TEREX CORP
Form 10-Q
May 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

F O R M 10 – Q

(Mark One)

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

For the quarterly period ended March 31, 2017

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

Commission file number 1-10702

Terex Corporation
(Exact name of registrant as specified in its charter)

Delaware	34-1531521
(State of Incorporation)	(IRS Employer Identification No.)

200 Nyala Farm Road, Westport, Connecticut 06880
(Address of principal executive offices)

(203) 222-7170
(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 x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES x 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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	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 x

Number of outstanding shares of common stock: 97.6 million as of April 28, 2017.
The Exhibit Index begins on page 52.

TEREX CORPORATION AND SUBSIDIARIES

GENERAL

This Quarterly Report on Form 10-Q filed by Terex Corporation generally speaks as of March 31, 2017 unless specifically noted otherwise. Unless otherwise indicated, Terex Corporation, together with its consolidated subsidiaries, is hereinafter referred to as "Terex," the "Registrant," "us," "we," "our" or the "Company."

Forward-Looking Information

Certain information in this Quarterly Report includes forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995) regarding future events or our future financial performance that involve certain contingencies and uncertainties, including those discussed below in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contingencies and Uncertainties." In addition, when included in this Quarterly Report or in documents incorporated herein by reference, the words "may," "expects," "should," "intends," "anticipates," "believes," "plans," "projects," "estimates" and the negatives thereof and analogous or similar expressions are intended to identify forward-looking statements. However, the absence of these words does not mean that the statement is not forward-looking. We have based these forward-looking statements on current expectations and projections about future events. These statements are not guarantees of future performance. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Such risks and uncertainties, many of which are beyond our control, include, among others:

- our business is cyclical and weak general economic conditions affect the sales of our products and financial results;
- our need to comply with restrictive covenants contained in our debt agreements;
- our ability to generate sufficient cash flow to service our debt obligations and operate our business;
- our ability to access the capital markets to raise funds and provide liquidity;
- our business is sensitive to government spending;
- our business is highly competitive and is affected by our cost structure, pricing, product initiatives and other actions taken by competitors;
- our retention of key management personnel;
- the financial condition of suppliers and customers, and their continued access to capital;
- our providing financing and credit support for some of our customers;
- we may experience losses in excess of recorded reserves;
- the carrying value of our goodwill could become impaired;
- our ability to obtain parts and components from suppliers on a timely basis at competitive prices;
- our business is global and subject to changes in exchange rates between currencies, commodity price changes, regional economic conditions and trade restrictions;
- our operations are subject to a number of potential risks that arise from operating a multinational business, including compliance with changing regulatory environments, the Foreign Corrupt Practices Act and other similar laws, and political instability;
- a material disruption to one of our significant facilities;
- possible work stoppages and other labor matters;
- compliance with changing laws and regulations, particularly environmental and tax laws and regulations;
- litigation, product liability claims, intellectual property claims, class action lawsuits and other liabilities;
- our ability to comply with an injunction and related obligations imposed by the United States Securities and Exchange Commission ("SEC");

- disruption or breach in our information technology systems; and
- other factors.

Actual events or our actual future results may differ materially from any forward-looking statement due to these and other risks, uncertainties and significant factors. The forward-looking statements contained herein speak only as of the date of this Quarterly Report and the forward-looking statements contained in documents incorporated herein by reference speak only as of the date of the respective documents. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained or incorporated by reference in this Quarterly Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TEREX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(unaudited)
(in millions, except per share data)

