REGAL BELOIT CORP
Form 10-Q
May 11, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

for the quarterly period ended April 2, 2011

or

o **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	**39-0875718**
(State of other jurisdiction of incorporation)	(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 þ NO o

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

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

Large Accelerated Filer þ	Accelerated Filer o	Non-accelerated filer o	Smaller Reporting Company o

(Do not check if a smaller reporting company)

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

As of May 2, 2011, 38,637,160 shares of the registrant s common stock, $.01 par value per share, were outstanding

REGAL BELOIT CORPORATION
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CAUTIONARY STATEMENT

Certain statements made in this Quarterly Report on Form 10-Q are forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management s expectations, beliefs, current assumptions and projections. When used in this Quarterly Report on Form 10-Q, words such as may, will, expect, intend, estimate, anticipate, believe, s or plan or the negative thereof or similar words are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond our control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Those factors include, but are not limited to:

- actions taken by our competitors and our ability to effectively compete in the increasingly competitive global electric motor, power generation and mechanical motion control industries;
- our ability to develop new products based on technological innovation and the marketplace acceptance of new and existing products;
- fluctuations in commodity prices and raw material costs;
- our dependence on significant customers;
- issues and costs arising from the integration of acquired companies and businesses, including the timing and impact of purchase accounting adjustments;
- our dependence on key suppliers and the potential effects of supply disruptions;
- infringement of our intellectual property by third parties, challenges to our intellectual property, and claims of infringement by us of third party technologies;
- increases in our overall debt levels as a result of acquisitions or otherwise and our ability to repay principal and interest on our outstanding debt;
- product liability and other litigation, or the failure of our products to perform as anticipated, particularly in high volume applications;
- difficulties consummating the pending acquisition of the Electrical Products Company of A.O. Smith Corporation that may have a negative impact on our results of operations;
- economic changes in global markets where we do business, such as reduced demand for the products we sell, currency exchange rates, inflation rates, interest rates, recession, foreign government policies and other external factors that we cannot control;
- unanticipated liabilities of acquired businesses;
- cyclical downturns affecting the global market for capital goods;
- difficulties associated with managing foreign operations; and
- other risks and uncertainties including but not limited to those described in Risk Factors in this Quarterly Report on Form 10-Q and from time to time in our reports filed with Securities and Exchange Commission.

Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update these statements to reflect subsequent events or circumstances. Additional information regarding these and other risks and factors is included in **Item 1A Risk Factors** in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2011.

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PART I FINANCIAL INFORMATION
REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(Dollars in Thousands, Except Cash Dividends Declared and Per Share Data)

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended	
	April 2, 2011	April 3, 2010
Net Sales	**$ 662,655**	$ 507,318
Cost of Sales	**497,844**	376,403
Gross Profit	**164,811**	130,915
Operating Expenses	**100,691**	68,150
Income From Operations	**64,120**	62,765
Interest Expense	**5,091**	5,061
Interest Income	**317**	641
Income Before Taxes	**59,346**	58,345
Provision For Income Taxes	**18,523**	18,477
Net Income	**40,823**	39,868
Net Income Attributable to Noncontrolling Interests	**1,986**	2,106
Net Income Attributable to Regal Beloit Corporation	**$ 38,837**	$ 37,762
Earnings Per Share of Common Stock:		
Basic	**$ 1.01**	$ 1.01
Assuming Dilution	**$ 0.99**	$ 0.98
Cash Dividends Declared	**$ 0.17**	$ 0.16
Weighted Average Number of Shares Outstanding:		
Basic	**38,626,711**	37,446,007
Assuming Dilution	**39,131,722**	38,622,314

See accompanying Notes to Condensed Consolidated Financial Statements.

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REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands, Except Per Share Data)

	April 2, 2011	January 1, 2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	**$ 259,457**	$ 174,531
Investments Trading Securities		56,327
Trade Receivables, less Allowances of $11,765 in 2011 and $10,637 in 2010	**393,374**	331,017
Inventories	**401,234**	390,587
Prepaid Expenses and Other Current Assets	**86,144**	110,665
Deferred Income Tax Benefits	**27,188**	24,924
Total Current Assets	**1,167,397**	1,088,051
Net Property, Plant and Equipment	**413,545**	396,376
Goodwill	**776,710**	775,371
Intangible Assets, Net of Amortization	**171,139**	175,490
Other Noncurrent Assets	**15,346**	13,848
Total Assets	**$ 2,544,137**	$ 2,449,136
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	**$ 262,340**	$ 231,705
Dividends Payable	**6,568**	6,562
Accrued Compensation and Employee Benefits	**62,298**	63,842
Other Accrued Expenses	**103,013**	88,596
Current Maturities of Debt	**19,190**	8,637
Total Current Liabilities	**453,409**	399,342
Long-Term Debt	**430,780**	428,256
Deferred Income Taxes	**94,649**	92,858
Hedging Obligations	**35,278**	39,174
Pension and other Post Retirement Benefits	**51,324**	51,127
Other Noncurrent Liabilities	**34,299**	41,217
Equity:		
Regal Beloit Corporation Shareholders Equity:		
Common Stock, $.01 par value, 100,000,000 shares authorized, 38,634,887 shares issued in 2011, and 38,615,547 issued in 2010	**386**	386
Additional Paid-In Capital	**538,362**	535,807
Retained Earnings	**859,737**	827,467
Accumulated Other Comprehensive Income (Loss)	**9,303**	(1,700)

Total Regal Beloit Corporation Shareholders Equity	**1,407,788**	1,361,960
Noncontrolling Interests	**36,610**	35,202
Total Equity	**1,444,398**	1,397,162
Total Liabilities and Equity	**$ 2,544,137**	$ 2,449,136

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Regal Beloit Corporation Shareholders Equity					
	Common Stock $.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance as of January 2, 2010	$ 374	$ 512,282	$ 703,765	$ (48,597)	$ 12,244	$ 1,180,068
Net Income			37,762		2,106	39,868
Dividends Declared ($.16 per share)			(5,997)			$ (5,997)
Stock Options Exercised, including income tax benefit and share cancellations	1	1,893				$ 1,894
Share-based Compensation		1,357				$ 1,357
Other Comprehensive Income by Classification:						
Currency Translation adjustments				7,424	2	$ 7,426
Hedging Activities, net of tax				5,485		$ 5,485
Pension and Post Retirement Benefits, net of tax				447		$ 447
Balance as of April 3, 2010	$ 375	$ 515,532	$ 735,530	$ (35,241)	$ 14,352	$ 1,230,548

