HUBBELL INC
Form 10-Q
July 25, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
¨ 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 1-2958

HUBBELL INCORPORATED
(Exact name of registrant as specified in its charter)

STATE OF CONNECTICUT	06-0397030
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
40 Waterview Drive, Shelton, CT	06484
(Address of principal executive offices)	(Zip Code)

(475) 882-4000
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark	YES	NO
• 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.	þ	¨
• 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).	þ	¨
• 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 þ	Accelerated filer ¨	Non-accelerated filer (Do not check if a smaller reporting company) ¨	Smaller reporting company ¨
Emerging growth company ¨	If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standard provided pursuant to Section 13(a) of the Exchange Act. ¨		

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whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ þ

The number of outstanding shares of Hubbell Common Stock as of July 23, 2018 was 54,773,034.

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PART IFINANCIAL INFORMATION

ITEM 1 Financial Statements

Condensed Consolidated Statements of Income (unaudited)

(in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$1,166.7	$948.3	$2,157.9	$1,800.6
Cost of goods sold	818.8	652.8	1,527.1	1,242.5
Gross profit	347.9	295.5	630.8	558.1
Selling & administrative expenses	191.0	161.1	374.3	315.9
Operating income	156.9	134.4	256.5	242.2
Interest expense, net	(18.8)	(11.6)	(36.1)	(22.7)
Other (expense) income, net	(4.1)	(6.1)	(10.6)	(11.9)
Total other expense	(22.9)	(17.7)	(46.7)	(34.6)
Income before income taxes	134.0	116.7	209.8	207.6
Provision for income taxes	31.6	35.9	47.6	62.9
Net income	102.4	80.8	162.2	144.7
Less: Net income attributable to noncontrolling interest	2.1	1.7	3.6	2.8
Net income attributable to Hubbell	$100.3	$79.1	$158.6	$141.9
Earnings per share				
Basic	$1.83	$1.44	$2.89	$2.57
Diluted	$1.82	$1.43	$2.87	$2.56
Cash dividends per common share	$0.77	$0.70	$1.54	$1.40

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Comprehensive Income (unaudited)

	Three Months Ended June 30,	
(in millions)	2018	2017
Net income	$102.4	$80.8
Other comprehensive income (loss):		
Foreign currency translation adjustments	(30.6)	7.7
Pension and post-retirement benefit plans' prior service costs and net actuarial gains, net of taxes of ($0.6) and ($1.0)	1.9	2.0
Unrealized gain (loss) on investments, net of taxes of $0.0 and $0.0	(0.1)	0.1
Unrealized gain (loss) on cash flow hedges, net of taxes of ($0.4) and $0.3	1.0	(0.8)
Other comprehensive income (loss)	(27.8)	9.0
Total comprehensive income	74.6	89.8
Less: Comprehensive income attributable to noncontrolling interest	2.1	1.7
Comprehensive income attributable to Hubbell	$72.5	$88.1

See notes to unaudited condensed consolidated financial statements.

	Six Months Ended June 30,	
(in millions)	2018	2017
Net income	$162.2	$144.7
Other comprehensive income (loss):		
Foreign currency translation adjustments	(20.8)	19.2
Pension and post-retirement benefit plans' prior service costs and net actuarial gains, net of taxes of ($1.2) and ($1.9)	3.9	3.7
Unrealized gain (loss) on investments, net of taxes of $0.0 and ($0.4)	(0.4)	0.5
Unrealized gain (loss) on cash flow hedges, net of taxes of ($0.6) and $0.4	1.6	(0.9)
Other comprehensive income (loss)	(15.7)	22.5
Total comprehensive income	146.5	167.2
Less: Comprehensive income attributable to noncontrolling interest	3.6	2.8
Comprehensive income attributable to Hubbell	$142.9	$164.4

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Balance Sheets (unaudited)

(in millions)	June 30, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$195.1	$ 375.0
Short-term investments	10.2	14.5
Accounts receivable, net	779.7	540.3
Inventories, net	686.7	634.7
Other current assets	64.2	39.6
Total Current Assets	1,735.9	1,604.1
Property, Plant, and Equipment, net	496.3	458.3
Other Assets		
Investments	57.3	57.7
Goodwill	1,759.7	1,089.0
Intangible assets, net	865.6	460.4
Other long-term assets	56.3	51.1
TOTAL ASSETS	$4,971.1	$ 3,720.6
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term debt and current portion of long-term debt	$91.1	$ 68.1
Accounts payable	420.8	326.5
Accrued salaries, wages and employee benefits	81.1	76.6
Accrued insurance	65.7	60.0
Other accrued liabilities	212.7	174.9
Total Current Liabilities	871.4	706.1
Long-Term Debt	1,897.6	987.1
Other Non-Current Liabilities	500.3	379.5
TOTAL LIABILITIES	3,269.3	2,072.7
Total Hubbell Shareholders' Equity	1,684.9	1,634.2
Noncontrolling interest	16.9	13.7
Total Equity	1,701.8	1,647.9
TOTAL LIABILITIES AND EQUITY	$4,971.1	$ 3,720.6

See notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows (unaudited)

(in millions)	Six Months Ended June 30, 2018	2017
Cash Flows from Operating Activities		
Net income	$162.2	$144.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76.3	49.6
Deferred income taxes	(0.4)	3.0
Stock-based compensation	9.5	8.1
Changes in assets and liabilities, excluding effects of acquisitions:		
Increase in accounts receivable, net	(128.3)	(61.7)
Decrease (increase) in inventories, net	3.9	(42.8)
Increase in accounts payable	46.4	56.1
Decrease in current liabilities	(25.0)	(13.4)
Changes in other assets and liabilities, net	4.0	(10.4)
Contribution to qualified defined benefit pension plans	(1.0)	(0.9)
Other, net	4.7	(1.1)
Net cash provided by operating activities	152.3	131.2
Cash Flows from Investing Activities		
Capital expenditures	(47.5)	(33.0)
Acquisition of businesses, net of cash acquired	(1,116.0)	(108.5)
Purchases of available-for-sale investments	(6.2)	(8.6)
Proceeds from available-for-sale investments	13.0	8.4
Other, net	1.6	2.7
Net cash used in investing activities	(1,155.1)	(139.0)
Cash Flows from Financing Activities		
Long-term debt borrowings, net	941.2	—
Short-term debt borrowings, net	(2.1)	100.8
Payment of dividends	(84.4)	(77.2)
Payment of dividends to noncontrolling interest	(2.8)	(2.3)
Repurchase of common shares	(10.0)	(92.6)
Debt issuance costs	(7.6)	—
Other, net	(8.0)	(3.4)
Net cash (used) provided by financing activities	826.3	(74.7)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(3.4)	12.6
Decrease in cash and cash equivalents	(179.9)	(69.9)
Cash and cash equivalents		
Beginning of period	375.0	437.6
End of period	$195.1	$367.7

See notes to unaudited condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements (unaudited)

NOTE 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Hubbell Incorporated (“Hubbell”, the “Company”, “registrant”, “we”, “our” or “us”, which references include its divisions and subsidiaries) have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States of America (“U.S.”) GAAP for audited financial statements. In the opinion of management, all adjustments consisting only of normal recurring adjustments considered necessary for a fair statement of the results of the periods presented have been included. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Hubbell Incorporated Annual Report on Form 10-K for the year ended December 31, 2017.

