

REGAL BELOIT CORP  
Form 10-Q  
August 06, 2009

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

FORM 10-Q

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

for the quarterly period ended  
June 27, 2009  
or

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

Commission file number

001-07283

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

Wisconsin  
(State of other jurisdiction of  
incorporation)

39-0875718  
(IRS Employer Identification  
No.)

200 State Street, Beloit, Wisconsin 53511  
(Address of principal executive office)

(608) 364-8800  
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ✓ NO “  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES “ NO “

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

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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES " NO y

35,822,815 Shares, Common Stock, \$.01 Par Value (as of August 5, 2009)

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REGAL BELOIT CORPORATION

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CAUTIONARY STATEMENT

This Quarterly Report contains “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements represent our management’s judgment regarding future events. In many cases, you can identify forward-looking statements by terminology such as “may,” “will,” “plan,” “expect,” “anticipate,” “estimate,” “believe,” or “continue” or the negative of these terms or other similar words. Actual results and events could differ materially and adversely from those contained in the forward-looking statements due to a number of factors, including:

- economic changes in global markets where we do business, such as reduced demand for products we sell, weakness in the housing and commercial real estate markets, currency exchange rates, inflation rates, interest rates, recession, foreign government policies and other external factors that we cannot control;
  - unanticipated fluctuations in commodity prices and raw material costs;
  - cyclical downturns affecting the global market for capital goods;
- unexpected issues and costs arising from the integration of acquired companies and businesses;
- marketplace acceptance of new and existing products including the loss of, or a decline in business from, any significant customers;
  - the impact of capital market transactions that we may effect;
  - the availability and effectiveness of our information technology systems;
    - unanticipated costs associated with litigation matters;
- actions taken by our competitors, including new product introductions or technological advances, and other events affecting our industry and competitors;
- difficulties in staffing and managing foreign operations; and other domestic and international economic and political factors unrelated to our performance, such as the current substantial weakness in economic and business conditions and the stock markets as a whole; and

- other risks and uncertainties including but not limited to those described in Item 1A-Risk Factors of the Company's Annual Report on Form 10-K filed on February 25, 2009 and from time to time in our reports filed with U.S. Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements. The forward-looking statements included in this Form 10-Q are made only as of their respective dates, and we undertake no obligation to update these statements to reflect subsequent events or circumstances. See also Item 1A - Risk Factors in the Company's Annual Report on Form 10-K filed on February 25, 2009.

PART I - FINANCIAL INFORMATION  
REGAL BELOIT CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
(Unaudited)

(In Thousands of Dollars, Except Shares Outstanding, Dividends Declared and Per Share Data)

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

|   | Three Months Ended<br>(As<br>Adjusted,<br>See Note 2)<br>June 27,<br>2009 |            | Six Months Ended<br>(As<br>Adjusted,<br>See Note 2)<br>June 27,<br>2009 |              |
|---|---|------------|---|--------------|
|   | June 28,<br>2008  |            | June 28,<br>2008  |              |
| Net Sales   | \$ 454,550  | \$ 606,316 | \$ 897,824  | \$ 1,142,659 |
| Cost of Sales   | 359,928   | 475,139    | 712,632   | 889,383      |
| Gross Profit  | 94,622  | 131,177    | 185,192   | 253,276      |
| Operating Expenses  | 65,155  | 63,683     | 127,533   | 128,170      |
| Income From Operations  | 29,467  | 67,494     | 57,659  | 125,106      |
| Interest Expense  | 5,501   | 8,357      | 12,620  | 16,770       |
| Interest Income   | 377   | 531        | 510   | 915          |
| Income Before Taxes & Noncontrolling Interests                        | 24,343  | 59,668     | 45,549  | 109,251      |
| Provision For Income Taxes  | 6,822   | 21,086     | 14,052  | 38,644       |
| Net Income  | 17,521  | 38,582     | 31,497  | 70,607       |
| Less: Net Income Attributable to Noncontrolling Interests, net of tax | 1,069   | 1,269      | 2,258   | 1,867        |
| Net Income Attributable to Regal Beloit Corporation                   | \$ 16,452   | \$ 37,313  | \$ 29,239   | \$ 68,740    |
| Earnings Per Share of Common Stock:                                   |   |            |   |              |
| Basic   | \$ 0.49   | \$ 1.19    | \$ 0.90   | \$ 2.19      |
| Assuming Dilution   | \$ 0.47   | \$ 1.11    | \$ 0.86   | \$ 2.06      |

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|                         |    |      |    |      |    |      |    |      |
|-------------------------|----|------|----|------|----|------|----|------|
| Cash Dividends Declared | \$ | 0.16 | \$ | 0.16 | \$ | 0.32 | \$ | 0.31 |
|-------------------------|----|------|----|------|----|------|----|------|

Weighted Average Number of Shares  
Outstanding:

|                   |            |            |            |            |
|-------------------|------------|------------|------------|------------|
| Basic             | 33,256,281 | 31,305,715 | 32,356,782 | 31,311,296 |
| Assuming Dilution | 35,105,383 | 33,525,725 | 33,850,093 | 33,321,379 |

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In Thousands of Dollars, Except per Share Data)

|  | (Unaudited)<br>June 27,<br>2009 | (As<br>Adjusted,<br>From<br>Audited<br>Statements,<br>See Note 2)<br>December<br>27, 2008 |
|--|---------------------------------|---|
| <b>ASSETS</b>  |                                 |   |
| Current Assets:  |                                 |   |
| Cash and Cash Equivalents  | \$ 290,549                      | \$ 65,250   |
| Trade Receivables, less Allowances of \$13,156 in 2009, and \$11,145 in 2008 | 285,891                         | 294,326   |
| Inventories, net   | 269,216                         | 359,918   |
| Prepaid Expenses and Other Current Assets                                    | 75,733                          | 66,594  |
| Deferred Income Tax Benefits   | 46,405                          | 75,174  |
| Total Current Assets   | 967,794                         | 861,262   |
| Property, Plant and Equipment:   |                                 |   |
| Land and Improvements  | 37,977                          | 39,982  |
| Buildings and Improvements   | 127,940                         | 127,018   |
| Machinery and Equipment  | 473,356                         | 457,063   |
| Property, Plant and Equipment, at Cost                                       | 639,273                         | 624,063   |
| Less - Accumulated Depreciation  | (288,026)                       | (265,691)   |
| Net Property, Plant and Equipment  | 351,247                         | 358,372   |
| Goodwill   | 671,377                         | 672,475   |
| Intangible Assets, Net of Amortization                                       | 122,564                         | 120,784   |
| Other Noncurrent Assets  | 11,595                          | 10,603  |
| Total Assets   | \$ 2,124,577                    | \$ 2,023,496  |
| <b>LIABILITIES AND EQUITY</b>  |                                 |   |
| Current Liabilities:   |                                 |   |
| Accounts Payable   | 161,653                         | 202,456   |
| Dividends Payable  | 5,731                           | 5,024   |
| Accrued Compensation and Employee Benefits                                   | 56,129                          | 64,207  |
| Other Accrued Expenses   | 73,292                          | 63,457  |
| Hedging Obligations  | 16,347                          | 80,578  |
| Current Maturities of Debt   | 4,987                           | 15,280  |
| Total Current Liabilities  | 318,139                         | 431,002   |
| Long-Term Debt   | 548,115                         | 560,127   |
| Deferred Income Taxes  | 85,052                          | 72,119  |
| Hedging Obligations  | 36,434                          | 61,958  |
| Pension and Other Post Retirement Benefits                                   | 44,648                          | 43,768  |
| Other Noncurrent Liabilities   | 11,758                          | 16,881  |

## Equity:

## Regal Beloit Corporation Shareholders' Equity:

Common Stock, \$.01 par value, 100,000,000 shares

authorized, 36,703,381 issued in 2009, and

32,282,395 shares issued in 2008

|   |              |              |
|---|--------------|--------------|
|   | 367          | 323          |
| Additional Paid-In Capital                                      | 509,359      | 356,231      |
| Less - Treasury Stock, at cost, 884,100 shares in 2009 and 2008 | (19,419)     | (19,419)     |
| Retained Earnings   | 649,751      | 631,281      |
| Accumulated Other Comprehensive Loss                            | (74,949)     | (142,429)    |
| Total Regal Beloit Corporation Shareholders' Equity             | 1,065,109    | 825,987      |
| Noncontrolling Interests  | 15,322       | 11,654       |
| Total Equity  | 1,080,431    | 837,641      |
| Total Liabilities and Equity                                    | \$ 2,124,577 | \$ 2,023,496 |

See accompanying Notes to Condensed Consolidated Financial Statements.