	Regal Beloit Corporation Shareholders Equity					
	Common Stock $.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Equity
Balance as of January 1, 2011	$ 386	$ 535,807	$ 827,467	$ (1,700)	$ 35,202	$ 1,397,162
Net Income			38,837		1,986	40,823
Dividends Declared ($.17 per share)			(6,567)			$ (6,567)
Stock Options Exercised, including income tax		800				$ 800

benefit and share cancellations							
Share-based Compensation		1,755				$	1,755
Other Comprehensive Income (Loss) by Classification:							
Currency Translation adjustments				11,331	(578)	$	10,753
Hedging Activities, net of tax				(984)		$	(984)
Pension and Post Retirement Benefits, net of tax				656		$	656
Balance as of April 2, 2011	$ 386	$ 538,362	$ 859,737	$ 9,303	$ 36,610	$	1,444,398

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	April 2, 2011	April 3, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 40,823**	$ 39,868
Adjustments to reconcile net income to net cash provided by operating activities (net of acquisitions):		
Depreciation and amortization	**21,599**	17,025
Excess tax benefits from share-based compensation	**(410)**	(670)
Loss on disposition of property, net	**187**	
Share-based compensation expense	**1,755**	1,357
Change in assets and liabilities	**(7,753)**	(13,215)
Net cash provided by operating activities	**56,201**	44,365
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	**(27,729)**	(11,241)
Purchases of investment securities		(98,133)
Sales of investment securities	**55,998**	69,069
Business acquisitions, net of cash acquired	**(8,597)**	
Sale of property, plant and equipment	**16**	
Net cash provided by (used in) investing activities	**19,688**	(40,305)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from (repayments of) short-term borrowings	**10,022**	(1,661)
Payments of long-term debt	**(49)**	(46)
Net proceeds (repayments) under revolving credit facility	**2,845**	(2,863)
Dividends paid to shareholders	**(6,561)**	(5,981)
Proceeds from the exercise of stock options	**566**	1,223
Excess tax benefits from share-based compensation	**410**	670
Net cash provided by (used in) financing activities	**7,233**	(8,658)
EFFECT OF EXCHANGE RATES ON CASH	**1,804**	318
Net increase (decrease) in cash and cash equivalents	**84,926**	(4,280)
Cash and cash equivalents at beginning of period	**174,531**	262,422
Cash and cash equivalents at end of period	**$ 259,457**	$ 258,142

See accompanying Notes to Condensed Consolidated Financial Statements.

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REGAL BELOIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 2, 2011
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet of Regal Beloit Corporation (the Company) as of January 1, 2011, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of April 2, 2011, 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 2010 Annual Report on Form 10-K filed on March 2, 2011.

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 months ended April 2, 2011 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2011.

The Company operates on a 52/53 week fiscal year ending on the Saturday closest to December 31.

2. OTHER FINANCIAL INFORMATION

Inventories

Cost for approximately 48% 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:

	April 2, 2011	January 1, 2011
Raw Material and Work in Process	**38%**	36%
Finished Goods and Purchased Parts	**62%**	64%

Property, Plant and Equipment

Property, plant and equipment by major classification was as follows:

	April 2, 2011	January 1, 2011
Land and Improvements	**$ 66,709**	$ 45,909
Buildings and Improvements	**142,774**	141,128
Machinery and Equipment	**535,548**	524,172
Construction in Progress	**24,751**	26,644
Property, Plant and Equipment	**769,782**	737,853
Less: Accumulated Depreciation	**(356,237)**	(341,477)
Net Property, Plant and Equipment	**$ 413,545**	$ 396,376

3. ACQUISITIONS

The results of operations for acquired businesses are included in the Condensed Consolidated Financial Statements from the dates of acquisition.

On March 7, 2011, the Company acquired Hargil Dynamics Pty. Ltd. (Hargil) located in Sydney, Australia. Hargil is a distributor of mechanical power transmission components and solutions. Hargil is reported as part of the Company s Mechanical segment.

On December 23, 2010, the Company acquired Unico, Inc. (Unico), located in Franksville, Wisconsin. Unico manufactures a full range of AC and DC drives, motor controllers and other accessories for most industrial and commercial applications. Unico has developed proprietary technology in the fields of oil and gas recovery technology, commercial HVAC technology, test stand automation and other applications. The purchase price of $107.3 million was paid in cash, net of acquired debt and cash. In addition to the cash paid, the Company agreed to pay an additional amount should certain performance thresholds be met. At April 2, 2011, the Company has a liability recorded of $9.2 million for this consideration. Unico is reported as part of the Company s Electrical segment.

On December 1, 2010, the Company acquired South Pacific Rewinders (SPR), located in Auckland, New Zealand. SPR operates as a motor rewinder and distributor in the Pacific region. SPR is reported as part of the Company s Electrical segment.

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On November 1, 2010, the Company acquired 55% of Elco Group B.V. (Elco), located in Milan, Italy. Elco manufactures and sells motors, fans and blowers and has manufacturing facilities in Italy, China and Brazil. The purchase price was $27.3 million, net of acquired debt and cash. The purchase price includes $4.6 million in cash paid at closing, $5.6 million paid during the first three months of 2011, and $17.1 million which will be paid in three semi-annual payments. Elco is reported as part of the Company s Electrical segment.

On September 1, 2010, the Company acquired Rotor B.V. (Rotor), located in Eibergen, the Netherlands. Rotor sells standard and special electric motors to a variety of industries including the marine industry, ship building and offshore oil and gas. In addition to the Netherlands, Rotor also sells throughout Europe, the United Kingdom and Japan. The purchase price of $36.4 million was paid in cash, net of acquired debt and cash. Rotor is reported as part of the Company s Electrical segment.