On February 2, 2018 the Company acquired Meter Readings Holding Group, LLC ("Aclara Technologies" or "Aclara") for approximately $1.1 billion. Aclara is a provider of smart infrastructure solutions for electric, gas, and water utilities, with advanced metering solutions and grid monitoring sensor technology, as well as leading software enabled installation services. The acquisition has been added to the Power segment and is intended to extend the Power segment's capabilities into smart automation technologies, accelerate ongoing innovation efforts to address utility customer demand for data and integrated solutions, and expand the segment's reach to a broader set of utility customers. The results of operations of Aclara are included in Hubbell's results beginning on February 2, 2018.

Recent Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (ASU 2018-02) relating to the reclassification of certain tax effects from accumulated other comprehensive income/(loss). The new guidance allows an entity to reclassify the income tax effects of the Public Law 115-97 "An Act to Provide Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018", commonly known as the Tax Cuts and Job Act of 2017 ("TCJA") on items within accumulated other comprehensive income/(loss) to retained earnings. This new guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The new standard must be adopted retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the TCJA is recognized. The Company is currently assessing the impact of adopting this standard on its financial statements.

In response to the enactment of the TCJA, the Securities and Exchange Commission’s Office of the Chief Accountant published Staff Accounting Bulletin 118 ("SAB 118"). SAB 118 addresses the requirements to account for the impact of a change in tax law or tax rates in the period of enactment. Specifically, SAB 118 provides guidance for issuers that are not able to complete the accounting for the income tax effects of the TCJA by the time financial statements are issued for the reporting period that includes the enactment date (“enactment period financials”).

Pursuant to SAB 118, if the accounting for specific income tax effects of the TCJA is incomplete at the time the financial statements are issued, a company should provide a provisional amount for specific income tax effects for

which a reasonable estimate can be determined. For any specific income tax effects of the TCJA for which a reasonable estimate cannot be determined because additional information, data, analysis or preparation is required, a company should not report a provisional amount but continue to apply the rules in effect immediately prior to enactment. For income tax effects for which a company was not able to determine a reasonable estimate in the enactment period financials, a provisional amount must be recorded in the first reporting period in which a reasonable estimate can be determined.

Under SAB 118, the measurement period for accounting for the TCJA begins in the period of enactment and ends when an entity has obtained, prepared and analyzed the information necessary to complete the accounting requirements under ASC 740, Income Taxes, (the “measurement period”), but in no event can the measurement period extend beyond one year from the TCJA’s enactment date. Any provisional amount or adjustment to a provisional amount included in a company’s financial statements during the measurement period should be included in income from continuing operations as an adjustment to tax expense or benefit in the reporting period the amounts are determined.

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In the fourth quarter of 2017, we recognized a provisional tax amount of approximately $57 million as a component of income tax expense from continuing operations for certain one-time items related to the TCJA for which we were able to determine a reasonable estimate. During the first six months of 2018, the Company did not record any material adjustment to the provisional amounts recorded in the fourth quarter of 2017 or include a provisional amount for the income tax effects of any further repatriation of our unremitted foreign earnings as we continue to obtain, prepare, and analyze information and evaluate legislative and authoritative guidance being issued.

In March 2017, the FASB issued an Accounting Standards Update (ASU 2017-07) relating to the presentation of net periodic pension costs and net periodic post-retirement benefit cost. The new guidance requires the service component of net periodic pension and post-retirement benefit costs to be reported in the same income statement line item as other employee compensation costs, and the other components to be reported outside of operating income. The Company adopted the requirements of the new standard in the first quarter of 2018 and applied the guidance on a retrospective basis, as required by the standard. The impact to our fiscal quarters and year-ended 2017 is shown in the table below (in millions):

	Three Months Ended				Twelve Months Ended
(in millions, except per share amounts)	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2017
Cost of goods sold	$(0.9)	$(0.8)	$(0.8)	$(0.8)	$ (3.3)
Selling & administrative expenses	(2.9)	(3.0)	(3.0)	(2.9)	(11.8)
Total operating expenses	(3.8)	(3.8)	(3.8)	(3.7)	(15.1)
Operating income	3.8	3.8	3.8	3.7	15.1
Total other expense	(3.8)	(3.8)	(3.8)	(3.7)	(15.1)
Net income	$—	$—	$—	$—	$ —

In February 2016, the FASB issued an Accounting Standards Update (ASU 2016-02) related to the accounting and financial statement presentation for leases. This new guidance will require a lessee to recognize a right-to-use asset and a lease liability for both financing and operating leases, with a policy election permitting an exception to this guidance for leases with a term of twelve months or less. For financing leases, the lessee will recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee will recognize a straight-line lease expense. This guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company will adopt the standard as of January 1, 2019. The new standard must be adopted using a modified retrospective transition at the beginning of the earliest comparative period presented. The Company expects to recognize approximately $100 million of right-of-use assets and corresponding lease liabilities on the balance sheet upon adoption. The Company does not expect the adoption will have a material impact on our results of operations or liquidity.

In May 2014, the FASB issued an Accounting Standards Update (ASU 2014-09) related to new revenue recognition guidance (ASC 606) that supersedes the existing revenue recognition guidance and most industry-specific guidance applicable to revenue recognition. According to the new guidance, an entity will apply a principles-based five step model to recognize revenue upon the transfer of promised goods or services to customers and in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. Subsequently, the FASB has issued amendments to certain aspects of the guidance including the effective date.