	Three Months Ended March 31,	
	2017	2016
Net sales	$1,006.9	$1,114.3
Cost of goods sold	(854.6)	(932.6)
Gross profit	152.3	181.7
Selling, general and administrative expenses	(158.6)	(170.4)
Income (loss) from operations	(6.3)	11.3
Other income (expense)		
Interest income	1.8	1.2
Interest expense	(21.4)	(24.7)
Loss on early extinguishment of debt	(45.4)	—
Other income (expense) – net	(17.3)	(5.9)
Income (loss) from continuing operations before income taxes	(88.6)	(18.1)
(Provision for) benefit from income taxes	28.3	(3.9)
Income (loss) from continuing operations	(60.3)	(22.0)
Income (loss) from discontinued operations – net of tax	—	(52.4)
Gain (loss) on disposition of discontinued operations – net of tax	55.7	3.4
Net income (loss)	(4.6)	(71.0)
Net loss (income) from discontinued operations attributable to noncontrolling interest	—	0.2
Net income (loss) attributable to Terex Corporation	$(4.6)	$(70.8)
Amounts attributable to Terex Corporation Common Stockholders:		
Income (loss) from continuing operations	$(60.3)	$(22.0)
Income (loss) from discontinued operations – net of tax	—	(52.2)
Gain (loss) on disposition of discontinued operations – net of tax	55.7	3.4
Net income (loss) attributable to Terex Corporation	$(4.6)	$(70.8)
Basic Earnings (Loss) per Share Attributable to Terex Corporation Common Stockholders:		
Income (loss) from continuing operations	$(0.57)	$(0.20)
Income (loss) from discontinued operations – net of tax	—	(0.48)
Gain (loss) on disposition of discontinued operations – net of tax	0.53	0.03
Net income (loss) attributable to Terex Corporation	$(0.04)	$(0.65)
Diluted Earnings (Loss) per Share Attributable to Terex Corporation Common Stockholders:		
Income (loss) from continuing operations	$(0.57)	$(0.20)
Income (loss) from discontinued operations – net of tax	—	(0.48)
Gain (loss) on disposition of discontinued operations – net of tax	0.53	0.03
Net income (loss) attributable to Terex Corporation	$(0.04)	$(0.65)
Weighted average number of shares outstanding in per share calculation		
Basic	105.2	108.8
Diluted	105.2	108.8
Comprehensive income (loss)	$423.5	$(12.6)
Comprehensive loss (income) attributable to noncontrolling interest	—	0.1
Comprehensive income (loss) attributable to Terex Corporation	$423.5	$(12.5)

Dividends declared per common share	$0.08	$0.07

The accompanying notes are an integral part of these condensed consolidated financial statements.

TEREX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(unaudited)
(in millions, except par value)

	March 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$813.9	$ 428.5
Trade receivables (net of allowance of $16.1 and $16.5 at March 31, 2017 and December 31, 2016, respectively)	651.0	512.5
Inventories	909.2	853.8
Prepaid and other current assets	195.8	172.8
Current assets held for sale	27.8	732.9
Total current assets	2,597.7	2,700.5
Non-current assets		
Property, plant and equipment – net	302.7	304.6
Goodwill	262.1	259.7
Intangible assets – net	18.0	18.4
Investment carried at fair value	431.0	—
Other assets	549.2	552.3
Non-current assets held for sale	2.4	1,171.3
Total assets	$4,163.1	$ 5,006.8
Liabilities and Stockholders' Equity		
Current liabilities		
Notes payable and current portion of long-term debt	$263.2	$ 13.8
Trade accounts payable	548.9	522.7
Accrued compensation and benefits	121.8	125.1
Accrued warranties and product liability	60.7	61.2
Other current liabilities	266.7	230.4
Current liabilities held for sale	16.4	453.8
Total current liabilities	1,277.7	1,407.0
Non-current liabilities		
Long-term debt, less current portion	979.6	1,562.0
Retirement plans	153.5	153.8
Other non-current liabilities	54.0	50.7
Non-current liabilities held for sale	2.6	312.1
Total liabilities	2,467.4	3,485.6
Commitments and contingencies		
Stockholders' equity		
Common stock, $.01 par value – authorized 300.0 shares; issued 130.3 and 129.6 shares at March 31, 2017 and December 31, 2016, respectively	1.3	1.3
Additional paid-in capital	1,293.5	1,300.0
Retained earnings	1,884.5	1,897.9
Accumulated other comprehensive income (loss)	(351.3)	(779.4)
Less cost of shares of common stock in treasury – 31.0 and 24.6 shares at March 31, 2017 and December 31, 2016, respectively	(1,132.7)	(935.1)
Total Terex Corporation stockholders' equity	1,695.3	1,484.7

Noncontrolling interest	0.4	36.5
Total stockholders’ equity	1,695.7	1,521.2
Total liabilities and stockholders’ equity	$4,163.1	$ 5,006.8

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TEREX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)
(in millions)