REGAL BELOIT CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY  
(In Thousands of Dollars, Except Per Share Data)

|   | Common<br>Stock<br>\$.01<br>Par<br>Value | Additional<br>Paid-In<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Noncontrolling<br>Interests | Total<br>Equity |
|---|--|----------------------------------|-------------------|----------------------|---|-----------------------------|-----------------|
| Balance as of<br>December 29, 2007<br>(As Adjusted, See<br>Note 2)                        | \$ 321                                   | \$ 348,971                       | \$ (15,228)       | \$ 525,506           | \$ 2,180  | \$ 10,542                   | \$ 872,292      |
| Net Income  | \$ -                                     | \$ -                             | \$ -              | \$ 68,740            | \$ -  | \$ 1,867                    | \$ 70,607       |
| Dividends Declared<br>(\$ .31 per share)  | -  | -                                | -                 | (9,704)              | -   | -                           | (9,704)         |
| Purchase of 110,000<br>shares of Treasury<br>Stock  | -  | -                                | (4,191)           | -                    | -   | -                           | (4,191)         |
| Stock Options<br>Exercised,<br>including income<br>tax benefit and share<br>cancellations | 1  | 1,886                            | -                 | -                    | -   | -                           | 1,887           |
| Stock-based<br>Compensation   | -  | 1,961                            | -                 | -                    | -   | -                           | 1,961           |
| Other Comprehensive<br>Income (Loss) by<br>Classification:                                |  |                                  |                   |                      |   |                             |                 |
| Currency Translation<br>adjustments   | -  | -                                | -                 | -                    | (1,628)   | 742                         | (886)           |
| Hedging Activities,<br>net<br>of tax  | -  | -                                | -                 | -                    | 8,749   | -                           | 8,749           |
| Pension and Post<br>Retirement Benefits,<br>net of tax                                    | -  | -                                | -                 | -                    | (104)   | -                           | (104)           |
| Balance as of June<br>28, 2008  | \$ 322                                   | \$ 352,818                       | \$ (19,419)       | \$ 584,542           | \$ 9,197  | \$ 13,151                   | \$ 940,611      |

Regal Beloit Corporation Shareholders' Equity

|                                    | Common<br>Stock<br>\$.01<br>Par<br>Value | Additional<br>Paid-In<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Noncontrolling<br>Interests | Total<br>Equity |
|------------------------------------|--|----------------------------------|-------------------|----------------------|---|-----------------------------|-----------------|
| Balance as of<br>December 27, 2008 | \$ 323                                   | \$ 356,231                       | \$ (19,419)       | \$ 631,281           | \$ (142,429)  | \$ 11,654                   | \$ 837,641      |

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(As Adjusted, See  
Note 2)

|   |    |     |    |         |    |          |    |          |    |          |    |        |    |           |
|---|----|-----|----|---------|----|----------|----|----------|----|----------|----|--------|----|-----------|
| Net Income  | \$ | -   | \$ | -       | \$ | -        | \$ | 29,239   | \$ | -        | \$ | 2,258  | \$ | 31,497    |
| Dividends Declared<br>(\$.32 per share)   |    | -   |    | -       |    | -        |    | (10,769) |    | -        |    | -      |    | (10,769)  |
| Sale of 4,312,500<br>shares of<br>common stock  |    | 43  |    | 150,507 |    | -        |    | -        |    | -        |    | -      |    | 150,550   |
| Stock Options<br>Exercised,<br>including income<br>tax benefit and share<br>cancellations |    | 1   |    | 662     |    | -        |    | -        |    | -        |    | -      |    | 663       |
| Stock-based<br>Compensation   |    | -   |    | 1,959   |    | -        |    | -        |    | -        |    | -      |    | 1,959     |
| Other Comprehensive<br>Income (Loss) by<br>Classification:                                |    |     |    |         |    |          |    |          |    |          |    |        |    |           |
| Currency Translation<br>adjustments   |    | -   |    | -       |    | -        |    | -        |    | 5,654    |    | 1,410  |    | 7,064     |
| Hedging Activities,<br>net<br>of tax  |    | -   |    | -       |    | -        |    | -        |    | 61,052   |    | -      |    | 61,052    |
| Pension and Post<br>Retirement Benefits,<br>net of tax                                    |    | -   |    | -       |    | -        |    | -        |    | 774      |    | -      |    | 774       |
| Balance as of June<br>27, 2009  | \$ | 367 | \$ | 509,359 | \$ | (19,419) | \$ | 649,751  | \$ | (74,949) | \$ | 15,322 | \$ | 1,080,431 |

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In Thousands of Dollars)

|  | Six Months Ended<br>(As Adjusted,<br>See Note 2) |                  |
|--|--|------------------|
|  | June 27,<br>2009                                 | June 28,<br>2008 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |  |                  |
| Net income   | \$ 31,497  | \$ 70,607        |
| Adjustments to reconcile net income to net cash provided<br>by operating activities: |  |                  |
| Depreciation and amortization  | 33,793   | 30,211           |
| Excess tax benefits from stock-based compensation                                    | (1,767)  | (1,333)          |
| (Gain) loss on sale of assets, net   | (91)   | 70               |
| Stock-based compensation expense   | 1,959  | 1,961            |
| Non-cash convertible debt deferred financing costs                                   | 1,063  | 2,424            |
| Change in assets and liabilities, net of acquisitions                                | 59,031   | 12,345           |
| Net cash provided by operating activities  | 125,485  | 116,285          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |  |                  |
| Additions to property, plant and equipment   | (18,614)   | (28,134)         |
| Business acquisitions, net of cash acquired  | (1,500)  | (15,805)         |
| Sale of property, plant and equipment  | 306  | 1,149            |
| Net cash used in investing activities  | (19,808)   | (42,790)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |  |                  |
| Net repayments of short-term borrowings  | (10,295)   | (92)             |
| Payments of long-term debt   | (108)  | (233)            |
| Net borrowings (repayments) under revolving credit facility                          | (13,207)   | (182,700)        |
| Net proceeds from long-term borrowings   | -  | 165,000          |
| Net proceeds from the sale of common stock   | 150,550  | -                |
| Dividends paid to shareholders   | (10,063)   | (9,392)          |
| Purchases of treasury stock  | -  | (4,191)          |
| Proceeds from the exercise of stock options  | 631  | 1,739            |
| Excess tax benefits from stock-based compensation                                    | 1,767  | 1,333            |
| Financing fees paid  | -  | (418)            |
| Net cash provided by (used in) financing activities                                  | 119,275  | (28,954)         |
| <b>EFFECT OF EXCHANGE RATES ON CASH</b>  | <b>347</b>                                       | <b>595</b>       |
| Net increase in cash and cash equivalents  | 225,299  | 45,136           |
| Cash and cash equivalents at beginning of period                                     | 65,250   | 42,574           |
| Cash and cash equivalents at end of period   | \$ 290,549                                       | \$ 87,710        |

See accompanying Notes to Condensed Consolidated Financial Statements.



REGAL BELOIT CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 27, 2009  
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet as of December 27, 2008, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of June 27, 2009, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's 2008 Annual Report on Form 10-K filed on February 25, 2009.

As of the beginning of fiscal 2009, the Company adopted the following pronouncements which require us to adjust previously disclosed condensed consolidated financial statements. As such, certain prior period amounts have been adjusted in the unaudited condensed consolidated financial statements to conform to the current period presentation.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 amends the accounting and reporting for noncontrolling interests in a consolidated subsidiary and the deconsolidation of a subsidiary. Under SFAS 160, we now report noncontrolling interests in subsidiaries as a separate component of equity in the condensed consolidated financial statements and show both net income attributable to the noncontrolling interest and net income attributable to the controlling interest on the face of the condensed consolidated income statement. SFAS 160 applies prospectively, except for presentation and disclosure requirements, which are applied retrospectively.

The Company adopted Financial Accounting Standards Board ("FASB") Staff Position ("FSP") No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). The adoption of FSP APB 14-1 required an adjustment of convertible debt, equity, and interest expense. (See Note 2 of Notes to Condensed Consolidated Financial Statements.)

As of June 27, 2009, the Company adopted SFAS No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 establishes general standards and requirements for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity had evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The Company has evaluated subsequent events through August 5, 2009, which is the date the financial statements were issued.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 provides for the FASB Accounting Standards Codification<sup>TM</sup> (the "Codification") to become the single official source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles ("GAAP"), except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are also sources of authoritative GAAP for SEC registrants. The Codification did not change GAAP but reorganizes the literature using a consistent

structure. SFAS 168 is effective financial statements issued for interim and annual periods ending after September 15, 2009. As the Codification was not intended to change or alter existing GAAP, it is not expected to impact the consolidated financial statements, however the Company will cease using prior GAAP references and begin to use the new Codification when referring to GAAP in the Notes to Condensed Consolidated Financial Statements in its quarterly report on Form 10-Q for the third quarter ending September 26, 2009.

FSP FAS 107-1 and Accounting Principles Board (“APB”) 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS 107-1 and APB 28-1”), requires disclosures about the fair value of financial instruments in interim reporting periods of publicly traded companies as well as in annual financial statements. The provisions of FSP FAS 107-1 and APB 28-1 are effective for the Company’s interim period ending on June 27, 2009. FSP FAS 107-1 and APB 28-1 amends only the Company’s disclosure requirements. See Note 9 – Debt and Bank Credit Facilities in Notes to Condensed Consolidated Financial Statements for information regarding the fair value of financial instruments at June 27, 2009.

Certain non-trade receivables at December 27, 2008 have been reclassified from Receivables to Prepaid Expenses and Other Current Assets to conform to the 2009 presentation. Trade Receivables less Allowances on the Condensed Consolidated Balance Sheets is now comprised of trade receivables net of estimated allowances.

In the opinion of management, all adjustments considered necessary for a fair presentation of financial results have been made. Except as otherwise discussed, such adjustments consist of only those of a normal recurring nature. Operating results for the three and six months ended June 27, 2009 are not necessarily indicative of the results that may be expected for the entire fiscal year ending January 2, 2010.

The Company operates on a 52/53 week fiscal year, and fiscal 2009 will be a 53 week year with an additional week in the fiscal fourth quarter.

## 2. ADOPTION OF FSP APB 14-1

As of the beginning of fiscal 2009, the Company adopted FSP APB 14-1 which requires an adjustment of convertible debt, equity, and interest expense. The new standard requires that a fair value be assigned to the equity conversion option of the Company's \$115.0 million, 2.75% convertible senior subordinated notes (the "Convertible Notes") as of April 5, 2004, the date of issuance of the Convertible Notes. This change results in a corresponding decrease in the value assigned to the debt portion of the instrument.

The value assigned to the debt portion of the Convertible Notes was determined based on market interest rates for similar debt instruments without the conversion feature as of April 5, 2004, the issuance date of the Convertible Notes. The difference in this interest rate versus the coupon rate on the Convertible Notes is then amortized into interest expense over the expected term of the Convertible Notes. For purposes of the valuation, the Company used an expected term of five years, which represents the first anniversary date at which holders of the Convertible Notes may put their Convertible Notes back to the Company.