On May 4, 2010, the Company acquired Air-Con Technology (Air-Con), located in Mississauga, Ontario, Canada. Air-Con is a distributor of HVACR electric motors. Air-Con is reported as part of the Company s Electrical segment.

On April 6, 2010, the Company acquired CMG Engineering Group Pty, Ltd. (CMG), located in Melbourne, Australia. CMG manufactures and sells fractional horsepower industrial motors, blower systems, and industrial metal products with operations in Australia, New Zealand, South Africa, Malaysia, Singapore, the United Kingdom and the Middle East. The business also distributes integral horsepower industrial motors, mechanical power transmission products, material handling equipment, electrical insulation materials, magnet wire and specialty conductors in Australia and New Zealand. The purchase price was $82.6 million, net of acquired debt and cash. The purchase price was paid $76.5 million in cash and $6.1 million in shares of Company common stock. CMG is reported as part of our Electrical and Mechanical segments.

Pending Acquisition

On December 12, 2010, the Company and A.O. Smith Corporation (NYSE: AOS) entered into an agreement pursuant to which the Company will acquire the Electrical Products Company of A.O. Smith Corporation. The total consideration for the transaction consists of $700 million of cash and 2,834,026 shares of Company common stock. Closing on the transaction is subject to all customary regulatory approvals, which are still pending as of the date of this filing.

4. COMPREHENSIVE INCOME

The Company s consolidated comprehensive income for the three months ended April 2, 2011 and April 3, 2010, respectively, was as follows (in thousands):

	Three Months Ending	
	April 2, 2011	April 3, 2010
Net income	**$ 40,823**	$ 39,868
Other Comprehensive Income (Loss) from:		
Currency Translation adjustments	**10,753**	7,426
Changes in fair value on open hedge contracts, net of tax	**2,540**	4,745
Hedging activities reclassified into earnings from accumulated other comprehensive income (loss) (AOCI), net of tax	**(3,524)**	740
Amortization of net prior service costs and actuarial losses	**656**	447
Comprehensive income	**$ 51,248**	$ 53,226

The amount of comprehensive income attributable to noncontrolling interests was $1.4 million and $2.1 million for the three months ended April 2, 2011 and April 3, 2010, respectively.

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

	April 2, 2011	January 1, 2011
Translation adjustments	**$ 34,521**	$ 23,190
Hedging activities, net of tax	**1,858**	2,842
Pension and post retirement benefits, net of tax	**(27,076)**	(27,732)
	$ 9,303	$ (1,700)

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5. 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 months ended April 2, 2011 and April 3, 2010 (in thousands):

	Three Months Ending	
	April 2, 2011	April 3, 2010
Beginning balance	**$ 12,831**	$ 13,298
Deduct: Payments	**(2,854)**	(3,445)
Add: Provision	**2,581**	3,489
Translation Adjustments	**26**	56
Ending balance	**$ 12,584**	$ 13,398

6. BUSINESS SEGMENTS

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

	Mechanical Segment Three Months Ending		Electrical Segment Three Months Ending	
	April 2, 2011	April 3, 2010	**April 2, 2011**	April 3, 2010
Net Sales	**$ 68,365**	$ 50,073	**$ 594,290**	$ 457,245
Income from Operations	**8,607**	6,425	**55,513**	56,340
% of Net Sales	**12.6%**	12.8%	**9.3%**	12.3%
Goodwill at end of period	**$ 12,481**	$	**$ 764,229**	$ 667,725

7. GOODWILL AND OTHER INTANGIBLES

Goodwill

As required, the Company performs an 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 its reporting units below their carrying value.

At April 2, 2011, substantially all of the Company s goodwill is attributable to the Electrical segment and 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):

	Total	Electrical Segment	Mechanical Segment
Balance as of January 2, 2010	$ 663,920	$ 663,920	$
Translation Adjustments	3,805	3,805	
Balance as of April 3, 2010	$ 667,725	$ 667,725	$
Balance as of January 1, 2011	$ 775,371	$ 763,135	$ 12,236
Acquisitions and Valuation Adjustments	(1,810)	(1,875)	65
Translation Adjustments	3,149	2,969	180
Balance as of April 2, 2011	**$ 776,710**	**$ 764,229**	**$ 12,481**

Intangible Assets

Intangible assets consisted of the following (in thousands):

	Useful Life	April 2, 2011		April 3, 2010	
	(years)	Gross Value	Accumulated Amortization	Gross Value	Accumulated Amortization
Customer Relationships	3 17	$ 142,023	$ (44,805)	$ 97,799	$ (31,781)
Technology	3 9	60,689	(15,164)	33,332	(9,716)
Trademarks	3 20	31,346	(10,556)	21,229	(7,956)
Patents & Engineering Drawings	10	16,610	(10,416)	16,610	(8,755)
Non-Compete Agreements	3 5	7,569	(6,157)	6,349	(5,195)
		$ 258,237	$ (87,098)	$ 175,319	$ (63,403)
Net Values			$ 171,139		$ 111,916

Estimated Amortization (in millions)

2011	2012	2013	2014	2015
$ 28.4	$ 28.0	$ 27.7	$ 26.2	$ 18.7

Amortization expense recorded for the three months ended April 2, 2011 and April 3, 2010 was $7.1 million and $4.4 million, respectively.

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8. DEBT AND BANK CREDIT FACILITIES

The Company s indebtedness as of April 2, 2011 and January 1, 2011 was as follows (in thousands):

	April 2, 2011	January 1, 2011
Senior notes	**$ 250,000**	$ 250,000
Term loan	**165,000**	165,000
Revolving credit facility	**2,845**	
Other	**32,125**	21,893
	449,970	436,893
Less: Current maturities	**(19,190)**	(8,637)
Non-current portion	**$ 430,780**	$ 428,256

At April 2, 2011, the Company had $250.0 million of senior notes (the Notes) outstanding. 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). These interest rates vary as LIBOR varies. At April 2, 2011, the interest rate of 1.0% was based on a margin over LIBOR.

On June 16, 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 a margin over LIBOR. The 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. At April 2, 2011, the interest rate of 1.0% was based on a margin over LIBOR.