	Three Months Ended March 31,	
	2017	2016
Operating Activities		
Net income (loss)	$(4.6)	$(71.0)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	16.3	29.9
(Gain) loss on disposition of discontinued operations	(55.7)	(3.4)
Deferred taxes	(24.9)	(4.5)
(Gain) loss on sale of assets	4.7	—
Loss on early extinguishment of debt	13.1	—
Stock-based compensation expense	9.7	8.7
Other non-cash charges	13.0	19.8
Changes in operating assets and liabilities (net of effects of acquisitions and divestitures):		
Trade receivables	(130.7)	(57.7)
Inventories	(39.4)	(93.3)
Trade accounts payable	24.9	4.2
Income taxes payable / receivable	(6.2)	5.0
Other assets and liabilities	(13.7)	60.5
Other operating activities, net	(2.6)	(18.9)
Net cash provided by (used in) operating activities	(196.1)	(120.7)
Investing Activities		
Capital expenditures	(10.6)	(22.2)
Acquisitions, net of cash acquired	—	(3.2)
Proceeds (payments) from disposition of discontinued operations	764.3	—
Proceeds from sale of assets	294.6	2.0
Other investing activities, net	—	(2.5)
Net cash provided by (used in) investing activities	1,048.3	(25.9)
Financing Activities		
Repayments of debt	(1,329.5)	(166.1)
Proceeds from issuance of debt	999.0	177.0
Share repurchases	(178.2)	—
Dividends paid	(8.3)	(7.6)
Other financing activities, net	(27.7)	(9.1)
Net cash provided by (used in) financing activities	(544.7)	(5.8)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	7.0	9.5
Net Increase (Decrease) in Cash and Cash Equivalents	314.5	(142.9)
Cash and Cash Equivalents at Beginning of Period	501.9	466.5
Cash and Cash Equivalents at End of Period	$816.4	$323.6

The accompanying notes are an integral part of these condensed consolidated financial statements.

TEREX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017
(unaudited)
NOTE A – BASIS OF PRESENTATION

Basis of Presentation. The accompanying unaudited Condensed Consolidated Financial Statements of Terex Corporation and subsidiaries as of March 31, 2017 and for the three months ended March 31, 2017 and 2016 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America to be included in full-year financial statements. The accompanying Condensed Consolidated Balance Sheet as of December 31, 2016 has been derived from and should be read in conjunction with the audited Consolidated Balance Sheet as of that date, but does not include all disclosures required by accounting principles generally accepted in the United States. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

The Condensed Consolidated Financial Statements include accounts of Terex Corporation, its majority-owned subsidiaries and other controlled subsidiaries (“Terex” or the “Company”). The Company consolidates all majority-owned and controlled subsidiaries, applies either the equity method of accounting or utilizes the fair value option allowed by Accounting Standards Codification (“ASC”) 825 for investments in which the Company is able to exercise significant influence, and applies the cost method for all other investments. All intercompany balances, transactions and profits have been eliminated.

In the opinion of management, adjustments considered necessary for the fair presentation of these interim financial statements have been made. Except as otherwise disclosed, all such adjustments consist only of those of a normal recurring nature. Operating results for the three months ended March 31, 2017 are not necessarily indicative of results that may be expected for the year ending December 31, 2017.

Cash and cash equivalents at March 31, 2017 and December 31, 2016 include $6.1 million and $6.0 million, respectively, which were not immediately available for use. These consist primarily of cash balances held in escrow to secure various obligations of the Company.

Reclassifications. Effective as of June 30, 2016, adjustments were made to the Company’s reportable segments as a result of definitive agreements to sell portions of its business and reorganize the management structure of other portions of its business, as discussed below. On May 16, 2016, the Company entered into an agreement to sell its Material Handling and Port Solutions (“MHPS”) business to Konecranes. As a result, the former MHPS segment is reported in discontinued operations in the Condensed Consolidated Statement of Comprehensive Income (Loss) for all periods presented, and in assets and liabilities held for sale in the Condensed Consolidated Balance Sheet at December 31, 2016, and is no longer a reportable segment. During June and July of 2016, the Company entered into agreements to sell certain portions of its former Construction segment. As a result, concrete mixer trucks and concrete paver product lines from the former Construction segment were reassigned to the Company’s Materials Processing (“MP”) segment and remaining product lines within the former Construction segment, such as loader backhoes and site dumpers, have been reassigned to the Corporate and Other category, as a result of changes in management responsibilities and reporting associated with these product lines. The effect of these changes has been shown in all periods presented.

See Note B - “Sale of MHPS Business and Investment Carried at Fair Value”, Note C - “Business Segment Information”, Note E - “Discontinued Operations and Assets and Liabilities Held for Sale” and Note J - “Goodwill and Intangible

Assets, Net” for further information.