The five year anniversary occurred in March 2009, and through June 27, 2009, no Convertible Notes were put to the Company and no Convertible Notes were called by the Company. Accordingly, the book value as of June 27, 2009 equals the par value of the Convertible Notes, and interest expense will equal the coupon rate in future periods.

The adjustment affected our balance sheet as follows (in thousands):

|                            | December 27, 2008 |             |
|----------------------------|-------------------|-------------|
|                            | As Adjusted       | As Reported |
| Long-Term Debt             | \$ 560,127        | \$ 561,190  |
| Deferred Income Taxes      | 72,119            | 71,715      |
| Additional Paid-in Capital | 356,231           | 342,712     |
| Retained Earnings          | 631,281           | 644,141     |

The adjustment of interest expense for the three and six months ended June 28, 2008 was as follows (in thousands, except per share data):

| Three Months Ended<br>June 28, 2008 |             | Six Months Ended<br>June 28, 2008 |             |
|-------------------------------------|-------------|-----------------------------------|-------------|
| As Adjusted                         | As Reported | As Adjusted                       | As Reported |

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|   |    |        |    |        |    |         |    |         |
|---|----|--------|----|--------|----|---------|----|---------|
| Interest Expense                                    | \$ | 8,357  | \$ | 7,127  | \$ | 16,770  | \$ | 14,346  |
| Income Before Taxes and<br>Noncontrolling Interests |    | 59,668 |    | 60,898 |    | 109,251 |    | 111,675 |
| Provision for Income Taxes                          |    | 21,086 |    | 21,553 |    | 38,644  |    | 39,565  |
| Net Income  |    | 38,582 |    | 39,345 |    | 70,607  |    | 72,110  |
| Net Income Attributable to Regal Beloit Corporation |    | 37,313 |    | 38,076 |    | 68,740  |    | 70,243  |
| Earnings per Share of Common Stock                  |    |        |    |        |    |         |    |         |
| Basic   | \$ | 1.19   | \$ | 1.21   | \$ | 2.19    | \$ | 2.24    |
| Assuming Dilution                                   |    | 1.11   |    | 1.14   |    | 2.06    |    | 2.11    |

The full year impact of the adjustment for the fiscal year ended December 27, 2008 reduced diluted earnings per share from \$3.87 to \$3.77.

### 3. INVENTORIES

Cost for approximately 59% of the Company's inventory is determined using the last-in, first-out (LIFO) inventory valuation method. The approximate percentage distribution between major classes of inventories was as follows:

|                                       | June 27, 2009 | December 27,<br>2008 |
|---------------------------------------|---------------|----------------------|
| Raw Material and Work in<br>Process   | 32%           | 29%                  |
| Finished Goods and Purchased<br>Parts | 68%           | 71%                  |



#### 4. ACQUISITIONS

The results of operations for acquired businesses are included in the Condensed Consolidated Financial Statements from the dates of acquisition. In January, 2009, the Company acquired Custom Power Technology ("CPT"), a custom power electronics business located in Menomonee Falls, Wisconsin. The purchase price and impact in our Condensed Consolidated Financial Statements was not significant. The following acquisitions in 2008 were not considered to be material business combinations.

##### 2008 Acquisitions

On April 25, 2008 the Company acquired Joyce Court Holdings Ltd. and Grand Delight Investments Ltd., sole shareholders of Wuxi Hwada Motor Co. and Wuxi New Hwada Motor Co. (collectively "Hwada") located in Wuxi, China. Hwada is a leading designer and manufacturer of Integral IEC and NEMA electric motors, which are used in various industrial applications such as compressor, pump, paper and steel processing and power plants. Approximately 50% of Hwada's product sales are in the China industrial markets. The business is reported as part of the Company's Electrical segment.

On September 30, 2008, the Company acquired Dutchi Motors B.V. ("Dutchi") located in Arnhem, The Netherlands. Dutchi is a leading distributor of industrial motors in Western and Eastern Europe, South Africa, Russia and the Middle East. Dutchi is one of the largest distributors of the Company's Hwada motor products. The Dutchi business is reported as part of the Company's Electrical segment.

#### 5. COMPREHENSIVE INCOME

The Company's consolidated comprehensive income for the three and six months ended June 27, 2009 and June 28, 2008, respectively, was as follows (in thousands):

|   | Three Months Ending<br>(As<br>Adjusted,<br>See Note 2)<br>June 27,<br>2009 |           | Six Months Ending<br>(As<br>Adjusted,<br>See Note 2)<br>June 27,<br>2009 |           |
|---|--|-----------|--|-----------|
|   | June 28,<br>2008   |           | June 28,<br>2008   |           |
| Net income  | \$ 17,521  | \$ 38,582 | \$ 31,497  | \$ 70,607 |
| Other Comprehensive Income (Loss) from:   |  |           |  |           |
| Currency Translation adjustments  | 9,620  | (2,671)   | 7,064  | (886)     |
| Changes in fair value of hedging activities, net of tax   | 24,204   | 3,080     | 48,571   | 13,857    |
| Hedging activities reclassified into earnings from accumulated other comprehensive income (loss) ("AOCI"), net of tax | 17,505   | (4,668)   | 35,113   | (5,108)   |
| Deferred losses on closed hedge contracts, net of tax   | (7,847)  | -         | (22,632)   | -         |
| Amortization of net prior service costs and actuarial losses  | 100  | (199)     | 774  | (104)     |
| Comprehensive income  | \$ 61,103  | \$ 34,124 | \$ 100,387   | \$ 78,366 |

The amount of comprehensive income attributable to noncontrolling interests was \$1.1 million and \$3.7 million for the three and six months ended June 27, 2009. The amount of comprehensive income attributable to noncontrolling interests was \$1.5 million and \$2.6 million for the three and six months ended June 28, 2008.

Foreign currency translation adjustments, unrealized gains and losses on derivative instruments and pension liability adjustments are included in Equity under Accumulated Other Comprehensive Loss. The components of the ending balances of Accumulated Other Comprehensive Loss are as follows:

|  | June 27,<br>2009 | December<br>27, 2008 |
|--|------------------|----------------------|
| Translation adjustments                          | \$ (15,550)      | \$ (21,204)          |
| Hedging activities, net of tax                   | (37,880)         | (98,932)             |
| Pension and post retirement benefits, net of tax | (21,519)         | (22,293)             |
|  | \$ (74,949)      | \$ (142,429)         |

## 6. WARRANTY COSTS

The Company recognizes the cost associated with its standard warranty on its products at the time of sale. The amount recognized is based on historical experience. The following is a reconciliation of the changes in accrued warranty costs for the three and six months ended June 27, 2009 and June 28, 2008 (in thousands):

|                         | Three Months Ending |                  | Six Months Ending |                  |
|-------------------------|---------------------|------------------|-------------------|------------------|
|                         | June 27,<br>2009    | June 28,<br>2008 | June 27,<br>2009  | June 28,<br>2008 |
| Beginning balance       | \$ 9,953            | \$ 9,951         | \$ 11,022         | \$ 9,872         |
| Deduct: Payments        | (2,572)             | (1,662)          | (5,319)           | (3,398)          |
| Add: Provision          | 3,179               | 1,935            | 4,933             | 3,774            |
| Translation Adjustments | 90                  | (3)              | 14                | (27)             |
| Ending balance          | \$ 10,650           | \$ 10,221        | \$ 10,650         | \$ 10,221        |

## 7. BUSINESS SEGMENTS

The Company has two strategic businesses that are reportable segments, Mechanical and Electrical (in thousands):

|                              | Mechanical Segment<br>Three Months<br>Ending |                  | Electrical Segment<br>Three Months Ending |                  | Mechanical Segment<br>Six Months Ending |                  | Electrical Segment<br>Six Months Ending |                  |
|------------------------------|--|------------------|---|------------------|---|------------------|---|------------------|
|                              | June 27,<br>2009                             | June 28,<br>2008 | June 27,<br>2009                          | June 28,<br>2008 | June 27,<br>2009                        | June 28,<br>2008 | June 27,<br>2009                        | June 28,<br>2008 |
| Net Sales                    | \$ 47,306                                    | \$ 65,261        | \$ 407,244                                | \$ 541,055       | \$ 99,218                               | \$ 127,811       | \$ 798,606                              | \$ 1,014,848     |
| Income from<br>Operations    | 4,128  | 9,600            | 25,339                                    | 57,894           | 10,415                                  | 19,647           | 47,244                                  | 105,459          |
| % of Net<br>Sales            | 8.7%   | 14.7%            | 6.2%                                      | 10.7%            | 10.5%                                   | 15.4%            | 5.9%                                    | 10.4%            |
| Goodwill at<br>end of period | \$ 530                                       | \$ 530           | \$ 670,847                                | \$ 636,921       | \$ 530                                  | \$ 530           | \$ 670,847                              | \$ 636,921       |

In the fourth quarter of 2008, an Electrical segment business was moved to the Mechanical segment due to a management reporting change, and prior period segment information has been adjusted. The impact of the change was not material.

## 8. GOODWILL AND OTHER INTANGIBLES

## Goodwill

In accordance with Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets," we perform a annual impairment test of goodwill during the fourth quarter or more frequently if events or circumstances change that would more likely than not reduce the fair value of our reporting units below their carrying value.

Because of the on-going unfavorable impact of the credit crisis and the current global economic environment, we completed an assessment of impairment indicators during the second quarter of 2009. We considered a number of factors, including, among other things, recent operational, revenue, profitability and cash flow trends. We also considered the effect of the volatility in our stock price and trends in the discount rate used in our goodwill fair value estimate.