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Effective January 1, 2018, the Company adopted the requirements of ASC 606 using the modified retrospective approach. The Company applied the guidance to all contracts and recognized a cumulative effect adjustment to Retained Earnings as of January, 1, 2018 of $0.6 million. The impacts to the financial statements are primarily related to balance sheet classification, including amounts associated with the change in balance sheet classification of the sales returns reserves, while the impacts on the income statement reflect the change in classification of restocking fees. The impact to our financial statements for the quarter ended June 30, 2018 was as follows (in millions):

	For the Three Months Ended June 30, 2018		
Income Statement	As Reported	Balances Without Adoption of ASC 606	Effect of Adoption Higher/(Lower)
Net sales	$1,166.7	$1,165.9	$ 0.8
Costs and expenses			
Cost of goods sold	$818.8	$818.0	$ 0.8

	For the Six Months Ended June 30, 2018		
Income Statement	As Reported	Balances Without Adoption of ASC 606	Effect of Adoption Higher/(Lower)
Net sales	$2,157.9	$2,156.3	$ 1.6
Costs and expenses			
Cost of goods sold	$1,527.1	$1,525.5	$ 1.6

	As of June 30, 2018		
Balance Sheet	As Reported	Balances Without Adoption of ASC 606	Effect of Adoption Higher/(Lower)
ASSETS			
Accounts receivable, net	$779.7	$760.7	$ (19.0)
Inventories, net	686.7	698.9	12.2
Other current assets	64.2	52.7	(11.5)
Total Assets	$4,971.1	$4,952.8	$ (18.3)
LIABILITIES			
Other accrued liabilities	$212.7	$195.0	$ (17.7)
Total Liabilities	$3,269.3	$3,251.6	$ (17.7)
EQUITY			
Retained Earnings	$1,967.0	$1,966.4	$ (0.6)
Total Equity	$1,701.8	$1,701.2	$ (0.6)

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NOTE 2 Revenue

The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied, which generally occurs, for products, upon the transfer of control in accordance with the contractual terms and conditions of the sale. The majority of the Company's revenue associated with products is recognized at a point in time when the product is shipped to the customer, with a relatively small amount of transactions in the Power segment recognized upon delivery of the product at the contractually specified destination. Revenue from service contracts and post-shipment performance obligations is less than three percent of total annual consolidated net revenue and those service contracts and post-shipment obligations are primarily within the Power segment. Revenue from service contracts and post-shipment performance obligations is recognized when or as those obligations are satisfied. The Company primarily offers assurance-type standard warranties that do not represent separate performance obligations and on occasion will separately offer and price extended warranties that are separate performance obligations for which the associated revenue is recognized over-time based on the extended warranty period. The Company records amounts billed to customers for reimbursement of shipping and handling costs within revenue. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as fulfillment costs and are included in cost of goods sold. Sales taxes and other usage-based taxes are excluded from revenue.

Within the Electrical segment, certain businesses require a portion of the transaction price to be paid in advance of transfer of control. Advance payments are not considered a significant financing component as they are received less than one year before the related performance obligations are satisfied. In addition, in the Power segment, certain businesses offer annual maintenance service contracts that require payment at the beginning of the contract period. These payments are treated as a contract liability and are classified in Other accrued liabilities in the Condensed Consolidated Balance Sheet. Once control transfers to the customer and the Company meets the revenue recognition criteria, the deferred revenue is recognized in the Condensed Consolidated Statement of Income. The deferred revenue relating to the annual maintenance service contracts is recognized in the Condensed Consolidated Statement of Income on a straight line basis over the expected term of the contract.

Approximately two-thirds of the Company's net sales are to distributors who then sell directly into the residential, non-residential, industrial, electrical transmission and distribution and oil and gas end markets. In the Power segment, the businesses sell to distributors, with the majority of sales to the utility end markets. The Power businesses also sell directly into transmission and distribution utility markets.

The Company has certain arrangements that require us to estimate at the time of sale the amounts of variable consideration that should not be recorded as revenue as certain amounts are not expected to be collected from customers, as well as an estimate of the value of the product to be returned. The Company principally relies on historical experience, specific customer agreements and anticipated future trends to estimate these amounts at the time of shipment and to reduce the transaction price. These arrangements include sales discounts and allowances based on sales volumes, specific programs and special pricing allowances, and returned goods, as are customary in the electrical products industry. Customer returns have historically ranged from 1%-2% of gross sales.

The following table presents disaggregated revenue by business group (in millions) for the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Electrical	Power	Total	Electrical	Power	Total
Net sales						
Hubbell Commercial and Industrial	$235.2	$—	$235.2	$450.7	$—	$450.7

Hubbell Construction and Energy	207.4	—	207.4	393.9	—	393.9
Hubbell Lighting	246.0	—	246.0	462.1	—	462.1
Hubbell Power Systems	—	478.1	478.1	—	851.2	851.2
Total net sales	$688.6	$478.1	$1,166.7	$1,306.7	$851.2	$2,157.9

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The following table presents disaggregated third-party net sales by geographic location (in millions) for the three and six months ended June 30, 2018 (on a geographic basis, the Company defines "international" as operations based outside of the United States and its possessions):

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Electrical	Power	Total	Electrical	Power	Total
Net sales						
United States	$614.1	$440.0	$1,054.1	$1,160.8	$788.4	$1,949.2
International	74.5	38.1	112.6	145.9	62.8	208.7
Total net sales	$688.6	$478.1	$1,166.7	$1,306.7	$851.2	$2,157.9

Contract Balances

Our contract liabilities consist of advance payments for products as well as deferred revenue on service obligations and extended warranties. The current portion of deferred revenue is included in Other accrued liabilities and the non-current portion of deferred revenue is included in Other non-current liabilities in the Condensed Consolidated Balance Sheet.

Contract liabilities were $24.2 million as of June 30, 2018 compared to $10.2 million as of December 31, 2017. The $14.0 million increase in our contract liabilities balance was primarily due to timing of advance payments on certain orders and the acquisition of Aclara, partially offset by the recognition of $8.0 million in revenue related to amounts that were recorded in contract liabilities at January 1, 2018. The Company has an immaterial amount of contract assets relating to performance obligations satisfied prior to payment that is recorded in Other long-term assets in the Condensed Consolidated Balance Sheet. Impairment losses recognized on our receivables and contract assets were immaterial in the six months ended June 30, 2018. See Note 1 – Basis of Presentation and Note 3 – Business Acquisitions in the Notes to Condensed Consolidated Financial Statements for additional information.

Unsatisfied Performance Obligations

The Company has elected the practical expedient to disclose only the value of unsatisfied performance obligations for contracts with an original expected length greater than one year. Prior to the acquisition of Aclara, the majority of Hubbell's revenues resulted from sales of inventoried products with short periods of manufacture and delivery and thus are excluded from this disclosure. As of June 30, 2018, the Company had approximately $600 million of unsatisfied performance obligations for contracts with an original expected length of greater than one year, primarily relating to long-term contracts of the Aclara business (within the Power segment) to deliver and install meters. The Company expects that a majority of the unsatisfied performance obligations will be completed and recognized over the next 3-4 years.

Practical Expedients

We apply a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less.