See discussion below for reclassification and cumulative effect adjustment impact related to adoption of Accounting Standards Update (“ASU”) 2016-09, “Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting”.

Recently Issued Accounting Standards

Accounting Standards Implemented in 2017

In July 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-11, "Simplifying the Measurement of Inventory," ("ASU 2015-11"). ASU 2015-11 simplifies the subsequent measurement of inventory by using only the lower of cost or net realizable value. The ASU defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted ASU 2015-11 on January 1, 2017. Adoption did not have a material effect on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, "Derivatives and Hedging (Topic 815)," ("ASU 2016-05"). ASU 2016-05 provides guidance clarifying that novation of a derivative contract (i.e. a change in counterparty) in a hedge accounting relationship does not, in and of itself, require dedesignation of that hedge accounting relationship. The Company adopted ASU 2016-05 on January 1, 2017. Adoption did not have a material effect on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, "Derivatives and Hedging (Topic 815)," ("ASU 2016-06"). ASU 2016-06 simplifies the embedded derivative analysis for debt instruments containing contingent call or put options by clarifying that an exercise contingency does not need to be evaluated to determine whether it relates to interest rates and credit risk in an embedded derivative analysis. The Company adopted ASU 2016-06 on January 1, 2017. Adoption did not have a material effect on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, "Investments-Equity Method and Joint Ventures (Topic 323)," ("ASU 2016-07"). ASU 2016-07 eliminates the retroactive adjustments to an investment qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. The Company adopted ASU 2016-07 on January 1, 2017. Adoption did not have a material effect on the Company's consolidated financial statements.

On January 1, 2017, the Company adopted ASU 2016-09, "Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting," ("ASU 2016-09"). As required by ASU 2016-09, excess tax benefits and tax deficiencies recognized on the vesting date of restricted stock awards are reflected in the Condensed Consolidated Statements of Comprehensive Income (Loss) as a component of the provision for income taxes and was adopted on a prospective basis. In addition, ASU 2016-09 requires that the excess tax benefit be removed from the overall calculation of diluted shares. The impact on diluted earnings per share for adoption of this provision was not material. As required by ASU 2016-09, excess tax benefits recognized on stock-based compensation expense are now classified as an operating activity in the Company's Condensed Consolidated Statement of Cash Flows versus previously classified as a financing activity. The Company has elected to apply this provision on a prospective basis, so no prior periods have been adjusted. ASU 2016-09 increases the amount of shares an employer can withhold for tax purposes without triggering liability accounting, which had no effect on the Company's consolidated financial statements. ASU 2016-09 requires all cash payments made on an employee's behalf for withheld shares to be presented as a financing activity in the Condensed Consolidated Statement of Cash Flows, with retrospective application required. As a result, net cash used in operating activities for the three months ended March 31, 2016 decreased by $8.5 million with a corresponding increase to net cash used in financing activities. Finally, ASU 2016-09 allows for the option to account for forfeitures as they occur, rather than estimating expected forfeitures over the service period. The Company elected to account for forfeitures as they occur and the net cumulative effect of this change was recognized as a $0.6 million increase to additional paid in capital, a $0.2 million increase to deferred tax assets and a $0.4 million reduction to retained earnings as of January 1, 2017.

Accounting Standards to be Implemented

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," ("ASU 2014-09"). ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14, "Deferral of the Effective Date", which amends ASU 2014-09. As a result, the effective date will be the first quarter of fiscal year 2018 with early adoption permitted in the first quarter of fiscal year 2017.

Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU 2016-08, “Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” (“ASU 2016-08”); ASU 2016-10, “Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing,” (“ASU 2016-10”); ASU 2016-12, “Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients,” (“ASU 2016-12”); and ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,” (“ASU 2016-20”), which are intended to provide additional guidance and clarity to ASU 2014-09. The Company must adopt ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 along with ASU 2014-09 (collectively, the “New Revenue Standards”).

