

REGAL BELOIT CORP
Form 10-Q
May 12, 2010

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
April 3, 2010

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 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 ✓ 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 “

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(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 " NO ý

38,500,373 Shares, Common Stock, \$.01 Par Value (as of May 3, 2010)

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 March 2, 2010 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 March 2, 2010.

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 | |
|---|--------------------|-------------------|
| | April 3, 2010 | March 28, 2009 |
| Net Sales | \$507,318 | \$443,274 |
| Cost of Sales | 376,403 | 352,704 |
| Gross Profit | 130,915 | 90,570 |
| Operating Expenses | 68,150 | 62,378 |
| Income From Operations | 62,765 | 28,192 |
| Interest Expense | 5,061 | 7,119 |
| Interest Income | 641 | 133 |
| Income Before Taxes & Noncontrolling Interests | 58,345 | 21,206 |
| Provision For Income Taxes | 18,477 | 7,230 |
| Net Income | 39,868 | 13,976 |
| Less: Net Income Attributable to Noncontrolling Interests, net of tax | 2,106 | 1,189 |
| Net Income Attributable to Regal Beloit Corporation | \$37,762 | \$12,787 |
| Earnings Per Share of Common Stock: | | |
| Basic | \$1.01 | \$0.41 |
| Assuming Dilution | \$0.98 | \$0.39 |
| Cash Dividends Declared | \$0.16 | \$0.16 |
| Weighted Average Number of Shares Outstanding: | | |
| Basic | 37,446,007 | 31,457,282 |
| Assuming Dilution | 38,622,314 | 32,594,802 |

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars, Except per Shares Outstanding, Dividends Declared and Per Share Data)

| | (Unaudited) | |
|---|---------------------|---------------------|
| | April 3, 2010 | January 2, 2010 |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 258,142 | \$ 262,422 |
| Investments - Trading Securities | 147,053 | 117,553 |
| Trade Receivables, less Allowances of \$11,244 in 2010 and \$12,666 in 2009 | 290,812 | 240,721 |
| Inventories | 274,110 | 268,839 |
| Prepaid Expenses and Other Current Assets | 52,452 | 59,168 |
| Deferred Income Tax Benefits | 24,844 | 30,673 |
| Total Current Assets | 1,047,413 | 979,376 |
| | | |
| Net Property, Plant and Equipment | 343,456 | 343,071 |
| | | |
| Goodwill | 667,725 | 663,920 |
| Intangible Assets, Net of Amortization | 111,916 | 116,426 |
| Other Noncurrent Assets | 11,867 | 9,444 |
| Total Assets | \$ 2,182,377 | \$ 2,112,237 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 185,260 | \$ 161,902 |
| Dividends Payable | 5,997 | 5,981 |
| Accrued Compensation and Employee Benefits | 52,941 | 50,722 |
| Other Accrued Expenses | 77,909 | 82,076 |
| Current Maturities of Debt | 45,906 | 8,385 |
| Total Current Liabilities | 368,013 | 309,066 |
| | | |
| Long-Term Debt | 425,975 | 468,065 |
| Deferred Income Taxes | 71,507 | 72,418 |
| Hedging Obligations | 32,231 | 31,232 |
| Pension and other Post Retirement Benefits | 39,523 | 39,306 |
| Other Noncurrent Liabilities | 14,580 | 12,082 |
| | | |
| Equity: | | |
| Regal Beloit Corporation Shareholders' Equity: | | |
| Common Stock, \$.01 par value, 100,000,000 shares authorized, 37,482,909 shares issued in 2010, and 37,399,353 issued in 2009 | 375 | 374 |
| Additional Paid-In Capital | 515,532 | 512,282 |
| Retained Earnings | 735,530 | 703,765 |
| Accumulated Other Comprehensive Loss | (35,241) | (48,597) |
| Total Regal Beloit Corporation Shareholders' Equity | 1,216,196 | 1,167,824 |