NOTE 3 Business Acquisitions

On February 2, 2018, the Company completed the acquisition of Aclara for approximately $1.1 billion. Aclara is a global provider of smart infrastructure solutions for electric, gas, and water utilities with advanced metering solutions

and grid monitoring sensor technology, as well as leading software enabled installation services. The acquisition was structured as a merger in which Aclara became a wholly owned indirect subsidiary of the Company. Aclara's businesses have been added to the Power segment. The acquisition extends the Power segment's capabilities into smart automation technologies, accelerates ongoing innovation efforts to address utility customer demand for data and integrated solutions, and expands the segment's reach to a broader set of utility customers.

The Company financed the acquisition and related transactions with net proceeds from borrowings under a new unsecured term loan facility in the aggregate principal amount of $500 million, the issuance of 3.50% Senior Notes due 2028 in the aggregate principal amount of $450 million and issuances of commercial paper.

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Preliminary Allocation of Consideration Transferred to Net Assets Acquired

The following table presents the preliminary determination of the fair value of identifiable assets acquired and liabilities assumed from the Company's acquisition of Aclara. The final determination of the fair value of certain assets and liabilities will be completed within the one year measurement period as required by the FASB ASC Topic 805, “Business Combinations.” As the Company finalizes the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period in 2018. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. The finalization of the purchase accounting assessment may result in a change in the valuation of assets acquired and liabilities assumed and may have a material impact on the Company's results of operations and financial position.

The following is a preliminary estimate of the assets acquired and the liabilities assumed by the Company in the merger, reconciled to the estimated acquisition consideration (in millions):

Accounts receivable	$116.4	
Inventories	77.1	
Other current assets	11.0	
Property, plant and equipment	32.2	
Intangible assets	444.0	
Accounts payable	(51.8	)
Other accrued liabilities	(71.6	)
Deferred tax liabilities	(80.0	)
Other non-current liabilities	(37.5	)
Noncontrolling interest	(2.5	)
Goodwill	679.0	
Total Estimate of Consideration Transferred, Net of Cash Acquired	$1,116.3	

Cash used for the acquisition of businesses, net of cash acquired as reported in the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2018 is $1,116.0 million and includes approximately $0.3 million received in 2018 to settle a net working capital adjustment relating to an acquisition completed in 2017.

In connection with the merger, the Company recorded goodwill of $679.0 million, which is attributable primarily to expected synergies, expanded market opportunities, and other expected benefits that the Company believes will result from combining its operations with the operations of Aclara. The historical goodwill of Aclara resulting from their prior asset acquisitions is expected to be deductible for tax purposes. Any incremental goodwill created in the merger is not deductible for tax purposes. The goodwill resulting from the acquisition of Aclara is subject to potential significant changes as the purchase price allocation is completed. Goodwill has been allocated to the Power segment.

The preliminary purchase price allocation to identifiable intangible assets acquired is as follows:

	Estimated Fair Value	Weighted Average Estimated Useful Life
Patents, tradenames and trademarks	$ 55.0	20.0
Customer relationships	204.0	17.0
Developed technology	185.0	13.0
Total	$ 444.0	

Customer relationship and developed technology intangible assets acquired are amortized using an accelerated method that reflects the pattern in which economic benefits of the intangible assets are consumed and results in higher amortization in the earlier years of the asset's useful life.

Supplemental Pro-Forma Data

Aclara’s results of operations have been included in the Company's financial statements for the period subsequent to the completion of the acquisition on February 2, 2018. Aclara contributed sales of approximately $254.1 million and operating income of approximately $2.6 million for the period from the completion of the acquisition through June 30, 2018.

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The following unaudited supplemental pro-forma information presents consolidated results as if the acquisition had been completed on January 1, 2017. Following that approach, for the purpose of the pro-forma results presented in the tables below, certain costs incurred by the Company during the three and six months ended June 30, 2018 and three months ended December 31, 2017 have been reclassified out of their respective periods and into the pro-forma periods ended June 30, 2017. Those reclassifications primarily include the following, which represent the amount of increase or (decrease) to reported results to arrive at the pro forma results. Per share amounts in 2018 reflect the reduction in the U.S. federal corporate income tax rate from 35% to 21%:

(pre-tax in millions, except per share amounts)	Three Months Ended June 30,		Per Diluted Share	
	2018	2017	2018	2017
Aclara transaction costs incurred in the second quarter of 2018[1]	$0.3	$(0.3)	$ —	$ —
Aclara transaction costs incurred in the fourth quarter of 2017[1]	—	—	—	—
Intangible amortization and inventory step up amortization[2]	(1.0)	(9.9)	(0.01)	(0.11)
Interest expense[3]	0.6	(7.1)	0.01	(0.08)

(pre-tax in millions, except per share amounts)	Six Months Ended June 30,		Per Diluted Share	
	2018	2017	2018	2017
Aclara transaction costs incurred in the first six months of 2018[1]	$10.6	$(10.6)	$0.16	$(0.15)
Aclara transaction costs incurred in the fourth quarter of 2017[1]	—	(7.1)	—	(0.10)
Intangible amortization and inventory step up[2]	0.6	(26.8)	0.01	(0.30)
Interest expense[3]	(1.5)	(14.3)	(0.02)	(0.16)

[1] Aclara transaction costs incurred in the three and six months ended June 30, 2018 have been reclassified into the comparable pro-forma June 30, 2017 period. The pro-forma six months ended June 30, 2017 period also includes transaction costs incurred by the Company during the fourth quarter of 2017.

[2] Aclara intangible amortization and inventory step up amortization incurred in three and six months ended June 30, 2018 has been reclassified into the comparable pro-forma June 30, 2017 period and increased to include a complete three or six months of amortization expense, as applicable. The pro-forma June 30, 2018 periods include the intangible amortization that would be incurred assuming the transaction had been completed on January 1, 2017.

[3] Interest expense incurred in the three and six months ended June 30, 2018, reflecting amounts incurred from the date of the acquisition, has been reclassified into the pro-forma June 30, 2017 period and increased to include a complete three or six months of interest expense, as applicable. The pro-forma June 30, 2018 period includes the interest expense that would have been incurred assuming the transaction had been completed on January 1, 2017.

The pro-forma results were calculated by combining the results of the Company with the stand-alone results of Aclara for the pre-acquisition periods, as described above:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$1,167.5	$1,078.3	$2,205.4	$2,037.5
Net income attributable to Hubbell	$99.5	$76.8	$167.2	$116.3
Earnings Per Share:				
Basic	$1.81	$1.40	$3.04	$2.11
Diluted	$1.81	$1.39	$3.03	$2.09

The unaudited supplemental pro-forma financial information does not reflect the actual performance of Aclara in the periods presented and does not reflect the potential realization of cost savings relating to the integration of the two companies. Further, the pro-forma data should not be considered indicative of the results that would have occurred if the acquisition and related financing had been consummated on January 1, 2017, nor are they indicative of future results.