The New Revenue Standards may be applied using one of two retrospective application methods: (1) a full retrospective approach for all periods presented, or (2) a modified retrospective approach that presents a cumulative effect as of the adoption date and additional required disclosures. The Company plans to adopt the New Revenue Standards in the first quarter of 2018 using the modified retrospective approach and is in the process of completing its initial analysis identifying the revenue streams that will be impacted by the adoption of this new standard and the impact to its consolidated financial statements and footnote disclosures.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," (“ASU 2016-01”). The amendments in ASU 2016-01, among other things, require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income   require public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes   require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables)   and eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost. The effective date will be the first quarter of fiscal year 2018. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” (“ASU 2016-02”). ASU 2016-02 requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months and disclose key information about leasing arrangements. The effective date will be the first quarter of fiscal year 2019, with early adoption permitted. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses,” (“ASU 2016-13”). ASU 2016-13 sets forth a “current expected credit loss” model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. The guidance in this new standard replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. The effective date will be the first quarter of fiscal year 2020. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments,” (“ASU 2016-15”). ASU 2016-15 reduces the existing diversity in practice in financial reporting by clarifying existing principles in ASC 230, “Statement of Cash Flows,” and provides specific guidance on certain cash flow classification issues. The effective date for ASU 2016-15 will be the first quarter of fiscal year 2018, with early adoption permitted. ASU 2016-15 will be applied retrospectively and may modify the Company's current disclosures and reclassifications within the consolidated statement of cash flows, but is not expected to have a material effect on the Company’s consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740) - Intra-Entity Transfer of Assets Other than Inventory,” (“ASU 2016-16”). ASU 2016-16 requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (excluding inventory) when the transfer occurs. This is a change from existing U.S. generally accepted accounting principles which prohibits recognition of current and deferred income taxes until the asset is sold to a third party. The effective date for ASU 2016-16 will be the first quarter of fiscal year 2018 with early adoption permitted. Adoption will be applied on a modified retrospective basis, resulting in a cumulative-effect adjustment directly to retained earnings. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230) - Restricted Cash," ("ASU 2016-18"). ASU 2016-18 requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The effective date will be the first quarter of fiscal year 2018. Adoption will not have any effect on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," ("ASU 2017-01"). ASU 2017-01 provides guidance in ascertaining whether a collection of assets and activities is considered a business. The effective date will be the first quarter of fiscal year 2018, with prospective application. Adoption is not expected to have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment. The effective date will be the first quarter of fiscal year 2020, with early adoption permitted in 2017. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," (ASU 2017-05"). ASU 2017-05 is meant to clarify the scope of ASC Subtopic 610-20, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets" and to add guidance for partial sales of nonfinancial assets. ASU 2017-05 is to be applied using a full retrospective method or a modified retrospective method as outlined in the guidance and is effective at the same time as ASU 2014-09. Further, the Company is required to adopt ASU 2017-05 at the same time that it adopts the guidance in the New Revenue Standards. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In February 2017, the FASB issued ASU 2017-06, "Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting, ("ASU 2017-06")". ASU 2017-06 provides guidance for reporting by an employee benefit plan for its interest in a master trust. The guidance is effective beginning in the first quarter of fiscal year 2021 on a retrospective basis, with early application permitted as of the beginning of the first quarter of fiscal year 2020. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

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"). ASU 2017-07 changes how employers that sponsor defined benefit pension plans and other postretirement plans present the net periodic benefit cost in the income statement. An employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendment also allows only the service cost component to be eligible for capitalization, when applicable. The effective date will be the first quarter of fiscal year 2018. ASU 2017-07 will be applied retrospectively for the presentation requirements and prospectively for the capitalization of the service cost component requirements. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, “Receivables--Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities,” (“ASU 2017-08”). ASU 2017-08 shortens the amortization period for callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount. The effective date will be the first quarter of fiscal year 2019. Adoption is not expected to have a material effect on the Company’s consolidated financial statements.

Accrued Warranties. The Company records accruals for potential warranty claims based on its claims experience. The Company’s products are typically sold with a standard warranty covering defects that arise during a fixed period. Each business provides a warranty specific to products it offers. The specific warranty offered by a business is a function of customer expectations and competitive forces. Warranty length is generally a fixed period of time, a fixed number of operating hours, or both.

A liability for estimated warranty claims is accrued at the time of sale. The non-current portion of the warranty accrual is included in Other non-current liabilities in the Company's Condensed Consolidated Balance Sheet. The liability is established using historical warranty claim experience for each product sold. Historical claim experience may be adjusted for known design improvements or for the impact of unusual product quality issues. Warranty reserves are reviewed quarterly to ensure critical assumptions are updated for known events that may affect the potential warranty liability.