The Company s $500.0 million revolving credit facility (the Facility) permits the Company to borrow at interest rates based upon a margin above LIBOR, which margin varies with the ratio of senior 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 senior funded debt to EBITDA. The Facility matures in April 2012. At April 2, 2011, the interest rate of 1.3% was based on a margin over LIBOR.

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 financial debt covenants as of April 2, 2011.

The Company has entered into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. (See also Note 14 of Notes to Condensed Consolidated Financial Statements.)

At April 2, 2011, other notes payable of approximately $32.1 million were outstanding with a weighted average interest rate of 5.1%.

9. PENSION PLANS

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

	Three Months Ending	
	April 2, 2011	April 3, 2010
Service cost	**$ 720**	$ 586
Interest cost	**1,988**	1,734
Expected return on plan assets	**(1,828)**	(1,566)
Amortization of prior service cost and net actuarial loss	**918**	612

Net periodic benefit expense	**$**	**1,798**	$	1,366

The estimated net actuarial loss and prior service cost for defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost during the 2011 fiscal year is $3.3 million and $0.2 million, respectively.

In the first quarter of 2011 and 2010, the Company contributed $0.6 million and $0.5 million, respectively, to defined benefit pension plans. The Company expects to contribute an additional $1.6 million, for total contributions of $2.2 million in 2011. The Company contributed a total of $4.1 million in 2010. 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 2010 Annual Report on Form 10-K filed on March 2, 2011.

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10. SHAREHOLDERS EQUITY

The Company recognized approximately $1.8 million and $1.4 million in share-based compensation expense for the three month period ended April 2, 2011 and April 3, 2010, respectively. The total excess income tax benefit recognized relating to share-based compensation for the three months ended April 2, 2011 and April 3, 2010 was approximately $0.4 million and $0.7 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. As of April 2, 2011, total unrecognized compensation cost related to share-based compensation awards was approximately $16.0 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 2.6 years.

The Company was authorized as of April 2, 2011 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 1.8 million shares were available for future grant or payment under the various plans at April 2, 2011.

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.

A summary of share-based awards (options and SARs) as of April 2, 2011 follows below. Forfeitures of share-based awards were immaterial.

	Shares	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Number of shares:				
Outstanding	1,420,210	$ 43.67	6.7	$ 44.5
Exercisable	593,560	37.40	5.1	22.4

Restricted Stock

As of April 2, 2011, the Company had 181,027 shares of restricted stock outstanding with a weighted average grant date fair value of $53.45 and a weighted average life of 1.9 years. 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 three months of 2011 there were 150 shares of restricted stock vested.

11. INCOME TAXES

The effective tax rate for the three months ended April 2, 2011 was 31.2% versus 31.7% for the three months ended April 3, 2010. The change in the effective rates was driven by changes in the global distribution of income.

As of both April 2, 2011 and January 1, 2011, the Company had approximately $5.5 million of unrecognized tax benefits, all 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 2007 through 2010 and various state tax returns remain subject to income tax examinations by tax authorities.

12. 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 April 3, 2010

		April 2, 2011	
Denominator for basic EPS	weighted average	**38,627**	37,446
Effect of dilutive securities		**505**	1,176
Denominator for diluted EPS		**39,132**	38,622

The Effect of dilutive securities represents the dilution impact of equity awards and convertible notes that were fully converted during 2010. The dilutive effect of the convertible notes was approximately 0.8 million shares for the three months ended April 3, 2010.

There were no options for common shares where the exercise price was above the market price at April 2, 2011. As of April 3, 2010 options for common shares totaling 1.0 million shares were excluded from the calculation of the effect of dilutive securities, as the effect of such options was anti-dilutive.

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13. CONTINGENCIES

On July 30, 2009, the Company filed a response and counterclaims to an action filed by Nordyne, Inc. (Nordyne) in the U.S. District Court for the Eastern District of Missouri in which action Nordyne is seeking a judgment declaring that neither Nordyne s G7 furnace systems nor its iQ Drive 23-seer air conditioning systems infringe on the Company s ECM (electronically commutated motor) systems patents (U.S. Patent No. 5,592,058) (the 058 Patent) and/or that the 058 Patent is invalid. In its response and counterclaims against Nordyne the Company is seeking a judgment that the 058 Patent is valid and that Nordyne has, in fact, infringed and continues to infringe the 058 Patent by making, using, offering for sale and selling it s G7 furnace systems and iQ Drive 23-seer air conditioning systems. The Company has also requested the U.S. District Court to enjoin Nordyne and all persons working in concert with Nordyne from further infringement of the 058 Patent and to award us compensatory and other damages caused by such infringement. On February 2, 2011, the Court issued a claim construction order in which it held that some of the claims in the 058 Patent contain limitations that are indefinite and thus invalid. However, other claims of the 058 Patent were not affected by this ruling and remain to be litigated in the action. The Company intends to defend its intellectual property vigorously against the claims asserted by Nordyne and against any infringement by Nordyne or any other person. The Company does not currently believe that the litigation will have a material effect on the Company s financial position or its results of operations.

One of the Company s subsidiaries that it acquired in 2007 is subject to numerous claims filed in various jurisdictions relating to certain sub-fractional motors that were primarily manufactured through 2004 and that were included as components of residential and commercial ventilation units marketed by a third party. These claims generally allege that the ventilation units were the cause of fires. Based on the current facts, the Company does not believe these claims, individually or in the aggregate, will have a material adverse effect on its results of operations or financial condition. However, the Company cannot predict the outcome of these claims, the nature or extent of remedial actions, if any, it may need to undertake with respect to motors that remain in the field, or the costs it may incur, some of which could be significant.

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 it to claims that the use of its 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 the Company believes 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.

14. DERIVATIVE INSTRUMENTS

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.

The Company must recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. Accordingly, 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 April 2, 2011.

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.

At April 2, 2011, the Company had an additional $5.8 million, net of tax, of derivative gains on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At April 3, 2010, the Company had an additional $0.9 million, net of tax, of derivative gains on closed hedge instruments in AOCI that was realized in earnings when the hedged items impacted earnings.