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NOTE 4 Segment Information

The Company's reporting segments consist of the Electrical segment and the Power segment. The Electrical segment comprises businesses that sell stock and custom products including standard and special application wiring device products, rough-in electrical products, connector and grounding products, light fixtures and controls, components and assemblies for the natural gas distribution market as well as other electrical and communication equipment, some of which is designed such that it can also be used in harsh and hazardous locations primarily in the oil, gas (onshore and offshore) and mining industries. These products are primarily sold to electrical distributors who then sell directly into the residential, non-residential, industrial, electrical transmission and distribution, and oil and gas end markets. The Electrical segment comprises three business groups, which have been aggregated as they have similar long-term economic characteristics, customers and distribution channels, among other factors. The Power segment primarily serves the electric utility industry and comprises a wide variety of electrical distribution, transmission and substation products with high voltage applications as well as telecommunication products and smart infrastructure solutions. The Aclara businesses have been added to the Power segment and are intended to extend the segment's capabilities into smart automation technologies, accelerate ongoing innovations efforts to address utility customer demand for data and integrated solutions and expand the segment's reach to a broader set of utility customers. See Note 1 – Basis of Presentation and Note 3 – Business Acquisitions in the Notes to Condensed Consolidated Financial Statements for additional information. The following table sets forth financial information by business segment (in millions):

	Net Sales		Operating Income		Operating Income as a % of Net Sales	
	2018	2017	2018	2017	2018	2017
Three Months Ended June 30,						
Electrical	$688.6	$656.4	$91.3	$74.0	13.3 %	11.3 %
Power	478.1	291.9	65.6	60.4	13.7 %	20.7 %
TOTAL	$1,166.7	$948.3	$156.9	$134.4	13.4 %	14.2 %
Six Months Ended June 30,						
Electrical	$1,306.7	$1,243.9	$152.5	$126.8	11.7 %	10.2 %
Power	851.2	556.7	104.0	115.4	12.2 %	20.7 %
TOTAL	$2,157.9	$1,800.6	$256.5	$242.2	11.9 %	13.5 %

NOTE 5 Inventories, net

Inventories, net are composed of the following (in millions):

	June 30, 2018	December 31, 2017
Raw material	$229.8	$ 190.0
Work-in-process	116.1	115.8
Finished goods	402.1	390.5
	748.0	696.3
Excess of FIFO over LIFO cost basis	(61.3)	(61.6)
TOTAL	$686.7	$ 634.7

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NOTE 6 Goodwill and Intangible Assets, net

Changes in the carrying values of goodwill for the six months ended June 30, 2018, were as follows (in millions):

	Segment		
	Electrical	Power	Total
BALANCE DECEMBER 31, 2017	$717.6	$371.4	$1,089.0
Current year acquisitions (Note 3 – Business Acquisitions)	—	679.0	679.0
Foreign currency translation and prior year acquisitions	(1.2)	(7.1)	(8.3)
BALANCE JUNE 30, 2018	$716.4	$1,043.3	$1,759.7

In the first six months of 2018, the Company completed one acquisition (Aclara) that was added to the Power segment. This acquisition has been accounted for as a business combination and has resulted in the recognition of $679.0 million of goodwill. See Note 3 – Business Acquisitions in the Notes to Condensed Consolidated Financial Statements for additional information.

The Company performs its goodwill impairment testing as of April 1st of each year, unless circumstances dictate the need for more frequent assessments. For the 2018 test, the Company applied the "Step-zero" test to six of its seven reporting units, which allows the Company to first assess qualitative factors to determine whether it is more likely than not that a reporting unit's fair value is greater than its carrying amount. Based on the qualitative assessment, the Company concluded that it was more likely than not that the fair value of these reporting units substantially exceeded their carrying values and therefore, further quantitative analysis was not required. For the seventh reporting unit, the Company has elected to utilize the two step goodwill impairment testing process as permitted in the accounting guidance. Step 1 compared the fair value of the Company's reporting units to their carrying values. If the fair value of the reporting unit exceeds its carrying value, no further analysis is necessary. If the carrying value of the reporting unit exceeds its fair value, Step 2 must be completed to quantify the amount of impairment.

Goodwill impairment testing requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units and determining the fair value of each reporting unit. Significant judgment is required to estimate the fair value of reporting units including estimating future cash flows, determining appropriate discount rates and other assumptions. The Company uses internal discounted cash flow estimates to determine fair value. These cash flow estimates are derived from historical experience and future long-term business plans and the application of discount rates determined by management to be appropriate. Changes in these estimates and assumptions could affect the determination of fair value and/or goodwill impairment for each reporting unit. The Company believes that its estimated aggregate fair value of its reporting units is reasonable when compared to the Company's market capitalization on the valuation date.

As of April 1, 2018, the impairment testing resulted in implied fair values for each reporting unit that exceeded the reporting unit's carrying value, including goodwill. The Company did not have any reporting units at risk of failing Step 1 of the impairment test as the excess of the implied fair value significantly exceeded the carrying value of the reporting units. Additionally, the Company did not have any reporting units with zero or negative carrying amounts.

The Company performs its assessment of indefinite-lived intangible assets as of April 1st of each year, unless circumstances dictate the need for more frequent assessments. The identification and measurement of impairment of indefinite-lived intangible assets involves an assessment of qualitative factors to determine whether events or circumstances indicate that it is more likely than not that an indefinite-lived intangible asset is impaired. If it is more likely than not that the asset is impaired, the fair value of the indefinite lived intangibles will be estimated using a discounted cash flow approach. If the carrying value of these assets exceeds the estimated fair value, the carrying value will be reduced to the estimated fair value. As of April 1, 2018, based on the qualitative assessments, the

Company concluded it was more likely than not that the fair value of indefinite-lived intangible assets substantially exceeded their carrying and therefore, further quantitative analysis was not required and those assets were not impaired.

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The carrying value of other intangible assets included in Intangible assets, net in the Condensed Consolidated Balance Sheet is as follows (in millions):

	June 30, 2018		December 31, 2017	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Definite-lived:				
Patents, tradenames and trademarks	$205.3	$ (54.6)	$151.4	$ (50.1)
Customer/agent relationships and other	845.5	(184.1)	462.0	(156.7)
Total	$1,050.8	$ (238.7)	$613.4	$ (206.8)
Indefinite-lived:				
Tradenames and other	53.5	—	53.8	—
TOTAL	$1,104.3	$ (238.7)	$667.2	$ (206.8)

Amortization expense associated with definite-lived intangible assets was $34.6 million and $17.5 million for the six months ended June 30, 2018 and 2017, respectively. Future amortization expense associated with these intangible assets is expected to be $37.5 million for the remainder of 2018, $77.8 million in 2019, $76.2 million in 2020, $74.5 million in 2021, $66.1 million in 2022, and $59.5 million in 2023.