The following table summarizes the changes in the product warranty liability (in millions):

	Three Months Ended March 31, 2017
Balance at beginning of period	$ 59.8
Accruals for warranties issued during the period	14.0
Changes in estimates	0.5
Settlements during the period	(15.2)
Foreign exchange effect/other	0.7
Balance at end of period	$ 59.8

Fair Value Measurements. Assets and liabilities measured at fair value on a recurring basis under the provisions of ASC 820, “Fair Value Measurement and Disclosure” (“ASC 820”) includes our investment discussed in Note B - “Sale of MHPS Business and Investment Carried at Fair Value” and interest rate swaps and foreign currency forward contracts discussed in Note K – “Derivative Financial Instruments.” These investments are valued using a market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. ASC 820 establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Determining which category an asset or liability falls within this hierarchy requires judgment. The Company evaluates its hierarchy disclosures each quarter.

NOTE B – SALE OF MHPS BUSINESS AND INVESTMENT CARRIED AT FAIR VALUE

On May 16, 2016, Terex agreed to sell its MHPS business to Konecranes Plc, a Finnish public company limited by shares (“Konecranes”) by entering into a Stock and Asset Purchase Agreement, as amended (the “SAPA”), with Konecranes. As a result, the Company and Konecranes terminated the Business Combination Agreement and Plan of Merger (the “BCA”) announced on August 11, 2015, with no penalties incurred by either party. On January 4, 2017, the Company completed the disposition of its MHPS business to Konecranes (the “Disposition”), pursuant to the SAPA, effective as of January 1, 2017. In connection with the Disposition, the Company received 19.6 million newly issued Class B shares of Konecranes and approximately $835 million in cash after adjustments for estimated cash, debt and net working capital at closing and the divestiture of Konecranes' Stahl Crane Systems business (“Stahl”), which was undertaken by Konecranes in connection with the Disposition. The final transaction consideration is subject to post-closing adjustments for the actual cash, debt and net working capital at closing, the 2016 performance of the MHPS business and Konecranes business, and the closing of the sale of Stahl. The Company recognized a gain on the Disposition of $52.7 million, net of tax.

The Company and Konecranes entered into a Stockholders Agreement (the “Stockholders Agreement”), dated as of January 4, 2017, providing certain restrictions, including Terex’s commitment that it will not directly or indirectly sell or otherwise transfer the shares of Konecranes stock received by the Company for a period of three months, subject to certain exceptions, including transfers to affiliates or with permission from Konecranes. In addition, under the Stockholders Agreement, Terex is subject to certain standstill obligations for a four-year period, as well as some limited obligations following the initial four-year period. Terex also has customary registration rights pursuant to a registration rights agreement between Terex and Konecranes entered into on January 4, 2017 (the “Registration Rights Agreement”). In connection with the Disposition, Konecranes’ articles of association were amended to create a new class of B shares.

On February 15, 2017, Terex sold approximately 7.5 million Konecranes shares for proceeds of approximately $272 million and recorded a loss on sale of $13.2 million as a component of Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss) during the period. Following the sale of shares, Terex owns approximately 15.5% of the outstanding shares of Konecranes. Pursuant to the Stockholders Agreement and amended articles of association, Terex has nominated two members to the Board of Directors of Konecranes. Terex's Board nominees are David Sachs and Oren Shaffer.

On March 23, 2017, Konecranes declared a dividend of €1.05 per share to holders of record as of March 27, 2017, which was paid on April 4, 2017. At March 31, 2017, the Company recorded a dividend receivable in Prepaid and other current assets in the Condensed Consolidated Balance Sheet and recognized dividend income of $13.5 million as a component of Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss).

Our investment in Konecranes shares qualifies for equity method of accounting as the Company has ability to exercise significant influence primarily through its board representation. As such, the Company has elected to account for its investment in Konecranes shares using the fair value option allowed by ASC 825. As a result, changes in fair value of the shares of its investment in Konecranes are recognized as a component of Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss) during the period.

At March 31, 2017, the Company’s investment in Konecranes Class B shares was $431.0 million. Konecranes Class B shares have the same financial rights as Konecranes Class A shares. Konecranes Class A shares are publicly traded on the NASDAQ Helsinki exchange, and as such, fair value of the Konecranes shares is based on price quotations in an active market. Therefore, the Company categorizes this investment under Level 1 of the ASC 820 hierarchy. See Note A – “Basis of Presentation,” for an explanation of the ASC 820 hierarchy.

During the three months ended March 31, 2017, the Company recorded a change in fair value of $(9.3) million as a component of Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss).