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As of April 2, 2011, the Company had outstanding the following commodity forward contracts (with maturities extending through September 2012) to hedge forecasted purchases of commodities (in millions):

	Notional Amount
Copper	$ 138.1
Aluminum	3.5
Zinc	0.4
Natural Gas	0.4

As of April 2, 2011, the Company had outstanding the following currency forward contracts (with maturities extending through December 2012) to hedge forecasted foreign currency cash flows (in millions):

	Notional Amount
Mexican Peso	$ 92.9
Indian Rupee	34.7
Chinese Renminbi	8.8
Australian Dollar	4.0
Thai Baht	2.0

As of April 2, 2011, 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 April 2, 2011 and January 1, 2011 were (in millions):

	April 2, 2011			
	Prepaid Expenses	Other Noncurrent Assets	Accrued Expenses	Hedging Obligations
Designated as hedging instruments:				
Interest rate swap contracts	$	$	$	$ 35.2
Foreign exchange contracts	9.2	2.4	0.2	0.1
Commodity contracts	16.0	2.0	0.5	
Not designated as hedging instruments:				
Foreign exchange contracts			0.3	
Commodity contracts	0.2			
Total Derivatives:	$ 25.4	$ 4.4	$ 1.0	$ 35.3

	January 1, 2011			
	Prepaid Expenses	Other Noncurrent Assets	Accrued Expenses	Hedging Obligations
Designated as hedging instruments:				
Interest rate swap contracts	$	$	$	$ 39.1
Foreign exchange contracts	7.1	1.4	0.1	0.1
Commodity contracts	24.7	4.2	0.1	

Not designated as hedging instruments:

Foreign exchange contracts	0.2			
Commodity contracts	0.2			
Total Derivatives:	$ 32.2	$ 5.6	$ 0.2	$ 39.2

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The effect of derivative instruments on the condensed consolidated statements of equity and earnings for the three months ended April 2, 2011 and April 3, 2010, was (in millions):

Derivatives Designated as Cash Flow Hedging Instruments

	Three Months Ended April 2, 2011				Three Months Ended April 3, 2010			
	Commodity Forwards	Currency Forwards	Interest Rate Swaps	Total	Commodity Forwards	Currency Forwards	Interest Rate Swaps	Total
Gain (Loss) recognized in Other Comprehensive Income (Loss)	$ (1.9)	$ 5.3	$ 0.7	$ 4.1	$ 4.0	$ 7.9	$ (4.2)	$ 7.7
Amounts reclassified from other comprehensive income (loss) were:								
Gain (Loss) recognized in Net Sales	$	$ 0.2	$	$ 0.2	$	$ (0.1)	$	$ (0.1)
Gain (Loss) recognized in Cost of Sales	8.2	0.5		$ 8.7	3.3	(1.2)		$ 2.1
Loss recognized in Interest Expense			(3.2)	$ (3.2)			(3.2)	$ (3.2)

The ineffective portion of hedging instruments recognized during the three months ended April 2, 2011 and April 3, 2010 was immaterial.

Derivatives Not Designated as Cash Flow Hedging Instruments

	Three Months Ended April 2, 2011 Currency Forwards	Three Months Ended April 3, 2010 Commodity Forwards
Loss recognized in Cost of Sales	$ (0.3)	$ (0.1)

The net AOCI balance of $1.9 million gain at April 2, 2011 includes $12.0 million of net current deferred gains expected to be realized in the next twelve months.

15. FAIR VALUE

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

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2	Unadjusted quoted prices in active markets for similar assets or liabilities, or
	Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or

	Inputs other than quoted prices that are observable for the asset or liability
Level 3	Unobservable inputs for the asset or liability

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The Company uses the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of April 2, 2011 and January 1, 2011 (in millions):

	April 2, 2011	January 1, 2011	
Assets:			
Investments Trading Securities	$	$ 56.3	(Level 2)
Prepaid Expenses and Other Current Assets:			
Derivative Currency Contracts	9.2	7.3	(Level 2)
Derivative Commodity Contracts	16.2	24.9	(Level 2)
Other Noncurrent Assets:			
Derivative Currency Contracts	2.4	1.4	(Level 2)
Derivative Commodity Contracts	2.0	4.2	(Level 2)
Liabilities:			
Other Accrued Expenses:			
Derivative Currency Contracts	0.5	0.1	(Level 2)
Derivative Commodity Contracts	0.5	0.1	(Level 2)
Hedging Obligations:			
Interest Rate Swap	35.2	39.1	(Level 2)
Derivative Currency Contracts	0.1	0.1	(Level 2)

16. RELATED PARTY TRANSACTIONS

As part of the consideration paid for the acquisition of Elco on November 1, 2010, the Company assumed $22.3 million payable to an entity that is affiliated with our Elco Group B.V. joint venture partner resulting from bankruptcy proceeding involving Elco. The amount is payable in four semi-annual payments ending in 2012. During the first quarter of 2011, $5.6 million was paid by the Company. The Company has included the current amounts in Other Accrued Expenses and the long-term amount in Other Noncurrent Liabilities.

17. SUBSEQUENT EVENTS

On April 5, 2011, the Company acquired Ramu, Inc. (Ramu) located in Blacksburg, Virginia. Ramu is a motor and control technology company with a research and development team dedicated to the development of switched reluctance motor technology.

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 collectivel Regal Beloit Corporation and its subsidiaries.

Overview

The U.S. and global economy continued to show growth in the first quarter 2011. Sales of high efficiency products continued to show above average growth rates, supported by the net economic impact to the end user and, in certain cases, by tax credits and government regulations requiring higher energy efficiency ratings on certain types of motors.

Net sales for the first quarter 2011 increased 30.6% to $662.7 million from $507.3 million in the first quarter 2010. Net sales for the first quarter 2011 included $91.2 million of incremental net sales from the businesses acquired in 2010.

Net Income Attributable to Regal Beloit Corporation increased 2.9% to $38.8 million for the first quarter 2011 compared to $37.8 million for the first quarter 2010. Diluted earnings per share increased to $0.99 for the first quarter 2011 compared to $0.98 for the first quarter 2010.