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| | | |
|------------------------------|-----------|-------------|
| Noncontrolling Interests | 14,352 | 12,244 |
| Total Equity | 1,230,548 | 1,180,068 |
| Total Liabilities and Equity | 2,182,377 | \$2,112,237 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Regal Beloit Corporation Shareholders' Equity | | | | | | |
|---|---|----------------------------------|-------------------|----------------------|--|-----------------------------|-----------------|
| | Common Stock \$.01 Par Value | Additional Paid-In Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests | Total Equity |
| Balance as of December 27, 2008 (As Adjusted, See Note 2) | \$323 | \$356,231 | \$(19,419) | \$631,281 | \$ (142,429) | \$ 11,654 | \$837,641 |
| Net Income | \$- | \$- | \$- | \$12,787 | \$ - | \$ 1,189 | \$13,976 |
| Dividends Declared (\$.16 per share) | - | - | - | (5,039) | - | - | \$(5,039) |
| Stock Options Exercised, including income tax benefit and share cancellations | 1 | 496 | - | - | - | - | \$497 |
| Stock-based Compensation | - | 773 | - | - | - | - | \$773 |
| Other Comprehensive Income (Loss) by Classification: | | | | | | | |
| Currency Translation adjustments | - | - | - | - | (3,970) | 1,414 | \$(2,556) |
| Hedging Activities, net of tax | - | - | - | - | 27,190 | - | \$27,190 |
| Pension and Post Retirement Benefits, net of tax | - | - | - | - | 674 | - | \$674 |
| Balance as of March 28, 2009 | \$324 | \$357,500 | \$(19,419) | \$639,029 | \$ (118,535) | \$ 14,257 | \$873,156 |

Regal Beloit Corporation Shareholders' Equity

Noncontrolling Total

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| | Common Stock \$.01 Par Value | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Interests | 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 |
| Stock-based Compensation | - | 1,357 | - | - | - | \$1,357 |
| Other Comprehensive Income (Loss) 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 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended | |
|--|--------------------|-------------------|
| | April 3, 2010 | March 28, 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$39,868 | \$13,976 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,025 | 15,277 |
| Excess tax benefits from stock-based compensation | (670) | (1,675) |
| Gain on sale of assets, net | - | (91) |
| Stock-based compensation expense | 1,357 | 773 |
| Non-cash convertible debt deferred financing costs | - | 1,063 |
| Change in assets and liabilities | (13,215) | (10,725) |
| Net cash provided by operating activities | 44,365 | 18,598 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property, plant and equipment | (11,241) | (8,143) |
| Purchases of investment securities | (98,133) | - |
| Sales of investment securities | 69,069 | - |
| Business acquisitions, net of cash acquired | - | (1,500) |
| Sale of property, plant and equipment | - | 306 |
| Net cash used in investing activities | (40,305) | (9,337) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net repayments of short-term borrowings | (1,661) | (8,265) |
| Payments of long-term debt | (46) | (56) |
| Net borrowings (repayments) under revolving credit facility | (2,863) | 19,150 |
| Dividends paid to shareholders | (5,981) | (5,024) |
| Proceeds from the exercise of stock options | 1,223 | 512 |
| Excess tax benefits from stock-based compensation | 670 | 1,675 |
| Net cash (used in) provided by financing activities | (8,658) | 7,992 |
| EFFECT OF EXCHANGE RATES ON CASH | 318 | (425) |
| Net (decrease) increase in cash and cash equivalents | (4,280) | 16,828 |
| Cash and cash equivalents at beginning of period | 262,422 | 65,250 |
| Cash and cash equivalents at end of period | \$258,142 | \$82,078 |

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
April 3, 2010
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet as of January 2, 2010, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of April 3, 2010, 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 2009 Annual Report on Form 10-K filed on March 2, 2010.

Recent accounting guidance changed the consolidation rules as they relate to variable interest entities ("VIE's"). The guidance changed the model related to consolidating a VIE, and defines the assessment methodology for determining VIE status. The guidance was adopted by the Company as required at the beginning of fiscal 2010, and did not have an effect on the Company's consolidated financial statements.