In connection with the Disposition, the Company and Konecranes entered into certain ancillary agreements, including Transition Services Agreements (“TSA’s”) generally with terms from three to twelve months, dated as of January 4, 2017, under which the parties will provide one another certain transition services to facilitate both the separation of the MHPS business from the businesses retained by the Company and the interim operations of the MHPS business acquired by Konecranes. Cash inflows and outflows related to these TSA’s generally offset to immaterial amounts.

Loss Contract

Related to the Disposition, the Company and Konecranes entered into an agreement for Konecranes to manufacture certain crane products on behalf of the Company for a period of 12 months. The Company recorded an expense of $6.3 million related to losses expected to be incurred over the agreement’s life during the three months ended March 31, 2017.

BCA Related Expenses

Terex incurred transaction costs directly related to the terminated BCA of $7.3 million for the three months ended March 31, 2016 which amounts are recorded in Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss).

NOTE C – BUSINESS SEGMENT INFORMATION

Terex is a global manufacturer of lifting and material processing products and services that deliver lifecycle solutions to maximize customer return on investment. The Company delivers lifecycle solutions to a broad range of industries, including the construction, infrastructure, manufacturing, shipping, transportation, refining, energy, utility, quarrying and mining industries. The Company operates in three reportable segments: (i) Aerial Work Platforms (“AWP”); (ii) Cranes; and (iii) MP.

The AWP segment designs, manufactures, services and markets aerial work platform equipment, telehandlers and light towers. Customers use these products to construct and maintain industrial, commercial and residential buildings and facilities and for other commercial operations, as well as in a wide range of infrastructure projects.

The Cranes segment designs, manufactures, services, refurbishes and markets a wide variety of cranes, including mobile telescopic cranes, lattice boom crawler cranes, tower cranes, and utility equipment, as well as their related components and replacement parts. Customers use these products primarily for construction, repair and maintenance of commercial buildings, manufacturing facilities, construction and maintenance of utility and telecommunication lines, tree trimming and certain construction and foundation drilling applications and a wide range of infrastructure projects.

The MP segment designs, manufactures and markets materials processing and specialty equipment, including crushers, washing systems, screens, apron feeders, material handlers, wood processing, biomass and recycling equipment, concrete mixer trucks and concrete pavers, and their related components and replacement parts. Customers use these products in construction, infrastructure and recycling projects, in various quarrying and mining applications, as well as in landscaping and biomass production industries, material handling applications, and in building roads and bridges.

The Company assists customers in their rental, leasing and acquisition of its products through Terex Financial Services (“TFS”). TFS uses its equipment financing experience to provide financing solutions to customers who purchase the Company’s equipment. TFS is included in the Corporate and Other category.

Business segment information is presented below (in millions):

	Three Months Ended March 31,	
	2017	2016
Net Sales		
AWP	$472.4	$520.7
Cranes	263.9	307.3
MP	249.1	223.8
Corporate and Other / Eliminations	21.5	62.5
Total	$1,006.9	$1,114.3
Income (loss) from Operations		
AWP	$21.7	$38.1
Cranes	(32.8)	(16.6)
MP	25.5	15.8
Corporate and Other / Eliminations	(20.7)	(26.0)
Total	$(6.3)	$11.3

	March 31, 2017	December 31, 2016
Identifiable Assets		
AWP (1)	$1,315.8	$ 1,659.8
Cranes	1,631.0	1,618.0
MP	1,176.9	1,104.9
Corporate and Other / Eliminations (2)	9.2	(1,280.1)
Assets held for sale	30.2	1,904.2
Total	$4,163.1	$ 5,006.8

(1) Reduction due primarily to the settlement of an intercompany balance with Corporate and Other.
(2) Increase due to Investment carried at fair value and increased cash on hand as a result of the sale of MHPS, debt refinancing and lower eliminations due to settlement of intercompany balance with AWP segment.

NOTE D – INCOME TAXES

During the three months ended March 31, 2017, the Company recognized an income tax benefit of $28.3 million on a loss of $88.6 million, an effective tax rate of 31.9% as compared to an income tax expense of $3.9 million on a loss of $18.1 million, an effective tax rate of (21.5)%, for the three months ended March 31, 2016. The effective tax rate for the three months ended March 31, 2017 was driven by a tax benefit for interest deduction and geographic mix of earnings. In addition, since the Company's year-to-date ordinary loss exceeded the anticipated ordinary loss for the full year, the tax benefit for the three months ended March 31, 2017 was limited to the amount that would be recognized if the year-to-date ordinary loss were the anticipated ordinary loss for the full year. The effective tax rate for the three months ended March 31, 2016 was driven by losses in jurisdictions where no tax benefits are recognized due to valuation allowances.