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NOTE 7 Other Accrued Liabilities

Other accrued liabilities are composed of the following (in millions):

	June 30, 2018	December 31, 2017
Customer program incentives	$ 31.5	$ 41.2
Accrued income taxes	20.5	27.5
Contract liabilities - deferred revenue	24.2	10.2
Customer refund liability	18.1	—
Accrued warranties	27.0	14.0
Other	91.4	82.0
TOTAL	$ 212.7	$ 174.9

NOTE 8 Other Non-Current Liabilities

Other non-current liabilities are composed of the following (in millions):

	June 30, 2018	December 31, 2017
Pensions	$ 211.8	$ 213.2
Other post-retirement benefits	24.6	24.6
Deferred tax liabilities	105.2	23.7
Accrued warranties long-term	29.2	—
Other	129.5	118.0
TOTAL	$ 500.3	$ 379.5

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NOTE 9 Total Equity

Total equity is composed of the following (in millions, except per share amounts):

	June 30, 2018	December 31, 2017
Common stock, $.01 par value:		
Common Stock – authorized 200.0 shares; issued and outstanding 54.8 and 54.9 shares	$0.5	$ 0.6
Additional paid-in capital	2.9	11.0
Retained earnings	1,967.0	1,892.4
Accumulated other comprehensive loss:		
Pension and post retirement benefit plan adjustment, net of tax	(172.6)	(176.5)
Cumulative translation adjustment	(112.7)	(91.9)
Unrealized gain (loss) on investment, net of tax	(1.0)	(0.6)
Cash flow hedge gain (loss), net of tax	0.8	(0.8)
Total Accumulated other comprehensive loss	(285.5)	(269.8)
Hubbell shareholders' equity	1,684.9	1,634.2
Noncontrolling interest	16.9	13.7
TOTAL EQUITY	$1,701.8	$ 1,647.9

A summary of the changes in equity for the six months ended June 30, 2018 and 2017 is provided below (in millions):

	Six Months Ended June 30,					
	2018			2017		
	Hubbell Shareholders' Equity	Noncontrolling interest	Total Equity	Hubbell Shareholders' Equity	Noncontrolling interest	Total Equity
EQUITY, JANUARY 1	$1,634.2	$ 13.7	$1,647.9	$1,592.8	$ 10.4	$1,603.2
Total comprehensive income	142.9	3.6	146.5	164.4	2.8	167.2
Stock-based compensation	9.5	—	9.5	8.1	—	8.1
ASC 606 adoption to retained earnings	0.6	—	0.6	—	—	—
Repurchase/surrender of shares of common stock	(18.0)	—	(18.0)	(96.0)	—	(96.0)
Issuance of shares related to directors' deferred compensation, net	0.3	—	0.3	0.3	—	0.3
Dividends to noncontrolling interest	—	(2.8)	(2.8)	—	(2.3)	(2.3)
Aclara noncontrolling interest	—	2.4	2.4	—	—	—
Cash dividends declared	(84.6)	—	(84.6)	(77.3)	—	(77.3)
EQUITY, JUNE 30	$1,684.9	$ 16.9	$1,701.8	$1,592.3	$ 10.9	$1,603.2

The detailed components of total comprehensive income are presented in the Condensed Consolidated Statement of Comprehensive Income.

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NOTE 10 Accumulated Other Comprehensive Loss

A summary of the changes in Accumulated other comprehensive loss (net of tax) for the six months ended June 30, 2018 is provided below (in millions):

(debit) credit	Cash flow hedge (loss) gain	Unrealized gain (loss) on available-for-sale securities	Pension and post retirement benefit plan adjustment	Cumulative translation adjustment	Total
BALANCE AT DECEMBER 31, 2017	$(0.8)	$ (0.6)	$ (176.5)	$ (91.9)	$(269.8)
Other comprehensive income (loss) before reclassifications	1.4	(0.4)	—	(20.8)	(19.8)
Amounts reclassified from accumulated other comprehensive loss	0.2	—	3.9	—	4.1
Current period other comprehensive income (loss)	1.6	(0.4)	3.9	(20.8)	(15.7)
BALANCE AT JUNE 30, 2018	$0.8	$ (1.0)	$ (172.6)	$ (112.7)	$(285.5)

A summary of the gain (loss) reclassifications out of Accumulated other comprehensive loss for the three and six months ended June 30, 2018 and 2017 is provided below (in millions):

Details about Accumulated Other Comprehensive Loss Components	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017		Location of Gain (Loss) Reclassified into Income
Cash flow hedges gain (loss):				
Forward exchange contracts	$ (0.1)	$ —		Net sales
	—	0.1		Cost of goods sold
	(0.1)	0.1		Total before tax
	0.1	—		Tax benefit (expense)
	$ —	$ 0.1		Gain (loss) net of tax
Amortization of defined benefit pension and post retirement benefit items:				
Prior-service costs	$ 0.3	$ 0.2	(a)	
Actuarial gains/(losses)	(2.8)	(2.7)	(a)	
Settlement and curtailment losses	—	(0.5)	(a)	
	(2.5)	(3.0)		Total before tax
	0.6	1.0		Tax benefit (expense)
	$ (1.9)	$ (2.0)		Gain (loss) net of tax
Losses reclassified into earnings	$ (1.9)	$ (1.9)		Gain (loss) net of tax

(a) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (see Note 12 – Pension and Other Benefits in the Notes to Condensed Consolidated Financial Statements for additional details).

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Details about Accumulated Other Comprehensive Loss Components	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Location of Gain (Loss) Reclassified into Income
Cash flow hedges gain (loss):			
Forward exchange contracts	$ (0.1)	$ —	Net sales
	(0.2)	—	Cost of goods sold
	(0.3)	—	Total before tax
	0.1	—	Tax benefit (expense)
	$ (0.2)	$ —	Gain (loss) net of tax
Amortization of defined benefit pension and post retirement benefit items:			
Prior-service costs	$ 0.5	$ 0.4	(a)
Actuarial gains/(losses)	(5.6)	(5.5)	(a)
Settlement and curtailment losses	—	(0.5)	(a)
	(5.1)	(5.6)	Total before tax
	1.2	1.9	Tax benefit (expense)
	$ (3.9)	$ (3.7)	Gain (loss) net of tax
Losses reclassified into earnings	$ (4.1)	$ (3.7)	Gain (loss) net of tax

(a) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost (see Note 12 – Pension and Other Benefits in the Notes to Condensed Consolidated Financial Statements for additional details).