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 3, 2010 are not necessarily indicative of the results that may be expected for the entire fiscal year ending January 1, 2011.

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

2. OTHER FINANCIAL INFORMATION

Inventories

Cost for approximately 54% 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 3, 2010 | January 2, 2010 |
|---------------------------------------|------------------|--------------------|
| Raw Material and Work in Process | 38% | 34% |
| Finished Goods and Purchased Parts | 62% | 66% |

Property, Plant and Equipment

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

| | April 3, 2010 | January 2, 2010 |
|-----------------------------------|------------------|--------------------|
| Land and Improvements | 42,754 | 42,034 |
| Buildings and Improvements | 128,713 | 127,468 |
| Machinery and Equipment | 475,651 | 470,130 |
| Construction in Progress | 17,605 | 14,144 |
| Property, Plant and Equipment | 664,723 | 653,776 |
| Less: Accumulated Depreciation | (321,267) | (310,705) |
| Net Property, Plant and Equipment | 343,456 | 343,071 |

3. 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 material.

On April 6, 2010, the Company acquired CMG Engineering Group Pty, Ltd. (“CMG”) headquartered in Melbourne, Australia. CMG manufactures and distributes 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 purchase price was approximately \$85.9 million, including \$74.7 million in cash, approximately \$5.1 million in assumed liabilities and 100,000 shares of Company stock.

4. INVESTMENTS

Investments are generally short term in duration and are classified as trading securities, which are reported at fair value with gains and losses, which were insignificant for all periods presented, included in earnings. As of April 3, 2010 and January 2, 2010, the Company had \$147.1 million and \$117.6 million respectively, of trading securities recorded at fair value (Level 2) (see Note 16 of the Condensed Consolidated Financial Statements for description of the fair value hierarchy).

| | April 3, 2010 | January 2, 2010 |
|----------------------------|------------------|--------------------|
| Commercial Paper | \$36,346 | \$37,473 |
| U.S. Government Securities | 4,502 | 4,202 |
| Municipal Debt Securities | 71,722 | 48,294 |
| Asset Backed Securities | 9,215 | 5,773 |
| Corporate Debt Securities | 25,268 | 21,811 |
| Total | \$147,053 | \$117,553 |

5. COMPREHENSIVE INCOME

The Company's consolidated comprehensive income for the three months ended April 3, 2010 and March 28, 2009, respectively, was as follows (in thousands):

| | Three Months Ending April 3, 2010 | March 28, 2009 |
|---|---|-------------------|
| Net income | \$39,868 | \$13,976 |
| Other Comprehensive Income (Loss) from: | | |
| Currency Translation adjustments | 7,426 | (3,970) |
| Changes in fair value on open hedge contracts, net of tax | 4,745 | 9,582 |
| Hedging activities reclassified into earnings from accumulated other comprehensive income (loss) ("AOCI"), net of tax | 740 | 17,608 |
| Amortization of net prior service costs and actuarial losses | 447 | 674 |
| Comprehensive income | \$53,226 | \$37,870 |

The amount of comprehensive income attributable to noncontrolling interests was \$2.1 million and \$2.6 million for the three months ended April 3, 2010 and March 28, 2009, respectively.

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:

| | April 3, 2010 | January 2, 2010 |
|--|------------------|--------------------|
| Translation adjustments | \$2,324 | \$(5,100) |
| Hedging activities, net of tax | (12,917) | (18,402) |
| Pension and post retirement benefits, net of tax | (24,648) | (25,095) |
| | \$(35,241) | \$(48,597) |

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 months ended April 3, 2010 and March 28, 2009 (in thousands):

| | Three Months Ending | |
|-------------------------|---------------------|-------------------|
| | April 2, 2010 | March 28, 2009 |
| Beginning balance | \$ 13,298 | \$ 11,022 |
| Deduct: Payments | (3,445) | (2,747) |
| Add: Provision | 3,489 | 1,754 |
| Translation Adjustments | 56 | (76) |
| Ending balance | \$ 13,398 | \$ 9,953 |