As a result of reviewing these impairment indicators, we noted that our consolidated revenues declined 25.0% during the second quarter of 2009 as compared to the second quarter of 2008, with similar declines in most of our reporting units, which was a larger decline than we estimated in our annual 2008 goodwill impairment assessment.

Our stock price and our resulting market capitalization increased during the second quarter of 2009. Our stock price was \$40.30 as of June 26, 2009 as compared to \$31.21 as of March 27, 2009. Our book value per share was \$32.49 as of June 27, 2009 and \$27.76 as of March 28, 2009. We expect that there may continue to be volatility in our stock price due to changes in market conditions and expectations; however, our market capitalization continues to be greater than our book value at our quarter-end.

As a result of this impairment indicator, during the second quarter of 2009, we performed an interim goodwill impairment test for two of our goodwill reporting units using the income approach and a discount rate of 12.6%. The methodology used in our annual goodwill impairment test during the fourth quarter of 2008.

Based on our assessments, we concluded it was more likely than not that the fair value of our reporting units continued to exceed their carrying value at June 27, 2009, supporting our conclusion that our recorded goodwill was not impaired.

Our annual impairment test will occur in the fourth quarter of 2009. If we continue to experience further erosion of actual and projected revenues or an increase in our discount rate assumption, it is possible that we may have an impairment charge related to one or more of our reporting units.

As described above in Note 4 of Notes to Condensed Consolidated Financial Statements, the Company acquired one business in 2009 and two businesses in 2008. The purchase price allocation for the Dutchi acquisition is preliminary, pending the finalization of working capital, valuations and further analysis of contingencies. The excess of purchase price over estimated fair value was assigned to goodwill. Adjustments to the estimated fair value of the net assets acquired may be recorded during the measurement period, not to exceed one year from the date of acquisition.

A preliminary allocation of \$18.2 million was included in goodwill at June 27, 2009 related to the Dutchi acquisition.

The Company believes that substantially all of the goodwill is deductible for tax purposes. The following information presents changes to goodwill during the periods indicated (in thousands):

|   | Electrical<br>Segment | Mechanical<br>Segment | Total      |
|---|-----------------------|-----------------------|------------|
| Balance as of December 27, 2008             | \$ 671,945            | \$ 530                | \$ 672,475 |
| Net Acquisitions and Fair Value Adjustments | 1,142                 | -                     | \$ 1,142   |
| Translation Adjustments                     | (2,240)               | -                     | \$ (2,240) |
| Balance as of June 27, 2009                 | \$ 670,847            | \$ 530                | \$ 671,377 |

### Intangible Assets

Intangible assets consisted of the following (in thousands):

| Asset Description       | Useful<br>Life<br>(years) | December<br>27, 2008 | Gross Intangibles                                       |                            |                  |
|-------------------------|---------------------------|----------------------|---|----------------------------|------------------|
|                         |                           |                      | Net<br>Acquisitions<br>and Fair<br>Value<br>Adjustments | Translation<br>Adjustments | June 27,<br>2009 |
| Non-Compete Agreements  | 5                         | \$ 5,767             | \$ 575  | \$ 3                       | \$ 6,345         |
| Trademarks              | 3 - 21                    | 19,490               | 710   | 224                        | 20,424           |
| Patents                 | 10                        | 15,410               | -   | -                          | 15,410           |
| Engineering Drawings    | 10                        | 1,200                | -   | -                          | 1,200            |
| Customer Relationships  | 9 - 15                    | 92,633               | 2,180   | 189                        | 95,002           |
| Technology              | 6 - 11                    | 25,439               | 6,844   | 542                        | 32,825           |
| Total Gross Intangibles |                           | \$ 159,939           | \$ 10,309   | \$ 958                     | \$ 171,206       |

| Asset Description              | Useful<br>Life<br>(years) | December<br>27, 2008 | Accumulated Amortization |                            |                  |
|--------------------------------|---------------------------|----------------------|--------------------------|----------------------------|------------------|
|                                |                           |                      | Amortization             | Translation<br>Adjustments | June 27,<br>2009 |
| Non-Compete Agreements         | 5                         | \$ (3,755)           | \$ (635)                 | \$ (2)                     | \$ (4,392)       |
| Trademarks                     | 3 - 21                    | (6,026)              | (768)                    | (19)                       | (6,813)          |
| Patents                        | 10                        | (6,190)              | (771)                    | -                          | (6,961)          |
| Engineering Drawings           | 10                        | (487)                | (60)                     | -                          | (547)            |
| Customer Relationships         | 9 - 15                    | (18,625)             | (4,723)                  | (61)                       | (23,409)         |
| Technology                     | 6 - 11                    | (4,072)              | (2,363)                  | (85)                       | (6,520)          |
| Total Accumulated Amortization |                           | \$ (39,155)          | \$ (9,320)               | \$ (167)                   | \$ (48,642)      |

|  |            |            |
|--|------------|------------|
| Intangible Assets, Net of Amortization | \$ 120,784 | \$ 122,564 |
|--|------------|------------|

## Estimated Amortization (in millions)

|    | 2009 |    | 2010 |    | 2011 |    | 2012 |    | 2013 |
|----|------|----|------|----|------|----|------|----|------|
| \$ | 16.2 | \$ | 15.0 | \$ | 14.2 | \$ | 14.3 | \$ | 14.2 |

Amortization expense recorded for the three and six months ended June 27, 2009 was \$5.1 million and \$9.3 million, respectively. The Company has elected to perform its annual test for impairment as required by SFAS 142, "Goodwill and Other Intangible Assets," during the fourth quarter.

## 9. DEBT AND BANK CREDIT FACILITIES

The Company's indebtedness as of June 27, 2009 and December 27, 2008 was as follows (in thousands):

|                                      | June 27,<br>2009 | (As<br>Adjusted,<br>See Note 2)<br>December<br>27, 2008 |
|--------------------------------------|------------------|---|
| Senior notes                         | \$ 250,000       | \$ 250,000  |
| Term loan                            | 165,000          | 165,000   |
| Revolving credit facility            | 7,035            | 20,000  |
| Convertible senior subordinated debt | 115,000          | 113,937   |
| Other                                | 16,067           | 26,470  |
|                                      | 553,102          | 575,407   |
| Less: Current maturities             | (4,987)          | (15,280)  |
| Non-current portion                  | \$ 548,115       | \$ 560,127  |

During 2007, in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended, the Company issued and sold \$250.0 million of senior notes (the "Notes"). The Notes were sold pursuant to a Note Purchase Agreement (the "Agreement") by and among the Company and the purchasers of the Notes. The Notes were issued and sold in two series: \$150.0 million in Floating Rate Series 2007A Senior Notes, Tranche A, due August 23, 2014, and \$100.0 million in Floating Rate Series 2007A Senior Notes, Tranche B, due August 23, 2017. The Notes bear interest at a margin over the London Inter-Bank Offered Rate ("LIBOR"), which margin varies with the ratio of the Company's consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") as defined in the Agreement. These interest rates also vary as LIBOR varies. The Agreement permits the Company to issue and sell additional note series, subject to certain terms and conditions described in the Agreement, up to a total of \$600.0 million in combined Notes.

In 2008, the Company entered into a Term Loan Agreement ("Term Loan") with certain financial institutions, whereby the Company borrowed an aggregate principal amount of \$165.0 million. The Term Loan matures in June 2013, and borrowings generally bear interest at a variable rate equal to (i) a margin over LIBOR, which margin varies depending on whether certain criteria are satisfied, or (ii) the alternate base rate as defined in the agreement. At June 27, 2009, the interest rate of 1.3% was based on a margin over LIBOR.

The Company's \$500.0 million revolving credit facility ("Facility") permits the Company to borrow at interest rates based upon a margin above LIBOR, which margin varies with the ratio of total funded debt to EBITDA, as defined in the Facility. These interest rates also vary as LIBOR varies. The Company pays a commitment fee on the unused amount of the Facility, which also varies with the ratio of total debt to EBITDA as defined in the Facility.

The Notes, the Term Loan and the Facility require the Company to meet specified financial ratios and to satisfy certain financial condition tests. The Company was in compliance with all debt covenants as of June 27, 2009.

In August, 2007 the Company entered into an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. (See also Note 15 of Notes to Condensed Consolidated Financial Statements.)

As of June 27, 2009, the Company's \$115.0 million, 2.75% convertible senior subordinated debt is convertible as the closing price of the Company's common stock exceeded the contingent conversion share price for the specified amount of time. As a result, bondholders that exercise their right to convert the notes will receive up to the principal amount of the notes in cash, with the balance of the conversion obligation, if any, to be satisfied in shares of the Company's common stock or cash, at the Company's discretion. Effective on April 17, 2009, the conversion rate of the company's convertible senior subordinated debt ("convertible debt") was adjusted pursuant to the terms of the indenture. The adjustment is required as the cumulative dividends paid to shareholders since the convertible debt was issued reached the threshold defined in the indenture. The conversion rate as of April 17, 2009 is 39.5107 share of common stock for each \$1,000 principal amount of convertible debt. No notes have been converted into cash or shares of common stock as of June 27, 2009. However, subsequent to quarter end, a portion of the convertible senior subordinated debt was converted by the bondholders. See Note 17 of Notes to the Condensed Consolidated Financial Statements.

The estimated fair value of the convertible senior subordinated debt at June 27, 2009 was approximately \$183.1 million and the carrying value was \$115.0 million. The estimated fair value was determined using Level 2 inputs as described in Note 16 of Notes to the Condensed Consolidated Financial Statement.

As of the beginning of fiscal 2009, the Company adopted FSP APB 14-1, "Accounting for Convertible Debt Instruments that May Be Settled in Cash Upon Conversion Including Partial Cash Settlement". The adoption of APB 14-1 required an adjustment of convertible debt, equity, and interest expense. (See also Note 2 of Notes to Condensed Consolidated Financial Statements.)