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Results of Operations

Net Sales

	(In millions) Three Months Ended	
	April 2, 2011	April 3, 2010
Net Sales	$ 662.7	$ 507.3
Sales growth rate	30.6%	14.4%
Net Sales by Segment:		
Electrical segment	$ 594.3	$ 457.2
Sales growth rate	30.0%	16.8%
Mechanical segment	$ 68.4	$ 50.1
Sales growth rate	36.5%	(3.5%)

Net sales for the first quarter 2011 were $662.7 million, a 30.6% increase compared to $507.3 million for the first quarter 2010. Net sales for the first quarter 2011 included $91.2 million of incremental net sales from the businesses acquired in 2010. Sales also increased due to higher volumes and increases in selling prices.

In the Electrical segment, net sales for the first quarter 2011 increased $137.1 million compared to the first quarter 2010, including $81.3 million of incremental net sales from the acquired businesses. North American residential HVAC motor net sales increased 17.9% in the first quarter 2011 compared to the first quarter 2010. North American commercial and industrial net sales increased 12.8% for the first quarter compared to the first quarter 2010 driven by improving economic conditions, the impact of the EISA legislation which increased the sales of energy efficient motors and a strong recovery in our generator business.

In the Mechanical segment, net sales for the first quarter of 2011 increased $18.3 million compared to the first quarter 2010, including $9.9 million of incremental net sales from the acquired businesses. This increase was driven primarily by improving demand in later cycle end markets and improving demand in Europe.

Net sales to regions outside of the United States were 36.9% of total net sales for the first quarter 2011 compared to 27.1% of total net sales for the first quarter 2010. First quarter 2011 net sales of high efficiency products were 18.0% of total net sales as compared to 17.7% in the first quarter of 2010. The impact of foreign currency exchange rates increased total net sales by 1.0% for the first quarter 2011 compared to the first quarter 2010.

Gross Profit

	(In thousands) Three Months Ended	
	April 2, 2011	April 3, 2010
Gross Profit	$ 164,811	$ 130,915
Gross profit percentage	24.9%	25.8%
Gross Profit by Segment:		
Electrical segment	$ 145,605	$ 117,050
Gross profit percentage	24.5%	25.6%
Mechanical segment	$ 19,206	$ 13,865
Gross profit percentage	28.1%	27.7%

Gross profit margin for the first quarter 2011 was 24.9% as compared to 25.8% for the first quarter 2010.

Gross profit margin for the Electrical segment was 24.5% for the first quarter 2011 compared to 25.6% for the first quarter 2010. Electrical segment margins were negatively impacted by higher raw material costs in the first quarter 2011 compared to the first quarter 2010.

Gross profit margin for the Mechanical segment was 28.1% for the first quarter 2011 compared to 27.7% for the first quarter 2010. The improvements were driven primarily by sales volume leverage.

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Operating Expenses

	(In thousands) Three Months Ended	
	April 2, 2011	April 3, 2010
Operating Expenses	$ 100,691	$ 68,150
As a percentage of net sales	15.2%	13.4%
Operating Expenses by Segment:		
Electrical segment	$ 90,092	$ 60,710
As a percentage of net sales	15.2%	13.3%
Mechanical segment	$ 10,599	$ 7,440
As a percentage of net sales	15.5%	14.9%

Operating expenses for the first quarter 2011 increased $32.5 million including (i) $20.1 million related to the acquired businesses ($2.4 million of which was intangible amortization), and (ii) an incremental $5.1 million of acquisition-related expenses.

Electrical segment operating expenses were 15.2% of net sales for the first quarter 2011 compared to 13.3% for the first quarter 2010.

Mechanical segment operating expenses were 15.5% of net sales for the first quarter 2011 compared to 14.9% for the first quarter 2010.

Income from Operations

	(In thousands) Three Months Ended	
	April 2, 2011	April 3, 2010
Income from Operations	$ 64,120	$ 62,765
As a percentage of net sales	9.7%	12.4%
Income from Operations by Segment:		
Electrical segment	$ 55,513	$ 56,340
As a percentage of net sales	9.3%	12.3%
Mechanical segment	$ 8,607	$ 6,425
As a percentage of net sales	12.6%	12.8%

Income from operations was $64.1 million for the first quarter 2011 compared to $62.8 million for the first quarter 2010. As a percentage of sales, income from operations was 9.7% for the first quarter 2011 compared to 12.4% for the first quarter 2010.

Electrical segment income from operations was 9.3% of net sales for the first quarter 2011 compared to 12.3% for the first quarter 2010.

Mechanical segment income from operations was 12.6% of net sales for the first quarter 2011 compared to 12.8% of net sales for the first quarter 2010.

Interest Expense, Net

	(In thousands) Three Months Ended	
	April 2, 2011	April 3, 2010
Interest Expense, Net	$ 4,774	$ 4,420

Net interest expense for the first quarter 2011 was $4.8 million compared to $4.4 million for the first quarter 2010. During 2011, the Company s net interest expense increased primarily due to lower investment interest income while our average debt borrowing and interest rates remained relatively consistent quarter over quarter.

Provision for Income Taxes

	(In thousands) Three Months Ended	
	April 2, 2011	April 3, 2010
Income Taxes	$ 18,523	$ 18,477
Effective Tax Rate	31.2%	31.7%

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The effective tax rate for the first quarter 2011 was 31.2% compared to 31.7% for the first quarter 2010. The decrease in the effective tax rate was driven by changes in the global distribution of taxable income.

Net Income Attributable to Regal Beloit Corporation and Earnings Per Share

	(In millions, except per share data) Three Months Ended	
	April 2, 2011	April 3, 2010
Net Income Attributable to Regal Beloit Corporation	$ 38.8	$ 37.8
Fully Diluted Earnings per Share	$ 0.99	$ 0.98
Average Number of Diluted Shares	39.1	38.6

Net Income Attributable to Regal Beloit Corporation for the first quarter 2011 was $38.8 million, an increase of 2.9% compared to $37.8 million for the first quarter 2010. Fully diluted earnings per share was $0.99 for the first quarter 2011 compared to $0.98 for the first quarter 2010. The average number of diluted shares was 39,131,722 during the first quarter 2011 compared to 38,622,314 during the first quarter 2010.

Liquidity and Capital Resources

Our principal source of liquidity is operating cash flow. In addition, other significant factors affecting our liquidity management include working capital levels, capital expenditures, dividends, acquisitions, availability of debt financing and the ability to attract long-term capital on acceptable terms.