7. BUSINESS SEGMENTS

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

| | Mechanical Segment | | Electrical Segment | |
|---------------------------|---------------------|-------------------|---------------------|-------------------|
| | Three Months Ending | | Three Months Ending | |
| | April 3, 2010 | March 28, 2009 | April 3, 2010 | March 28, 2009 |
| Net Sales | \$50,073 | \$51,912 | \$457,245 | \$391,362 |
| Income from Operations | 6,425 | 6,286 | 56,340 | 21,906 |
| % of Net Sales | 12.8 | % 12.1 | % 12.3 | % 5.6 |
| Goodwill at end of period | \$- | \$530 | \$667,725 | \$667,334 |

8. GOODWILL AND OTHER INTANGIBLES

Goodwill

As required, 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.

At April 3, 2010, 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):

| | |
|-------------------------------|-----------|
| Balance as of January 2, 2010 | \$663,920 |
| Translation Adjustments | 3,805 |
| Balance as of April 3, 2010 | \$667,725 |

Intangible Assets

Intangible assets consisted of the following (in thousands):

| Asset Description | Gross Intangibles | | Net Acquisitions and Fair Value Adjustments | Translation Adjustments | April 3, 2010 |
|-------------------------|---------------------|-----------------|---|-------------------------|---------------|
| | Useful Life (years) | January 2, 2010 | | | |
| Non-Compete Agreements | 5 | \$6,348 | \$ 1 | | \$6,349 |
| Trademarks | 3 - 21 | 21,200 | | 29 | 21,229 |
| Patents | 10 | 15,410 | | - | 15,410 |
| Engineering Drawings | 10 | 1,200 | | - | 1,200 |
| Customer Relationships | 9 - 15 | 98,064 | | (265) | 97,799 |
| Technology | 6 - 11 | 33,183 | | 149 | 33,332 |
| Total Gross Intangibles | | \$175,405 | \$ - | \$ (86) | \$175,319 |

Accumulated Amortization

| Asset Description | Useful Life | | Amortization | Translation Adjustments | April 3, 2010 |
|-------------------|-------------|-----------------|--------------|-------------------------|---------------|
| | (years) | January 2, 2010 | | | |

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| | | | | | |
|--|--------|-------------|-------------|---------|-------------|
| Non-Compete Agreements | 5 | \$(4,997) | \$ (196) | \$ (2) | \$(5,195) |
| Trademarks | 3 - 21 | (7,658) | (297) | (1) | (7,956) |
| Patents | 10 | (7,732) | (386) | - | (8,118) |
| Engineering Drawings | 10 | (607) | (30) | - | (637) |
| Customer Relationships | 9 - 15 | (29,325) | (2,496) | 40 | (31,781) |
| Technology | 6 - 11 | (8,660) | (1,013) | (43) | (9,716) |
| Total Accumulated Amortization | | \$(58,979) | \$ (4,418) | \$ (6) | \$(63,403) |
| Intangible Assets, Net of Amortization | | \$116,426 | | | \$111,916 |

Estimated Amortization (in millions)

| 2010 | 2011 | 2012 | 2013 | 2014 |
|--------|--------|--------|--------|--------|
| \$15.3 | \$14.7 | \$14.6 | \$14.4 | \$12.5 |

Amortization expense recorded for the three months ended April 3, 2010 and March 28, 2009 was \$4.4 million and \$4.2 million, respectively.

9. DEBT AND BANK CREDIT FACILITIES

The Company's indebtedness as of April 3, 2010 and January 2, 2010 was as follows (in thousands):

| | April 3, 2010 | January 2, 2010 |
|---------------------------|------------------|--------------------|
| Senior notes | \$250,000 | \$250,000 |
| Term loan | 165,000 | 165,000 |
| Revolving credit facility | - | 2,863 |
| Convertible Notes | 39,198 | 39,198 |
| Other | 17,683 | 19,389 |
| | 471,881 | 476,450 |
| Less: Current maturities | (45,906) | (8,385) |
| Non-current portion | \$425,975 | \$468,065 |

At April 3, 2010, the Company has \$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"), 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.