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NOTE 11 Earnings Per Share

The Company computes earnings per share using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities. Service-based and performance-based restricted stock awards granted by the Company are considered participating securities as these awards contain a non-forfeitable right to dividends.

The following table sets forth the computation of earnings per share for the three and six months ended June 30, 2018 and 2017 (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income attributable to Hubbell	$100.3	$79.1	$158.6	$141.9
Less: Earnings allocated to participating securities	(0.4)	(0.3)	(0.5)	(0.5)
Net income available to common shareholders	$99.9	$78.8	$158.1	$141.4
Denominator:				
Average number of common shares outstanding	54.7	54.8	54.7	55.0
Potential dilutive common shares	0.2	0.3	0.3	0.3
Average number of diluted shares outstanding	54.9	55.1	55.0	55.3
Earnings per share:				
Basic	$1.83	$1.44	$2.89	$2.57
Diluted	$1.82	$1.43	$2.87	$2.56

The Company did not have outstanding any significant anti-dilutive securities during the three and six months ended June 30, 2018 and 2017.

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NOTE 12 Pension and Other Benefits

The following table sets forth the components of net pension and other benefit costs for the three and six months ended June 30, 2018 and 2017 (in millions):

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Three Months Ended June 30,				
Service cost	$1.1	$1.5	$0.1	$—
Interest cost	8.6	9.3	0.3	0.3
Expected return on plan assets	(8.5)	(8.5)	—	—
Amortization of prior service cost	—	—	(0.3)	(0.2)
Amortization of actuarial losses	2.7	2.7	0.1	—
Settlement and curtailment losses	—	0.5	—	—
NET PERIODIC BENEFIT COST	$3.9	$5.5	$0.2	$0.1
Six Months Ended June 30,				
Service cost	$2.2	$3.0	$0.1	$—
Interest cost	17.2	18.5	0.5	0.4
Expected return on plan assets	(17.0)	(17.0)	—	—
Amortization of prior service cost	—	—	(0.5)	(0.4)
Amortization of actuarial losses	5.5	5.5	0.1	—
Settlement and curtailment losses	—	0.5	—	—
NET PERIODIC BENEFIT COST	$7.9	$10.5	$0.2	$—

Employer Contributions

Although not required by ERISA and the Internal Revenue Code, the Company may elect to make a voluntary contribution to its qualified domestic defined benefit pension plan in 2018. The Company anticipates making required contributions of approximately $1.9 million to its foreign pension plans during 2018, of which $1.0 million has been contributed through June 30, 2018.

NOTE 13 Guarantees

The Company records a liability equal to the fair value of guarantees in accordance with the accounting guidance for guarantees. When it is probable that a liability has been incurred and the amount can be reasonably estimated, the Company accrues for costs associated with guarantees. The most likely costs to be incurred are accrued based on an evaluation of currently available facts and, where no amount within a range of estimates is more likely, the minimum is accrued. As of June 30, 2018 and December 31, 2017, the fair value and maximum potential payment related to the Company’s guarantees were not material.

The Company offers product warranties that cover defects on most of its products. These warranties primarily apply to products that are properly installed, maintained and used for their intended purpose. The Company accrues estimated warranty costs at the time of sale. Estimated warranty expenses, recorded in cost of goods sold, are based upon historical information such as past experience, product failure rates, or the estimated number of units to be repaired or replaced. Adjustments are made to the product warranty accrual as claims are incurred, additional information becomes known, or as historical experience indicates.

Changes in the accrual for product warranties during the six months ended June 30, 2018 and 2017 are set forth below (in millions):

	2018	2017
BALANCE AT JANUARY 1,	$14.0	$13.8
Provision	6.2	6.6
Expenditures/other	(8.4)	(4.4)
Acquisitions[a]	44.4	—
BALANCE AT JUNE 30[b],	$56.2	$16.0

[a] The acquisition amount disclosed relates to the Aclara acquisition. Refer to Note 3 – Business Acquisitions for additional information.

[b] Refer to Note 7 – Other Accrued Liabilities and Note 8 – Other Non-Current Liabilities for a breakout of short-term and long-term warranties.

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NOTE 14 Fair Value Measurement

Investments

At June 30, 2018 and December 31, 2017, the Company had $51.6 million and $58.4 million, respectively, of available-for-sale securities, consisting of municipal bonds classified in Level 2 of the fair value hierarchy and an investment in the redeemable preferred stock of a privately-held electrical utility substation security provider classified in Level 3 of the fair value hierarchy. The Company also had $15.9 million of trading securities at June 30, 2018 and $13.8 million at December 31, 2017 that are carried on the balance sheet at fair value. Unrealized gains and losses associated with available-for-sale securities are reflected in Accumulated other comprehensive loss, net of tax, while unrealized gains and losses associated with trading securities are reflected in the results of operations.

Fair value measurements

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The FASB fair value measurement guidance established a fair value hierarchy that prioritizes the inputs used to measure fair value. The three broad levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for which little or no market data exists, therefore requiring a company to develop its own assumptions.

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The following table shows, by level within the fair value hierarchy, our financial assets and liabilities that are accounted for at fair value on a recurring basis at June 30, 2018 and December 31, 2017 (in millions):

Asset (Liability)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Similar Assets (Level 2)	Unobservable Inputs for Which Little or No Market Data Exists (Level 3)	Total
June 30, 2018				
Money market funds[a]	$62.3	$—	$ —	$62.3
Available for sale investments	—	47.7	3.9	51.6
Trading securities	15.9	—	—	15.9
Deferred compensation plan liabilities	(15.9)	—	—	(15.9)
Derivatives:				
Forward exchange contracts-Assets[b]	—	1.6	—	1.6
Forward exchange contracts-(Liabilities)[c]	—	—	—	—
TOTAL	$62.3	$ 49.3	$ 3.9	$115.5

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Quoted Prices in Active Markets for Similar Assets (Level 2)	Unobservable Inputs for Which Little or No Market Data Exists (Level 3)	Total
December 31, 2017				
Money market funds[a]	$126.9	$—	$ —	$126.9
Available for sale investments	—	54.3	4.1	58.4
Trading securities	13.8	—	—	13.8
Deferred compensation plan liabilities	(13.8)	—	—	(13.8)
Derivatives:				
Forward exchange contracts-Assets[b]	—	0.2	—	0.2
Forward exchange contracts-(Liabilities)[c]	—	(0.7)	—	(0.7)
TOTAL	$126.9	$ 53.8	$ 4.1	$184.8

[a] Money market funds are reflected in Cash and cash equivalents in the Condensed Consolidated Balance Sheet.
[b] Forward exchange contracts-Assets are reflected in Other current assets in the Condensed Consolidated Balance Sheet.
[c] Forward exchange contracts-(Liabilities) are reflected in Other accrued liabilities in the Condensed Consolidated Balance Sheet.