At June 27, 2009, additional notes payable of approximately \$16.1 million were outstanding with a weighted average interest rate of 3.8%.

## 10. PENSION PLANS

The Company's net periodic pension cost is comprised of the following components (in thousands):

|                                    | Three Months Ending |                  | Six Months Ending |                  |
|------------------------------------|---------------------|------------------|-------------------|------------------|
|                                    | June 27,<br>2009    | June 28,<br>2008 | June 27,<br>2009  | June 28,<br>2008 |
| Service cost                       | \$ 578              | \$ 1,003         | \$ 1,156          | \$ 2,006         |
| Interest cost                      | 1,592               | 1,478            | 3,184             | 2,956            |
| Expected return on plan assets     | (1,414)             | (1,393)          | (2,828)           | (2,786)          |
| Amortization of prior service cost | 49                  | 53               | 98                | 106              |
| Amortization of net actuarial loss | 188                 | 126              | 376               | 252              |
| Net periodic benefit expense       | \$ 993              | \$ 1,267         | \$ 1,986          | \$ 2,534         |

The estimated net actuarial loss and prior service cost for defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost during the 2009 fiscal year is \$0.8 million and \$0.2 million, respectively.

In the second quarter of 2009 and 2008, the Company contributed \$0.5 million and \$0.3 million to defined benefit pension plans, respectively. The Company expects to contribute an additional \$12.0 million, for total contributions of \$12.8 million in 2009. The Company contributed a total of \$4.8 million in 2008. The assumptions used in the valuation of the Company's pension plans and in the target investment allocation have remained the same as those disclosed in the Company's 2008 Annual Report on Form 10-K filed on February 25, 2009.

## 11. SHAREHOLDERS' EQUITY

The Company recognized approximately \$1.2 million and \$1.1 million in share-based compensation expense for the three month period ended June 27, 2009 and June 28, 2008, respectively. The Company recognized approximately \$2.0 million in share-based compensation for the six months ended June 27, 2009 and June 28, 2008. The total income tax benefit recognized relating to share-based compensation for the six months ended June 27, 2009 and June 28, 2008 was approximately \$1.8 million and \$1.3 million, respectively. The Company recognizes compensation expense on grants of share-based compensation awards on a straight-line basis over the vesting period of each award recipient. As of June 27, 2009, total unrecognized compensation cost related to share-based compensation awards was approximately \$15.6 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 3.4 years.

The Company was authorized as of June 27, 2009 to deliver up to 5.0 million shares of common stock upon exercise of non-qualified stock options or incentive stock options, or upon grant or in payment of stock appreciation rights, and restricted stock. Approximately 2.0 million shares were available for future grant or payment under the various plans at June 27, 2009.



On May 22, 2009, the Company completed the sale of 4,312,500 shares of common stock at a price of \$36.25 per share to the public. Net proceeds of approximately \$150.5 million were received by the Company.

During the six months ended June 28, 2008, the Company repurchased 110,000 shares at a total cost of \$4.2 million. There were no shares repurchased in 2009.

#### Share-based Incentive Awards

The Company uses several forms of share-based incentive awards, including non-qualified stock options, incentive stock options and stock appreciation rights (“SARs”). All grants are made at prices equal to the fair market value of the stock on the grant dates, and expire ten years from the grant date. The Company values restricted stock awards at the closing market value of its common stock on the date of grant and restrictions generally lapse three years after the date of grant.

The majority of the Company’s annual share-based incentive awards are made in the fiscal second quarter. The per share weighted average fair value of share-based incentive awards granted in the May 2009 annual grant was \$15.28. The fair value of the awards is estimated on the date of grant using the Black-Scholes pricing model and the following assumptions: risk-free interest rate of 2.6%; expected dividend yield of 1.5%; expected volatility of 36.8% and an estimated life of 7.0 years.

A summary of share-based awards (options and SARs) as of June 27, 2009 follows below. Forfeitures of share-based awards were immaterial.

|                   |             |           | Wtd. Avg.<br>Exercise<br>Price | Wtd. Avg.<br>Remaining<br>Contractual<br>Term<br>(years) | Aggregate<br>Intrinsic<br>Value (in<br>millions) |
|-------------------|-------------|-----------|--------------------------------|--|--|
| Number of shares: | Shares      |           |                                |  |  |
|                   | Outstanding | 1,804,875 | \$ 37.16                       | 7.4  | \$ 9.0   |
|                   | Exercisable | 773,842   | \$ 30.91                       | 5.7  | \$ 8.2   |

## Restricted Stock

As of June 27, 2009, the Company had 109,450 shares of restricted stock outstanding with a weighted average price of \$43.99 and a weighted average life of 2.2 years. There were 39,550 shares of restricted stock granted in the six months ended June 27, 2009. The Company values restricted stock awards at the closing market value of its common stock on the date of grant and restrictions generally lapse three years after the date of the grant. In the first six months of 2009, 48,200 shares of restricted stock vested.

## 12. INCOME TAXES

The effective tax rate for the three months ended June 27, 2009 was 28.0% versus 35.3% in the prior year period. The decrease in the effective tax rate results primarily from the global distribution of taxable income.

As of June 27, 2009 and December 27, 2008, respectively, the Company had approximately \$8.2 million and \$7.1 million of unrecognized tax benefits, \$4.6 million and \$3.5 million of which would affect its effective tax rate if recognized. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Federal tax returns from 2005 through 2007 and various state tax returns from 2002 through 2007 remain subject to income tax examinations by tax authorities.

## 13. EARNINGS PER SHARE (EPS)

The numerator for the calculation of basic and diluted earnings per share is net income attributable to Regal Beloit Corporation. The denominator is computed as follows (in thousands):

|  | Three Months Ending |                  | Six Months Ending |                  |
|--|---------------------|------------------|-------------------|------------------|
|  | June 27,<br>2009    | June 28,<br>2008 | June 27,<br>2009  | June 28,<br>2008 |
| Denominator for basic EPS - weighted average | 33,256              | 31,306           | 32,357            | 31,311           |
| Effect of dilutive securities                | 1,849               | 2,220            | 1,493             | 2,010            |
| Denominator for diluted EPS                  | 35,105              | 33,526           | 33,850            | 33,321           |

The “Effect of dilutive securities” represents the dilution impact of equity awards and the convertible senior subordinated debt (see Note 9 of Notes to Condensed Consolidated Financial Statements). The dilutive effect of the Convertible Notes was approximately 1.6 million shares and 1.8 million shares for the three months ended June 27, 2009 and June 28, 2008,

respectively. The dilutive effect of the Convertible Notes was approximately 1.2 million shares and 2.0 million shares for the six months ended June 27, 2009 and June 28, 2008, respectively.

Options for common shares where the exercise price was above the market price at June 27, 2009, totaling approximately 1.1 million shares have been excluded from the calculation of the effect of dilutive securities as the effect of such options is anti-dilutive. There were approximately 0.4 million anti-dilutive option shares outstanding at June 28, 2008.

#### 14. CONTINGENCIES

The Company is, from time to time, party to litigation that arises in the normal course of its business operations, including product warranty and liability claims, contract disputes and environmental, asbestos, employment and other litigation matters. The Company's products are used in a variety of industrial, commercial and residential applications that subject us to claims that the use of our products is alleged to have resulted in injury or other damage. The Company accrues for anticipated costs in defending against such lawsuits in amounts that we believe are adequate, and the Company does not believe that the outcome of any such lawsuit will have a material effect on the Company's financial position or its results of operations.

The Company recognizes the cost associated with its standard warranty on its products at the time of sale. The amount recognized is based on historical experience.

#### 15. DERIVATIVE INSTRUMENTS

The Company has adopted FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161") which amends the required disclosures about the Company's derivative instruments and hedging activities contained in SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133").

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

SFAS 133 requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with SFAS 133, the Company designates commodity forward contracts as cash flow hedges of forecasted purchases of commodities, currency forward contracts as cash flow hedges of forecasted foreign currency cash flows and interest rate swaps as cash flow hedges of forecasted LIBOR-based interest payments. There were no significant collateral deposits on derivative financial instruments as of June 27, 2009.

##### Cash flow hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income or loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or changes in market value of derivatives not designated as hedges are recognized in current earnings.

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As of June 27, 2009, the Company had outstanding the following commodity forward contracts (with maturities extending through February 2011) to hedge forecasted purchases of commodities (in millions):

|             |    | Notional Amount |
|-------------|----|-----------------|
| Copper      | \$ | 30.8            |
| Aluminum    |    | 2.5             |
| Zinc        |    | 0.6             |
| Natural Gas |    | 1.6             |
| Heating Oil |    | 0.1             |

As of June 27, 2009, the Company had outstanding the following currency forward contracts (with maturities extending through December 2011) to hedge forecasted foreign currency cash flows (in millions):

|              | Notional Amount |
|--------------|-----------------|
| Mexican Peso | \$ 101.2        |
| Indian Rupee | 44.0            |
| Thai Baht    | 4.0             |

As of June 27, 2009, the total notional amount of the Company's receive-variable/pay-fixed interest rate swaps was \$250.0 million (with maturities extending to August 2017).

Fair values of derivative instruments as of June 27, 2009 were (in millions):

|   | Asset<br>Derivatives<br>Fair Value | Liability Derivatives<br>Balance Sheet Location | Fair Value |
|---|------------------------------------|---|------------|
| Derivatives designated as hedging instruments           |                                    |   |            |
| Interest rate swap contracts                            | \$ -                               | Hedging Obligations                             | \$ 33.3    |
| Foreign exchange contracts                              |                                    | Hedging Obligations                             | 15.0       |
| Commodity contracts                                     |                                    | Hedging Obligations                             | 2.5        |
| Total derivatives designated as hedging instruments     | \$ -                               |   | \$ 50.8    |
| Derivatives not designated as hedging instruments       |                                    |   |            |
| Foreign exchange contracts                              |                                    | Hedging Obligations                             | 1.0        |
| Commodity contracts                                     |                                    | Hedging Obligations                             | 1.0        |
| Total derivatives not designated as hedging instruments | \$ -                               |   | \$ 2.0     |
| Total derivatives                                       | \$ -                               |   | \$ 52.8    |

The Company's liability for derivative instruments is classified on the condensed consolidated balance sheet as a current liability of \$16.4 million and a noncurrent liability of \$36.4 million.