The Company also has 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 April 3, 2010, the interest rate of 1.2% 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 April 3, 2010.

The Company has entered into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. (See also Note 15 of Notes to Condensed Consolidated Financial Statements.)

As of April 3, 2010, the Company's Convertible Notes are 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. During the first quarter of 2010, several bondholders exercised their conversion right for a total of \$38.7 million of Convertible Notes. This settlement occurred subsequent to quarter end with the par value of \$38.7 million paid in cash, and 906,736 shares of common stock issued for the conversion premium. The entire balance of \$39.2 million is included in Current Maturities of Debt at April 3, 2010. (See also Note 17 of Notes to Condensed Consolidated financial Statements.)

The estimated fair value of the Convertible Notes at April 3, 2010 was approximately \$91.9 million and the carrying value was \$39.2 million. The estimated fair value was determined using Level 2 inputs as described in Note 16 of Notes to the Condensed Consolidated Financial Statement.

At April 3, 2010, additional notes payable of approximately \$17.7 million were outstanding with a weighted average interest rate of 4.1%.

10. PENSION PLANS

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

| | Three Months Ending | |
|------------------------------------|---------------------|-------------------|
| | April 3, 2010 | March 28, 2009 |
| Service cost | \$586 | \$578 |
| Interest cost | 1,734 | 1,592 |
| Expected return on plan assets | (1,566) | (1,414) |
| Amortization of prior service cost | 47 | 49 |
| Amortization of net actuarial loss | 565 | 188 |
| Net periodic benefit expense | \$1,366 | \$993 |

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 2010 fiscal year is \$2.2 million and \$0.2 million, respectively.

In the first quarter of 2010 and 2009, the Company contributed \$0.5 million and \$0.3 million to defined benefit pension plans, respectively. The Company expects to contribute an additional \$1.0 million, for total contributions of \$1.5 million in 2010. The Company contributed a total of \$10.1 million in 2009. 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 2009 Annual Report on Form 10-K filed on March 2, 2010.

11. SHAREHOLDERS' EQUITY

The Company recognized approximately \$1.4 million and \$0.8 million in share-based compensation expense for the three month period ended April 3, 2010 and March 28, 2009, respectively. The total excess income tax benefit recognized relating to share-based compensation for the three months ended April 3, 2010 and March 28, 2009 was approximately \$0.7 million and \$1.7 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 recipient. As of April 3, 2010, total unrecognized compensation cost related to share-based compensation awards was approximately \$12.6 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 2.8 years.

The Company was authorized as of April 3, 2010 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 April 3, 2010.

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 \$150.4 million were received by the Company.

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.

A summary of share-based awards (options and SARs) as of April 3, 2010 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 | 1,504,125 | 39.65 | 7.1 | \$29.9 |
| Exercisable | 596,425 | | | |

Restricted Stock

As of April 3, 2010, the Company had 100,450 shares of restricted stock outstanding with a weighted average grant date fair value of \$43.00 and a weighted average life of 1.8 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 2010 there were 21,000 shares of restricted stock vested.

12. INCOME TAXES

The effective tax rate for the three months ended April 3, 2010 was 31.7% versus 34.1% in the prior year period. The decrease in the effective rate is driven by changes in the global distribution of income.

As of April 3, 2010 and January 2, 2010, the Company had approximately \$6.6 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 2006 through 2009 and various state tax returns 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 | |
|--|---------------------|-------------------|
| | April 3, 2010 | March 28, 2009 |
| Denominator for basic EPS - weighted average | 37,446 | 31,457 |
| Effect of dilutive securities | 1,176 | 1,138 |
| Denominator for diluted EPS | 38,622 | 32,595 |

The “Effect of dilutive securities” represents the dilution impact of equity awards and the Convertible Notes (see Note 9 of Notes to Condensed Consolidated Financial Statements). The dilutive effect of the Convertible Notes was approximately 0.8 million shares and 0.9 million shares for the three months ended April 3, 2010 and March 28, 2009, respectively.