The methods and assumptions used to estimate the Level 2 and Level 3 fair values were as follows:

Forward exchange contracts – The fair value of forward exchange contracts were based on quoted forward foreign exchange prices at the reporting date.

Available-for-sale municipal bonds classified in Level 2 – The fair value of available-for-sale investments in municipal bonds is based on observable market-based inputs, other than quoted prices in active markets for identical assets.

Available-for-sale redeemable preferred stock classified in Level 3 – The fair value of the available-for-sale investment in redeemable preferred stock is valued based on a discounted cash flow model, using significant unobservable inputs, including expected cash flows and the discount rate.

During the three and six months ended June 30, 2018 there were no transfers of financial assets or liabilities in or out of Level 1 or Level 2 of the fair value hierarchy. There were also no transfers in or out of Level 3 during that period.

Deferred compensation plans

The Company offers certain employees the opportunity to participate in non-qualified deferred compensation plans. A participant's deferrals are invested in a variety of participant-directed debt and equity mutual funds that are classified as trading securities. During the six months ended June 30, 2018 and 2017, the Company purchased $2.4 million and $1.9 million, respectively, of trading securities related to these deferred compensation plans. As a result of participant distributions, the Company sold $0.4 million of these trading securities during the six months ended June 30, 2018 and $0.3 million during the six months ended June 30, 2017. The unrealized gains and losses associated with these trading securities are directly offset by the changes in the fair value of the underlying deferred compensation plan obligation.

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Derivatives

In order to limit financial risk in the management of its assets, liabilities and debt, the Company may use derivative financial instruments such as foreign currency hedges, commodity hedges, interest rate hedges and interest rate swaps. All derivative financial instruments are matched with an existing Company asset, liability or forecasted transaction. Market value gains or losses on the derivative financial instrument are recognized in income when the effects of the related price changes of the underlying asset, liability or forecasted transaction are recognized in income. Derivative assets and derivative liabilities are not offset in the Condensed Consolidated Balance Sheet.

In 2018 and 2017, the Company entered into a series of forward exchange contracts to purchase U.S. dollars in order to hedge exposure to fluctuating rates of exchange for both anticipated inventory purchases and forecasted sales by its subsidiaries that transact business in Canada. As of June 30, 2018, the Company had 40 individual forward exchange contracts for an aggregate notional amount of $38.5 million, having various expiration dates through June 2019. These contracts have been designated as cash flow hedges in accordance with the accounting guidance for derivatives.

The following table summarizes the results of cash flow hedging relationships for the three months ended June 30, 2018 and 2017 (in millions):

	Derivative Gain/(Loss) Recognized in Accumulated Other Comprehensive Loss (net of tax)		Location of Gain/(Loss) Reclassified into Income	Gain/(Loss) Reclassified into Earnings Effective Portion (net of tax)	
Derivative Instrument	2018	2017	(Effective Portion)	2018	2017
Forward exchange contract	$ 1.0	$ (0.7)	Net sales	$ —	$ —
			Cost of goods sold	$ —	$ 0.1

The following table summarizes the results of cash flow hedging relationships for the six months ended June 30, 2018 and 2017 (in millions):

	Derivative Gain/(Loss) Recognized in Accumulated Other Comprehensive Loss (net of tax)		Location of Gain/(Loss) Reclassified into Income	Gain/(Loss) Reclassified into Earnings Effective Portion (net of tax)	
Derivative Instrument	2018	2017	(Effective Portion)	2018	2017
Forward exchange contract	$ 1.4	$ (0.9)	Net sales	$ —	$ —
			Cost of goods sold	$ (0.2)	$ —

Hedge ineffectiveness was immaterial with respect to the forward exchange cash flow hedges during the three and six months ended June 30, 2018 and 2017.

Long Term Debt

As of June 30, 2018 and December 31, 2017, the estimated fair value of the long-term debt was $1,878.8 million and $1,013.2 million, respectively, using quoted market prices in active markets for similar liabilities (Level 2).

NOTE 15 Commitments and Contingencies

The Company is subject to various legal proceedings arising in the normal course of its business. These proceedings include claims for damages arising out of use of the Company’s products, intellectual property, workers’ compensation and environmental matters. The Company is self-insured up to specified limits for certain types of claims, including product liability and workers’ compensation, and is fully self-insured for certain other types of claims, including environmental and intellectual property matters. The Company recognizes a liability for any contingency that in management’s judgment is probable of occurrence and can be reasonably estimated. We continually reassess the likelihood of adverse judgments and outcomes in these matters, as well as estimated ranges of possible losses based upon an analysis of each matter which includes consideration of outside legal counsel and, if applicable, other experts.

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NOTE 16 Restructuring Costs and Other

In the three and six months ended June 30, 2018, we incurred costs for restructuring actions initiated in 2018 as well as costs for restructuring actions initiated in the prior year. Our restructuring actions are associated with cost reduction efforts that include the consolidation of manufacturing and distribution facilities as well as workforce reductions and the sale or exit of business units we determine to be non-strategic. Restructuring costs include severance and employee benefits, asset impairments, as well as facility closure, contract termination and certain pension costs that are directly related to restructuring actions. These costs are predominantly settled in cash from our operating activities and are generally settled within one year, with the exception of asset impairments, which are non-cash, and a liability associated with the withdrawal from a multi-employer pension plan. The withdrawal liability may be settled either in periodic payments over approximately 19 years, or in a lump sum, subject to negotiation.

Pre-tax restructuring costs incurred in each of our reporting segments and the location of the costs in the Condensed Consolidated Statement of Income for the three and six months ended June 30, 2018 and 2017 is as follows (in millions):

	Three Months Ended June 30,					
	2018	2017	2018	2017	2018	2017
	Cost of goods sold		Selling & administrative expense		Total	
Electrical Segment	$0.3	$2.5	$ (0.3)	$ 1.4	$ —	$3.9
Power Segment	0.1	0.7	(0.1)	0.2	—	0.9
Total Pre-Tax Restructuring Costs	$0.4	$3.2	$ (0.4)	$ 1.6	$ —	$4.8

	Six Months Ended June 30,					
	2018	2017	2018	2017	2018	2017
	Cost of goods sold		Selling & administrative expense		Total	
Electrical Segment	$1.1	$6.3	$ (0.4)	$ 2.3	$0.7	