The effect of derivative instruments on the condensed consolidated statements of equity and earnings for the three and six months ended June 27, 2009 was (in millions):

Derivatives Designated as Cash Flow Hedging Instruments

|   | Three Months Ended June 27, 2009 |                      |                           |         | Six Months Ended June 27, 2009 |                      |                           |         |
|---|----------------------------------|----------------------|---------------------------|---------|--------------------------------|----------------------|---------------------------|---------|
|   | Commodity<br>Forwards            | Currency<br>Forwards | Interest<br>Rate<br>Swaps | Total   | Commodity<br>Forwards          | Currency<br>Forwards | Interest<br>Rate<br>Swaps | Total   |
| Gain (loss) recognized in Other Comprehensive Income (Loss) | \$ 24.6                          | \$ 18.8              | \$ 11.2                   | \$ 54.6 | \$ 65.0                        | \$ 17.2              | \$ 16.3                   | \$ 98.5 |

Amounts reclassified from other comprehensive income (loss) were:

|                    |    |        |    |       |    |   |    |        |    |        |    |       |    |   |    |        |
|--------------------|----|--------|----|-------|----|---|----|--------|----|--------|----|-------|----|---|----|--------|
| Loss recognized in |    |        |    |       |    |   |    |        |    |        |    |       |    |   |    |        |
| Cost of Sales      | \$ | (19.8) | \$ | (4.0) | \$ | - | \$ | (23.8) | \$ | (41.9) | \$ | (6.4) | \$ | - | \$ | (48.3) |

|                    |    |   |    |       |    |   |    |       |    |   |    |       |    |   |    |       |
|--------------------|----|---|----|-------|----|---|----|-------|----|---|----|-------|----|---|----|-------|
| Loss recognized in |    |   |    |       |    |   |    |       |    |   |    |       |    |   |    |       |
| Operating Expenses | \$ | - | \$ | (1.7) | \$ | - | \$ | (1.7) | \$ | - | \$ | (3.4) | \$ | - | \$ | (3.4) |

|                    |    |   |    |   |    |       |    |       |    |   |    |   |    |       |    |       |
|--------------------|----|---|----|---|----|-------|----|-------|----|---|----|---|----|-------|----|-------|
| Loss recognized in |    |   |    |   |    |       |    |       |    |   |    |   |    |       |    |       |
| Interest Expense   | \$ | - | \$ | - | \$ | (2.7) | \$ | (2.7) | \$ | - | \$ | - | \$ | (4.9) | \$ | (4.9) |

The ineffective portion of hedging instruments recognized during the three and six months ended June 27, 2009 was immaterial.

## Derivatives Not Designated as Cash Flow Hedging Instruments

|                              | Three Months Ended June 27, 2009 |                      |          | Six Months Ended June 27, 2009 |                      |          |
|------------------------------|----------------------------------|----------------------|----------|--------------------------------|----------------------|----------|
|                              | Commodity<br>Forwards            | Currency<br>Forwards | Total    | Commodity<br>Forwards          | Currency<br>Forwards | Total    |
| Gain (loss) recognized in    |                                  |                      |          |                                |                      |          |
| Cost of Sales                | \$ 3.0                           | \$ (0.3)             | \$ 2.7   | \$ 7.5                         | \$ (0.9)             | \$ 6.6   |
| Loss recognized in Operating |                                  |                      |          |                                |                      |          |
| Expenses                     | \$ -                             | \$ (0.5)             | \$ (0.5) | \$ -                           | \$ (1.0)             | \$ (1.0) |

The net AOCI balance of (\$37.9) million loss at June 27, 2009 includes (\$21.9) million of net current deferred losses expected to be realized in the next twelve months.

## 16. FAIR VALUE

The implementation of SFAS No. 157 "Fair Value Measurements" ("SFAS No. 157") did not have a material impact on our condensed consolidated financial position and results of operations.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 classifies the inputs and used to measure fair value into the following hierarchy:

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

The Company uses the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company has determined that its financial assets and liabilities are level 2 in the fair value hierarchy. The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 27, 2009 (in millions):

## Liabilities:

## Hedging Obligations – Current

|                                 |         |
|---------------------------------|---------|
| Derivative currency contracts   | \$ 12.8 |
| Derivative commodity contracts  | 3.5     |
| Hedging Obligations – Long Term |         |
| Derivative currency contracts   | \$ 3.2  |
| Interest rate swap              | 33.3    |

## 17. SUBSEQUENT EVENTS



The Company has evaluated events subsequent to June 27, 2009 through August 7, 2009, the date the financial statements have been issued, for recording and or disclosure in the financial statements for the three and six month periods ended June 27, 2009.

Subsequent to the August 6, 2009 quarter end, several of the holders of the Company's convertible senior subordinated debt have exercised their conversion right. A total of approximately \$27.6 million face value has been converted by the holders as of August 6, 2009. The Company will pay cash to redeem the par value of the debt and has elected to pay the conversion premium in shares of common stock. The conversion premium is calculated based on a twenty day trading period as defined in the Bond Indenture, and that trading period has not ended as of the date of this filing. The current diluted EPS calculation includes an amount estimated for the dilutive effect of the Convertible Notes as disclosed in Note 13 of Notes to the Condensed Consolidated Financial Statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, references in this Item 2 to “we”, “us”, “our” or the “Company” refer collectively to Regal Beloit Corporation and its subsidiaries. All amounts referred to in this Management’s Discussion and Analysis of Financial Condition and Results of Operations reflect the adjustment of convertible debt and related interest expense discussed in Note 2 of Notes to the Condensed Consolidated Financial Statements.

### OVERVIEW

The global impact of the credit crisis and the current global macro economic environment continue to negatively impact the demand for our products as reflected in our revenue performance for the second quarter. The exception to these trends have been sales of high efficiency products, particularly for HVAC and commercial refrigeration end markets, which are supported by the net economic impact to the end user and, in certain cases, are supported by tax credits and other subsidies. The impact of lower demand coupled with our efforts to reduce inventory levels resulted in under absorbed fixed overhead in our factories that unfavorably impacted gross margins. We continue to reduce manufacturing and operating expenses to improve our profitability as a result of the weak demand environment.

Net sales for the three months ended June 27, 2009 decreased 25.0% to \$454.6 million from \$ 606.3 million in the comparable period of 2008. Sales for the three months ended June 27, 2009 included \$16.3 million of incremental sales related to the two 2008 acquired businesses and the CPT acquisition completed on January 2, 2009 (as described in Note 4 of Notes to the Condensed Consolidated Financial Statements).

Net income attributable to Regal Beloit Corporation decreased 55.9% to \$16.5 million for the three months ended June 27, 2009 as compared to \$37.3 million in the comparable period last year. Diluted earnings per share decreased 57.7% to \$0.47 for the three months ended June 27, 2009 as compared to \$1.11 for the comparable period of 2008.

### RESULTS OF OPERATIONS

#### Three Months Ended June 27, 2009 versus Three Months Ended June 28, 2008

Sales for the three months ended June 27, 2009 were \$454.6 million, a 25.0% decrease over the \$606.3 million reported for the three months ended June 28, 2008. Second quarter 2009 sales included \$16.3 million of incremental sales related to the two 2008 acquired businesses and the CPT acquisition completed on January 2, 2009 (as described in Note 4 of Notes to the Condensed Consolidated Financial Statements).

In the Electrical segment, sales decreased 24.7% from the prior year period, including the impact of the acquisitions noted above. Exclusive of the acquired businesses, Electrical segment sales decreased 27.7%, largely due to global generator sales decreasing 49.1%, commercial and industrial motors sales in North America decreasing 33.1%, and residential HVAC motor sales decreasing 4.4%. Sales in the Mechanical segment decreased 27.6% from the prior year period. From a geographic perspective, Asia-based sales decreased 33.9% as compared to the comparable period of 2008. In total, sales to regions outside of the United States were 26.6% of total sales for the three months ended June 27, 2009 in comparison to 27.0% for the comparable period of 2008. The negative impact of foreign currency exchange rate changes decreased total sales by 1.7%.

The gross profit margin for the three months ended June 27, 2009 was 20.8% as compared to the 21.6% reported for the comparable period of 2008. The gross profit margin for the Electrical segment was 20.5% for the three months ended June 27, 2009 versus 21.0% in the comparable period of 2008. The Mechanical segment gross profit was 23.4% in the three months ended June 27, 2009 versus 27.3% in the comparable period of 2008. The decrease is driven by the negative fixed cost absorption impact of lower production volumes partially offset by a positive product mix shift to high efficiency products and cost reduction activities. Also impacting gross margins were the expenses related to current plant rationalization projects which totaled \$1.8 million for the second quarter of 2009.

Operating expenses were \$65.2 million (14.3% of sales) in the three months ended June 27, 2009 versus \$63.7 million (10.5% of sales) in the comparable period of 2008. Operating expenses included an incremental amount of approximately \$3.8 million related to the Dutchi, Hwada and CPT businesses offset by reductions in variable expenses, such as sales commissions, and the impact of cost reduction activities. Other operating expense increases included increased bad debt, legal, and restructuring expense. Electrical segment operating expenses were 14.3% of net sales for the three months ended June 27, 2009 versus 10.3% in the comparable period of 2008. Mechanical operating expenses were 14.7% and 11.8% of sales for the three months ended June 27, 2009 and June 28, 2008, respectively.

