Corporate**	**Total**
Severance and related benefit costs	**$ 0.6**	**$ 0.1**	**$ —**	**$ 0.7**
Exit costs	**0.1**	**—**	**—**	**0.1**
Total	**$ 0.7**	**$ 0.1**	**$ —**	**$ 0.8**

For the three months ended June 30, 2016:

	Mobile Industries	Process Industries	Corporate	Total
Severance and related benefit costs	$ 0.7	$ 0.9	$ —	$ 1.6
Exit costs	1.1	0.2	—	1.3
Total	$ 1.8	$ 1.1	$ —	$ 2.9

For the six months ended June 30, 2017:

	Mobile Industries	**Process Industries**	**Corporate**	**Total**
Severance and related benefit costs	**$ 1.8**	**$ 0.1**	**$ —**	**$ 1.9**
Exit costs	**0.1**	**—**	**0.5**	**0.6**
Total	**$ 1.9**	**$ 0.1**	**$ 0.5**	**$ 2.5**

For the six months ended June 30, 2016:

	Mobile Industries	Process Industries	Corporate	Total
Impairment charges	$ 2.6	$ —	$ —	$ 2.6
Severance and related benefit costs	4.8	4.5	—	9.3
Exit costs	1.3	0.2	—	1.5
Total	$ 8.7	$ 4.7	$ —	$ 13.4

The following discussion explains the impairment and restructuring charges recorded for the periods presented; however, it is not intended to reflect a comprehensive discussion of all amounts in the tables above.

On September 29, 2016, the Company announced the closure of its bearing plant in Pulaski, Tennessee ("Pulaski"), which is expected to close at the end of the third quarter of 2017 and to affect approximately 120 employees. During the second quarter and first six months of 2017, the Company recognized severance and related benefit costs of $0.4 million and $1.1 million, respectively, related to this closure. The Company has incurred pretax costs related to this closure of $7.1 million as of June 30, 2017, including rationalization costs recorded in cost of products sold.

On March 17, 2016, the Company announced the closure of its bearing plant in Altavista, Virginia ("Altavista"). The Company completed the closure of this manufacturing facility on March 31, 2017. During the first six months of 2016, the Company recorded impairment charges of $2.4 million and severance and related benefit costs of $1.5 million in connection with this closure. The Company has incurred pretax costs related to this closure of $11.2 million as of June 30, 2017, including rationalization costs recorded in cost of products sold.

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During the first six months of 2017, the Company recognized $0.8 million of severance and related benefit costs to eliminate approximately 17 positions in the aggregate. The $0.8 million charge for the first six months of 2017 primarily related to the Mobile Industries segment. During the second quarter and first six months of 2016, the Company recognized $1.2 million and $7.5 million, respectively, of severance and related benefit costs to eliminate approximately 100 positions. Of the $1.2 million charge for the