NOTE E –DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

MHPS

On January 4, 2017, the Company completed the disposition of its MHPS business to Konecranes. See Note B - "Sale of MHPS Business and Investment Carried at Fair Value" for further information on the Disposition. The Disposition represents a significant strategic shift in the Company's business away from universal, process, mobile harbor and ship-to-shore cranes that will have a major effect on the Company's future operating results, primarily because the MHPS business represented the entirety of one of the Company's five previous reportable operating segments and comprised two of the Company's six previous reporting units, representing a significant portion of the Company's revenues and assets, and is therefore accounted for as a discontinued operation for all periods presented. MHPS products include universal cranes, process cranes and components, such as rope hoists, chain hoists, light crane systems, travel units and electric motors, primarily for industrial applications, and mobile harbor cranes, ship-to-shore gantry cranes, rubber tired and rail mounted gantry cranes, straddle carriers, sprinter carriers, reach stackers, container handlers, general cargo lift trucks, automated stacking cranes, automated guided vehicles and software solutions for logistics terminals.

Cash flows from discontinued operations are included in the Condensed Consolidated Statement of Cash Flows.

Income (loss) from discontinued operations

The following amounts related to the discontinued operations were derived from historical financial information and have been segregated from continuing operations and reported as discontinued operations in the Condensed Consolidated Statement of Comprehensive Income (Loss) (in millions):

	Three Months Ended March 31, 2016	
Net sales	$ 312.6	
Cost of sales	(270.8	)
Selling, general and administrative expenses	(94.8	)
Net interest (expense)	(0.4	)
Other income (expense)	2.1	
Income (loss) from discontinued operations before income taxes	(51.3	)
(Provision for) benefit from income taxes	(1.1	)
Income (loss) from discontinued operations – net of tax	(52.4	)

Net loss (income) attributable to noncontrolling interest	0.2
Income (loss) from discontinued operations – net of tax attributable to Terex Corporation	$ (52.2)

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Cranes

As part of the transformation and improvement of its Cranes segment, the Company is actively seeking a buyer for a portion of its cranes business located in South America and, accordingly, the assets and liabilities are reported as held for sale.

Construction

In December 2016, the Company entered into an agreement to sell its Coventry, UK-based compact construction business. During the three months ended March 31, 2017, the Company completed the sale of the Coventry, UK-based compact construction business and a loss of $0.6 million was recognized within SG&A related to the sale. The sale of the remaining UK-based compact construction product line assets is expected to be completed during the second quarter of 2017. During the three months ended March 31, 2017, the Company recognized a gain of $5.6 million within SG&A resulting from a post-closing adjustment related to the 2016 sale of its midi/mini excavators, wheeled excavators, and compact wheel loader business in Germany. In addition, the Company signed a sale agreement with a buyer to sell its Indian compact construction business and expects to complete the sale during the second quarter of 2017. The operating results for these construction product lines are reported in continuing operations, within the Corporate and Other category in our segment disclosures, and the remaining assets and liabilities are reported as held for sale.

Assets and liabilities held for sale

Assets and liabilities held for sale consist of the Company's former MHPS segment, portions of its Cranes segment and portions of its former Construction Segment. Such assets and liabilities are classified as held for sale upon meeting the requirements of ASC 360 - "Property, Plant and Equipment", and are recorded at lower of carrying amounts or fair value less costs to sell. Assets are no longer depreciated once classified as held for sale.

The following table provides the amounts of assets and liabilities held for sale in the Condensed Consolidated Balance Sheet (in millions):

	March 31, 2017			December 31, 2016			
	Cranes	Construction	Total	MHPS	Cranes	Construction	Total
Assets							
Cash and cash equivalents	$1.6	$ 0.9	$2.5	$71.0	$ 1.2	$ 1.2	$73.4
Trade receivables – net	2.8	10.0	12.8	243.5	3.1	24.4	271.0
Inventories	1.9	10.1	12.0	309.4	1.7	23.9	335.0
Prepaid and other current assets	0.5	2.2	2.7	49.9	0.5	3.1	53.5
Impairment reserve	—	(2.2)	(2.2)	—	—	—	—
Current assets held for sale	$6.8	$ 21.0	$27.8	$673.8	$ 6.5		