Income from operations was \$29.5 million versus \$67.5 million in the comparable period of 2008. As a percent of sales, income from operations was 6.5% for the three months ended June 27, 2009 versus 11.1% in the comparable period of 2008. As a percent of sales, Electrical segment operating profit was 6.2% in the second quarter of 2009 versus 10.6% in the comparable period of 2008. Mechanical segment operating profit was 8.7% of sales in the second quarter of 2009 versus 15.5% in the comparable period of 2008.

Net interest expense was \$5.1 million versus \$7.8 million in the comparable period of 2008. The decrease is driven primarily by lower effective interest rates in 2009 versus the comparable period of 2008, lower average debt, and the interest earned on cash and cash equivalents.

The effective tax rate for the three months ended June 27, 2009 was 28.0% versus 35.3% in the prior year period. The decrease in the effective tax rate results primarily from the global distribution of taxable income.

Net income attributable to Regal Beloit Corporation for the three months ended June 27, 2009 was \$16.5 million, a decrease of 55.9% versus the \$37.3 million reported in the comparable period of 2008. Fully diluted earnings per share was \$0.47 as compared to \$1.11 per share reported in the second quarter of 2008. The average number of diluted shares was 35,105,383 during the three months ended June 27, 2009 as compared to 33,525,725 during the comparable period of 2008.

#### Six Months Ended June 27, 2009 versus Six Months Ended June 28, 2008

Sales for the six months ended June 27, 2009 were \$897.8 million, a 21.4% decrease over the \$1,142.7 million reported for the six months ended June 28, 2008. In 2009, sales included \$46.0 million of sales related to the two

2008 acquired businesses described in Note 4 of Notes to the Condensed Consolidated Financial Statements and the CPT acquisition completed on January 2, 2009.

In the Electrical segment, sales decreased 21.3% from the prior year period, including the impact of the acquisitions noted above. Exclusive of the acquired businesses, Electrical segment sales decreased 25.8%, largely due to global generator sales decreasing 39.5%, commercial and industrial motors sales in North America decreasing 28.3%, and residential HVAC motor sales decreasing 12.4%. Sales in the Mechanical segment decreased 22.4% from the prior year period. From a geographic perspective, Asia-based sales decreased 29.7% as compared to the comparable period of 2008. In total, sales to regions outside of the United States were 26.6% of total sales for the six months ended June 27, 2009 in comparison to 26.4% for the comparable period of 2008. The negative impact of foreign currency exchange rate changes decreased total sales by 1.9%.

The gross profit margin for the six months ended June 27, 2009 was 20.6% as compared to the 22.2% reported for the comparable period of 2008. The gross profit margin for the Electrical segment was 20.1% for the six months ended June 27, 2009 versus 21.4% in the comparable period of 2008. The Mechanical segment gross profit was 25.2% in the six months ended June 27, 2009 versus 28.2% in the comparable period of 2008. The decrease is driven by higher commodity costs and the absorption impact of lower sales volumes.

Operating expenses were \$127.5 million (14.2% of sales) in the six months ended June 27, 2009 versus \$128.2 million (11.2% of sales) in the comparable period of 2008. Operating expenses included an incremental amount of approximately \$9.2 million related to the Dutchi and Hwada businesses offset by reductions in variable expenses, such as sales commissions, and the impact of cost reduction activities. Electrical segment operating expenses were 14.1% of net sales for the six months ended June 27, 2009 versus 11.0% in the comparable period of 2008. Mechanical operating expenses for the six months ended June 27, 2009 were 14.7% of sales versus 12.8% in the equivalent period of 2008.

Income from operations was \$57.7 million versus \$125.1 million in the comparable period of 2008. As a percent of sales, income from operations was 6.4% for the six months ended June 27, 2009 versus 10.9% in the comparable period of 2008. As a percent of sales, Electrical segment operating profit was 5.9% in 2009 versus 10.4% in the comparable period of 2008. Mechanical segment operating profit was 10.5% of sales in 2009 versus 15.4% in the comparable period of 2008.

Net interest expense was \$12.1 million versus \$15.9 million in the comparable period of 2008. The decrease is driven by lower effective interest rates in 2009 versus the comparable period of 2008.

The effective tax rate for the six months ended June 27, 2009 was 30.9% versus 35.4% in the prior year period. The decrease in the effective tax rate results primarily from the global distribution of taxable income.

Net income attributable to Regal Beloit Corporation for the six months ended June 27, 2009 was \$29.2 million, a decrease of 57.5% versus the \$68.7 million reported in the comparable period of 2008. Fully diluted earnings per share was \$0.86 as compared to \$2.06 per share reported in 2008. The average number of diluted shares was 33,850,093 during the six months ended June 27, 2009 as compared to 33,321,379 during the comparable period of 2008.

## LIQUIDITY AND CAPITAL RESOURCES

Working capital was \$649.7 million at June 27, 2009, a 51.0% increase from \$430.3 million at December 27, 2008. The \$219.4 million increase was primarily driven by the \$150.5 million of net proceeds from the sale of common stock in May, 2009. In addition, a \$8.4 million decrease in accounts receivable and a \$90.7 million decrease in inventory, partially offset by \$40.8 decrease in accounts payable provided another \$58.3 million of working capital. The ratio of current assets to our current liabilities ("current ratio") was 3.0:1 at June 27, 2009 and 2.0:1 at December 27, 2008.

Net cash provided by operating activities was \$125.5 million for the six months ended June 27, 2009 as compared to \$116.3 million in the comparable period of 2008. The increase is driven by large working capital improvements partially offset by lower net income in 2009 versus the comparable period of 2008. Net cash used in investing activities was \$19.8 million in the first six months of 2009 as compared to the \$42.8 million used in the comparable period of the prior year. Additions to property, plant and equipment were \$18.6 million in the first six months of 2009, which was \$9.5 million less than the comparable period of 2008. Our cash provided by financing activities was \$119.3 million for the first six months of 2009 driven by the \$150.5 million equity offering net proceeds, versus \$29.0 million used in financing activities in the comparable period of 2008. During the six months ended June 28, 2008, the

Company repurchased 110,000 shares at a total cost of \$4.2 million. There were no shares repurchased in 2009.

On May 22, 2009, the Company completed a public offering of 4,312,500 shares of common stock at a price of \$36.25 per share. The Company received \$150.5 million of net proceeds which it will use for general corporate and working capital purposes, including the potential repayment of debt and the funding of future acquisitions.

Our outstanding long-term debt decreased from \$560.1 million at December 27, 2008 to \$548.1 million at June 27, 2009. At June 27, 2009, there was \$7.0 million outstanding under our \$500.0 million unsecured revolving credit facility that expires on April 30, 2012 (the "Facility"). The Facility permits the Company to borrow at interest rates based upon a margin above the London Inter-Bank Offered Rate ("LIBOR"), which margin varies with the ratio of total funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") as defined in the Facility. These interest rates also vary as

LIBOR varies. We pay a commitment fee on the unused amount of the Facility, which also varies with the ratio of our total debt to our EBITDA.

In 2008, the Company entered into a Term Loan Agreement (“Term Loan”) with certain financial institutions, whereby the Company borrowed an aggregate principal amount of \$165.0 million. The Term Loan matures in June 2013, and borrowings under the Term Loan generally bear interest at a variable rate equal to (i) a margin over the LIBOR, which margin varies depending on whether certain criteria are satisfied, or (ii) the alternate base rate as defined in the agreement. At June 27, 2009, the interest rate of 1.3% was based on a margin over LIBOR.

At June 27, 2009, there was \$250.0 million of senior notes (the “Notes”) outstanding. The Notes were issued and sold in two series: \$150.0 million in Floating Rate Series 2007A Senior Notes, Tranche A, due August 23, 2014, and \$100.0 million in Floating Rate Series 2007A Senior Notes, Tranche B, due August 23, 2017. The Notes bear interest at a margin over LIBOR, which margin varies with the ratio of the Company’s consolidated debt to consolidated EBITDA as defined in the Note Purchase Agreement. These interest rates also vary as LIBOR varies. The Agreement permits the Company to issue and sell additional note series, subject to certain terms and conditions described in the Agreement, up to a total of \$600.0 million in combined Notes.

The Notes, the Term Loan and the Facility require us to meet specified financial ratios and to satisfy certain financial condition tests. We were in compliance with all debt covenants as of June 27, 2009.

In addition to the Facility, the Term Loan and the Notes, at June 27, 2009, we also had \$115.0 million of convertible senior subordinated debt outstanding at a fixed interest rate of 2.75%, and \$16.1 million of other debt with a weighted average interest rate of 3.8%.

Subsequent to quarter end, \$27.6 million of the convertible senior subordinated debt was converted by the bondholders. See Note 17 of Notes to the Condensed Consolidated Financial Statements.

#### CRITICAL ACCOUNTING POLICIES

The Company’s critical accounting policies have not changed materially from those reported in our 2008 Annual Report on Form 10-K filed on February 25, 2009.

In accordance with Statement of Financial Accounting Standard No. 142, “Goodwill and Other Intangible Assets,” we perform a annual impairment test of goodwill during the fourth quarter or more frequently if events or circumstances change that would more likely than not reduce the fair value of our reporting units below their carrying value.

Because of the on-going unfavorable impact of the credit crisis and the current global economic environment, we completed an assessment of impairment indicators during the second quarter of 2009. We considered a number of factors, including, among other things, recent operational, revenue, profitability and cash flow trends. We also considered the effect of the volatility in our stock price and trends in the discount rate used in our goodwill fair value estimate.

As a result of reviewing these impairment indicators, we noted that our consolidated revenues declined 25.0% during the second quarter of 2009 as compared to the second quarter of 2008, with similar declines in most of our reporting units, which was a larger decline than we estimated in our annual 2008 goodwill impairment assessment.