Our working capital was $714.0 million at April 2, 2011, an increase of 3.7% from $688.7 million at January 1, 2011. At April 2, 2011 our current ratio, the ratio of our current assets to current liabilities, was 2.6:1 compared to 2.7:1 at January 1, 2011.

The following table presents selected financial information and statistics as of April 2, 2011 and January 1, 2011 (in millions):

	April 2, 2011	January 1, 2011
Cash and Cash Equivalents	$ 259.5	$ 174.5
Investments Trading Securities		56.3
Trade Receivables, Net	393.4	331.0
Inventories, Net	401.2	390.6
Working Capital	714.0	688.7

Cash flow provided by operating activities (operating cash flow) was $56.2 million for the three months ended April 2, 2011, an $11.8 million increase from the three months ended April 3, 2010. The increase reflects higher net income and a decrease in the amount used in working capital.

Cash flow provided by investing activities was $19.7 million for the first three months of 2011, a $60.0 million increase from the first three months of 2010. Sales of investment securities were $56.0 in the first three months of 2011 versus the net purchases of investment securities of ($29.1) in the first three months of 2010. Capital expenditures were $27.7 million which included the purchase of land related to our factory in Faridabad, India which was previously leased.

Cash flow provided by financing activities for the first three months of 2011 was $7.2 million compared to cash flow used of $8.7 million in the first three months of 2010.

At April 2, 2011, we had $250.0 million of senior notes (the Notes) outstanding. The Notes were sold pursuant to a Note Purchase Agreement (the Agreement) by and among us 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). These interest rates vary as LIBOR varies. At April 2, 2011, the interest rate of 1.0% was based on a margin over LIBOR.

On June 16, 2008, we entered into a Term Loan Agreement (Term Loan) with certain financial institutions, pursuant to which we 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 a margin over LIBOR which varies with the ratio of our 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. At April 2, 2011, the interest rate of 1.0% was based on a margin over LIBOR.

Our $500.0 million revolving credit facility (the Facility) permits us to borrow at interest rates based upon a margin above LIBOR, which margin varies with the ratio of senior funded debt to 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 senior funded debt to our EBITDA. At April 2, 2011, the interest rate of 1.3% was based on a margin over LIBOR.

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 financial debt covenants as of April 2, 2011.

EPC Acquisition

We plan to fund the $700 million cash consideration in the EPC acquisition with a combination of existing cash, borrowings under the Facility and additional debt.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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 (loss) (AOCI) in each accounting period. An ineffective portion of the hedges change in fair value, if any, is recorded in earnings in the period of change.

Interest Rate Risk

We are exposed to interest rate risk on certain of our short-term and long-term debt obligations used to finance our operations and acquisitions. At April 2, 2011, net of interest rate swaps, we had $263.6 million of fixed rate debt and $186.4 million of variable rate debt. As a result, interest rate changes impact future earnings and cash flow assuming other factors are constant. We utilize interest rate swaps to manage fluctuations in cash flows resulting from exposure to interest rate risk on forecasted variable rate interest payments. We have LIBOR-based floating rate borrowings, which expose us to variability in interest payments due to changes in interest rates. A hypothetical 10% change in our weighted average borrowing rate on outstanding variable rate debt at April 2, 2011, would result in a change in after-tax annualized earnings of approximately $0.1 million.

We have entered into pay fixed/receive LIBOR-based floating interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk. These interest rate swaps have been designated as cash flow hedges against forecasted LIBOR-based interest payments. Details regarding these instruments, as of April 2, 2011, are as follows:

Instrument	Notional Amount	Maturity	Rate Paid	Rate Received	Fair Value (Loss)
Swap	$150.0 million	August 23, 2014	5.3%	LIBOR (3 month)	($18.9) million
Swap	$100.0 million	August 23, 2017	5.4%	LIBOR (3 month)	($16.3) million

As of April 2, 2011 and January 1, 2011, the interest rate swap liability of ($35.2) million and ($39.1) million, respectively, was included in Hedging Obligations. The unrealized loss on the effective portion of the contracts net of tax of ($21.8) million and ($24.2) million as of April 2, 2011 and January 1, 2011, respectively, was recorded in AOCI.

Foreign Currency Risk

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 exchange 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. We do not hedge our exposure to the translation of reported results of foreign subsidiaries from local currency to United States dollars.

As of April 2, 2011, derivative currency assets (liabilities) of $9.2 million, $2.4 million, ($0.5) million, and ($0.1) million are recorded in Prepaid Expenses, Other Noncurrent Assets, Accrued Expenses, and Hedging Obligations, respectively. As of January 1, 2011, derivative currency assets (liabilities) of $7.3 million, $1.4 million, ($0.1) million, and ($0.1) million are recorded in Prepaid Expenses, Other Noncurrent Assets, Accrued Expenses, and Hedging Obligations, respectively. The unrealized gain on the effective portion of the contracts of $7.0 million net of tax, and $5.1 million net of tax, as of April 2, 2011 and January 1, 2011, was recorded in AOCI. At April 2, 2011, we had an additional $0.9 million, net of tax, of currency gains on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At January 1, 2011, we had an additional immaterial amount of

derivative currency gains on closed hedge instruments in AOCI that were realized in earnings when the hedged items impacted earnings.

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The following table quantifies the outstanding foreign exchange contracts intended to hedge non-U.S. dollar denominated receivables and payables and the corresponding impact on the value of these instruments assuming a hypothetical 10% appreciation/depreciation of their counter currency on April 2, 2011 (dollars in millions):

			Foreign Exchange Gain/(Loss) From:	
Currency	Notional Amount	Fair Value	10% Appreciation of Counter Currency	10% Depreciation of Counter Currency
Mexican Peso	$ 92.9	$ 10.9	$ 9.3	$ (9.3)
Indian Rupee	34.7	0.6	3.5	(3.5)
Chinese Renminbi	8.8	(0.3)	0.9	(0.9)
Australian Dollar	4.0	(0.2)	0.4	(0.4)
Thai Baht	2.0		0.2	(0.2)

Gains and losses indicated in the sensitivity analysis would be offset by gains and losses on the underlying receivables and payables.