Our stock price and our resulting market capitalization increased during the second quarter of 2009. Our stock price was \$40.30 as of June 26, 2009 as compared to \$31.21 as of March 27, 2009. Our book value per share was \$32.49 as of June 27, 2009 and \$27.76 as of March 28, 2009. We expect that there may continue to be volatility in our stock

price due to changes in market conditions and expectations; however, our market capitalization continues to be greater than our book value at our quarter-end.

As a result of this impairment indicator, during the second quarter of 2009, we performed an interim goodwill impairment test for two of our goodwill reporting units using the income approach and a discount rate of 12.6%. The methodology used in our annual goodwill impairment test during the fourth quarter of 2008.

Based on our assessments, we concluded it was more likely than not that the fair value of our reporting units continued to exceed their carrying value at June 27, 2009, supporting our conclusion that our recorded goodwill was not impaired.



Our annual impairment test will occur in the fourth quarter of 2009. If we continue to experience further erosion of actual and projected revenues or an increase in our discount rate assumption, it is possible that we may have an impairment charge related to one or more of our reporting units.

#### New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162” (“SFAS 168”). SFAS 168 provides for the FASB Accounting Standards Codification<sup>TM</sup> (the “Codification”) to become the single official source of authoritative, nongovernmental U.S. Generally Accepted Accounting Principles (“GAAP”), except for rules and interpretive releases of the Securities and Exchange Commission (“SEC”), which are also sources of authoritative GAAP for SEC registrants. The Codification did not change GAAP but reorganizes the literature using a consistent structure. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As the Codification was not intended to change or alter existing GAAP, it is not expected to impact the consolidated financial statements, however the Company will cease using prior GAAP references and begin to use the new Codification when referring to GAAP in the Notes to Condensed Consolidated Financial Statements in its quarterly report on Form 10-Q for the third quarter ending September 26, 2009.

FSP FAS 107-1 and Accounting Principles Board (“APB”) 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS 107-1 and APB 28-1”), requires disclosures about the fair value of financial instruments in interim reporting periods of publicly traded companies as well as in annual financial statements. The provisions of FSP FAS 107-1 and APB 28-1 are effective for the Company’s interim period ending on June 27, 2009. FSP FAS 107-1 and APB 28-1 amends only the Company’s disclosure requirements. See Note 9 – Debt and Bank Credit Facilities in Notes to Condensed Consolidated Financial Statements for information regarding the fair value of financial instruments at June 27, 2009.

In May 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position APB 14-1, “Accounting for Convertible Debt Instruments that May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)” (“APB 14-1”), which requires that convertible debt securities, that upon conversion may be settled by the issuer fully or partially in cash, be split into a debt and equity component. APB 14-1 is effective for fiscal years (and interim periods) beginning after December 15, 2008 and must be applied retroactively to all past periods presented. The Company adopted APB 14-1 on its effective date. (See Note 2 of Notes to Condensed Consolidated Financial Statements.)

In March 2008, the FASB issued SFAS 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”), which requires expanded disclosures about derivative instruments and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with earlier adoption permitted. The Company has adopted the new standard in our financial statements and related disclosures beginning in the first quarter of 2009. (See Note 15 of Notes to Condensed Consolidated Financial Statements.)

In December 2007, the FASB issued SFAS 141 (Revised 2007), “Business Combinations” (“SFAS 141R”), effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R established principles and requirements on how an acquirer recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, noncontrolling interest in the acquiree, goodwill or gain from a bargain purchase and accounting for transaction costs. Additionally, SFAS 141R determines what information must be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company has adopted SFAS 141R upon its effective date as appropriate for any future business combinations.

In December 2007, the FASB also issued SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 changed the accounting and reporting for minority interests, which are recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method significantly changed the accounting for transactions with minority interest holders. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company has adopted the new standard in our financial statements and related disclosures beginning in the first quarter of 2009.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company has adopted SFAS 157 in 2008 for financial assets as permitted.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following information should be read in conjunction with the Company's 2008 Annual Report on Form 10-K filed on February 25, 2009. Updated information on the Company's use of derivative financial instruments is contained in Note 15 of Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

We are exposed to market risk relating to the Company's operations due to changes in interest rates, foreign currency exchange rates and commodity prices of purchased raw materials. We manage the exposure to these risks through a combination of normal operating and financing activities and derivative financial instruments such as interest rate swaps, commodity cash flow hedges and foreign currency forward exchange contracts.

The Company is exposed to interest rate risk on certain of its short-term and long-term debt obligations used to finance our operations and acquisitions. At June 27, 2009, net of interest rate swaps, we had \$378.3 million of fixed rate debt and \$174.8 million of variable rate debt, the latter subject to interest rate risk. As a result, interest rate changes impact future earnings and cash flows assuming other factors are constant. The Company utilizes interest rate swaps to manage fluctuations in cash flows resulting from exposure to interest rate risk on forecasted variable rate interest payments.

A hypothetical 10% change in our weighted average borrowing rate on outstanding variable rate debt at June 27, 2009, would result in a change in after-tax annualized earnings of approximately \$0.1 million.

The Company periodically enters into commodity futures and options hedging transactions to reduce the impact of changing prices for certain commodities, such as copper and aluminum. Contract terms of commodity hedge instruments generally mirror those of the hedged item, providing a high degree of risk reduction and correlation.

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

All hedges are recorded on the balance sheet at fair value and are accounted for as cash flow hedges, with changes in fair value recorded in accumulated other comprehensive income ("AOCI") in each accounting period. An ineffective portion of the hedge's change in fair value, if any, is recorded in earnings in the period of change. The impact due to ineffectiveness was immaterial for all periods included in this report.

### ITEM 4. CONTROLS AND PROCEDURES

**Disclosure Controls and Procedures.** The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective to ensure that (a) information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and (b) information

required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Internal Control Over Financial Reporting.** There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

Items 3 and 5 are inapplicable and have been omitted.

## ITEM 1. LEGAL PROCEEDINGS

The Company is, from time to time, party to litigation that arises in the normal course of our business operations, including product warranty and liability claims, contract disputes and environmental, asbestos, employment and other litigation matters. The Company's products are used in a variety of industrial, commercial and residential applications that subject us to claims that the use of our products is alleged to have resulted in injury or other damage. The Company accrues for anticipated costs in defending against such lawsuits in amounts that we believe are adequate, and the Company does not believe that the outcome of any such lawsuit will have a material effect on the Company's financial position or its results of operations.

## ITEM 1A. RISK FACTORS

The business and financial results of the Company are subject to numerous risks and uncertainties. The risks and uncertainties have not changed materially from those reported in Item 1A in the 2008 Annual Report on Form 10-K filed on February 25, 2009.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table contains detail related to the repurchase of common stock based on the date of trade during the three months ended June 27, 2009.

| 2009<br>Fiscal Month             | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total<br>Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number<br>of Shares<br>that May<br>Be<br>Purchased<br>Under the<br>Plan or<br>Programs |
|----------------------------------|---|------------------------------------|---|---|
| March 29, 2009 to<br>May 2, 2009 | 884                                       | \$ 40.02                           | -   | 2,115,900   |
| May 3, 2009 to<br>May 30, 2009   | -   | \$ -                               | -   | 2,115,900   |
| May 31, 2009 to<br>June 27, 2009 | -   | \$ -                               | -   | 2,115,900   |
| Total                            | 884                                       |                                    | -   |   |

Under the Company's equity incentive plans, participants may pay the exercise price or satisfy all or a portion of the federal, state and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold shares of common stock otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned shares of common stock, in each case having a

value equal to the exercise price or the amount to be withheld. During the three months ended June 27, 2009, there were 884 shares acquired in connection with equity incentive plans.

The Board of Directors has approved repurchase programs for up to three million shares of the Company's common stock. Management is authorized to effect purchases from time to time in the open market or through privately negotiated transactions.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

(a) The Company held its Annual Meeting of Shareholders on April 27, 2009.

The Directors elected at the meeting and those continuing after the Annual Meeting:

| Class A Directors   | Class B Directors    | Class C Directors  |
|---------------------|----------------------|--------------------|
| Dean A. Foate       | Christopher L. Doerr | Thomas J. Fischer  |
| G. Frederick Kasten | Mark J. Gliebe       | Rakesh Sachdev     |
| Henry W. Knueppel   | Curtis W. Stoelting  | Carol N. Skornicka |

(b)(1) The Shareholders voted for the election of the following Class A Directors to serve until the 2012 Annual Meeting of Shareholders:

|                     | Votes For  | Votes Against | Abstentions |
|---------------------|------------|---------------|-------------|
| Dean A. Foate       | 28,357,967 | 112,387       | 20,417      |
| G. Frederick Kasten | 28,244,180 | 218,698       | 27,892      |
| Henry W. Knueppel   | 28,100,392 | 369,941       | 20,438      |

(2) The proposal to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2009 was approved by a vote of 28,235,979 Votes For, 234,560 Votes Against and 20,232 abstentions.

ITEM 6. EXHIBITS

Exhibit Number Exhibit Description

- |      |   |
|------|---|
| 10.1 | Target Supplemental Retirement Plan, as amended and restated effective April 27, 2009 (Incorporated by reference to Exhibit 10.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 30, 2009 (File No. 001-07283). |
| 12   | Computation of Ratio of Earnings to Fixed Charges.  |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1 | Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.   |

SIGNATURE

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGAL BELOIT CORPORATION  
(Registrant)

/s/ David A. Barta  
David A. Barta  
Vice President and Chief Financial  
Officer  
(Principal Accounting and Financial  
Officer)

Date: August 6, 2009



INDEX TO EXHIBITS

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|----------------|---------------------|
|----------------|---------------------|

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