Commodity Price Risk

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

Derivative commodity assets (liabilities) of $16.2 million, $2.0 million, and ($0.5) are recorded in Prepaid Expenses, Other Noncurrent Assets, and Accrued Expenses, respectively, at April 2, 2011. Derivative commodity assets (liabilities) of $24.9 million, $4.2 million, and ($0.1) million are recorded in Prepaid Expenses, Other Noncurrent Assets, and Accrued Expenses, respectively, at January 1, 2011. The unrealized gain on the effective portion of the contracts of $10.9 million net of tax and $17.8 million net of tax, as of April 2, 2011 and January 1, 2011, respectively, was recorded in AOCI. At April 2, 2011, we had an additional $4.8 million, net of tax, of derivative commodity gains on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At January 1, 2011, we had an additional $4.1 million, net of tax, of derivative commodity gains on closed hedge instruments in AOCI that were realized in earnings when the hedged items impacted earnings.

The following table quantifies the outstanding commodity contracts intended to hedge raw material commodity prices and the corresponding impact on the value of these instruments assuming a hypothetical 10% appreciation/depreciation of their prices on April 2, 2011 (dollars in millions):

			Foreign Exchange Gain/(Loss) From:	
Commodity	Notional Amount	Fair Value	10% Increase of Commodity Prices	10% Decrease of Commodity Prices
Copper	$ 138.1	$ 17.1	$ 13.8	$ (13.8)
Aluminum	3.5	0.6	0.4	(4.0)
Zinc	0.4			
Natural Gas	0.4			

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

The net AOCI balance of $1.9 million gain at April 2, 2011 includes $12.0 million of net current deferred gains expected to be realized in the next twelve months.

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.

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PART II OTHER INFORMATION

Items 4 and 5 are inapplicable and have been omitted.

ITEM 1. LEGAL PROCEEDINGS

In July 2009, we filed a response and counterclaims in an action initiated by Nordyne, Inc. (Nordyne) on February 4, 2009, in the U.S. District Court for the Eastern District of Missouri. In the action, Nordyne is seeking a judgment declaring that neither Nordyne s G7 furnace systems nor its iQ Drive 23-seer air conditioning systems infringe on our ECM (electronically commutated motor) systems patent U.S. Patent No. 5,592,058 (the 058 Patent) and/or that the 058 Patent is invalid. In our response and counterclaims against Nordyne, we deny that Nordyne is entitled to relief and we seek a judgment that Nordyne has, in fact, infringed and continues to infringe the 058 Patent by making, using, offering for sale and selling it G7 furnace systems and iQ Drive 23-seer air conditioning systems. We also have requested the U.S. District Court to enjoin Nordyne and all persons working in concert with Nordyne from further infringement of the 058 Patent and to award us compensatory and other damages caused by such infringement. On February 2, 2011, the Court issued a claim construction order in which it held that some of the claims in the 058 Patent contain limitations that are indefinite and thus invalid. However, other claims of the 058 Patent were not affected by this ruling and remain to be litigated in the action. We intend to defend our intellectual property vigorously against the claims asserted by Nordyne and against any infringement by Nordyne or any other person. We do not currently believe that the litigation will have a material effect on the Company s financial position or its results of operations.

One of our subsidiaries that we acquired in 2007 is subject to numerous claims filed in various jurisdictions relating to certain sub-fractional motors that were primarily manufactured through 2004 and that were included as components of residential and commercial ventilation units marketed by a third party. These claims generally allege that the ventilation units were the cause of fires. Based on the current facts, we do not believe these claims, individually or in the aggregate, will have a material adverse effect on our results of operations or financial condition. However, we cannot predict the outcome of these claims, the nature or extent of remedial actions, if any, we may need to undertake with respect to motors that remain in the field, or the costs we may incur, some of which could be significant.

We are, from time to time, party to other 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. Our products are used in a variety of industrial, commercial and residential applications that subject us to claims that the use of our products is alleged to have resulted in injury or other damage. We accrue for anticipated costs in defending against such lawsuits in amounts that we believe are adequate, and we do not believe that the outcome of any such lawsuit will have a material effect on our results of operations or financial position.

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 our Annual Report on Form 10-K filed on March 2, 2011, except for the following risk factor:

We source certain component parts from Japan, which was recently impacted by natural disasters.

We source certain component parts from suppliers or sub-suppliers located in Japan, including microchips, capacitors and capacitor film. Parts of Japan were significantly affected by the earthquake and tsunamis of March 2011. We have worked closely with our suppliers to understand potential impacts and to develop mitigation strategies in the event of component shortages, and we continue to carefully monitor the situation. While we do not foresee any material impact to our operations, supply interruptions related to these materials sourced from Japan could manifest themselves in the weeks ahead. If we were to experience significant shortages of key components and were not able to obtain alternate supplies, we could have to reduce production of certain motors, or may be unable to fill all of our customers orders on a timely basis, which could adversely impact our financial condition and results of operations.

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

The following table contains detail related to the repurchase of our common stock based on the date of trade during the quarter ended April 2, 2011.

2011 Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May be Purchased Under the Plan or Programs
January 2, to February 5		$		2,115,900
February 6 to March 5	40	$ 71.22		2,115,900
March 6 to April 2		$		2,115,900
Total	40			

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 April 2, 2011, there were 40 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 6. EXHIBITS

Exhibit Number	Exhibit Description
10.1	Regal Beloit Corporation Shareholder Value Added (SVA) Executive Officers Incentive Compensation Plan (incorporated by reference to Appendix I contained in Regal Beloit Corporation s proxy statement for its 2011 annual meeting of shareholders).
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.

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SIGNATURE

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/ Charles A. Hinrichs
Charles A. Hinrichs
Vice President
(Chief Financial Officer)

Date: May 11, 2011

REGAL BELOIT CORPORATION
(Registrant)

/s/ Peter J. Rowley
Peter J. Rowley
Vice President, Corporate Controller
(Principal Accounting Officer)

Date: May 11, 2011

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32.1	Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101	The following materials from Regal Beloit Corporation s Quarterly Report on Form 10-Q for the quarter ended April 2, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements, furnished herewith.*