Options for common shares where the exercise price was above the market price at April 3, 2010, and March 28, 2009 totaling approximately zero and 1.0 million shares, have been excluded from the calculation of the effect of dilutive securities as the effect of such options is anti-dilutive.

14. CONTINGENCIES

On July 30, 2009, we 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 our 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 our response and counterclaims against Nordyne we are 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 its G7 furnace systems and iQ Drive 23-seer air conditioning systems. We have 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. 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.

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.

15. 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 3, 2010.

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 3, 2010, the Company had an additional \$0.9 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 March 28, 2009, the Company had an additional (\$14.8) million, net of tax, of derivative losses on closed hedge instruments in AOCI that was realized in earnings when the hedged items impacted earnings.

As of April 3, 2010, 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 | 1.6 |
| Zinc | 0.4 |
| Natural Gas | 0.5 |
| Heating Oil | 0.2 |

As of April 3, 2010, 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 | \$77.3 |
| Indian Rupee | 37.6 |
| Thai Baht | 4.9 |
| Chinese Renminbi | 13.5 |
| Australian Dollar | 3.2 |

As of April 3, 2010, 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 3, 2010 and January 2, 2010 were (in millions):

| | April 3, 2010 | | | |
|--|---------------------|-------------------------------|---------------------|------------------------|
| | Prepaid Expenses | Other Noncurrent Assets | Accrued Expenses | Hedging Obligations |
| Designated as hedging instruments: | | | | |
| Interest rate swap contracts | \$- | \$- | \$- | \$32.2 |
| Foreign exchange contracts | 2.3 | 3.1 | 1.4 | - |
| Commodity contracts | 6.7 | - | 0.1 | - |
| Not designated as hedging instruments: | | | | |
| Foreign exchange contracts | 0.2 | - | - | - |

| | | | | |
|---------------------|-------|-------|-------|--------|
| Commodity contracts | 0.1 | - | - | - |
| Total Derivatives: | \$9.3 | \$3.1 | \$1.5 | \$32.2 |

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| | January 2, 2010 | | | |
|--|-----------------|------------|----------|-------------|
| | Prepaid | Other | Accrued | Hedging |
| | Expenses | Noncurrent | Expenses | Obligations |
| | | Assets | | |
| Designated as hedging instruments: | | | | |
| Interest rate swap contracts | \$- | \$- | \$- | \$31.2 |
| Foreign exchange contracts | - | 1.1 | 5.5 | - |
| Commodity contracts | 3.5 | - | - | - |
| Not designated as hedging instruments: | | | | |
| Foreign exchange contracts | 0.2 | - | - | - |
| Commodity contracts | 0.9 | - | - | - |
| Total Derivatives: | \$4.6 | \$1.1 | \$5.5 | \$31.2 |

The effect of derivative instruments on the condensed consolidated statements of equity and earnings for the three months ended April 3, 2010 and March 28, 2009, was (in millions):

Derivatives Designated as Cash Flow Hedging Instruments

| | Three Months Ended April 3, 2010 | | | | Three Months Ended March 28, 2009 | | | |
|---|-------------------------------------|----------------------|---------------------------|---------|--------------------------------------|----------------------|---------------------------|----------|
| | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total |
| Gain (Loss) recognized in Other Comprehensive Income (Loss) | \$4.0 | \$7.9 | \$(4.2) | \$7.7 | \$40.4 | \$(1.6) | \$5.1 | \$43.9 |
| Amounts reclassified from other comprehensive income (loss) were: | | | | | | | | |
| Loss recognized in Net Sales | - | (0.1) | - | \$(0.1) | - | - | - | \$- |
| Gain (Loss) recognized in Cost of Sales | 3.3 | (1.2) | - | \$2.1 | (22.1) | (2.4) | - | \$(24.5) |
| Loss recognized in Operating Expenses | - | - | - | \$- | - | (1.7) | - | \$(1.7) |
| Loss recognized in Interest Expense | - | - | (3.2) | \$(3.2) | - | - | (2.2) | \$(2.2) |

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

Derivatives Not Designated as Cash Flow Hedging Instruments

| | Three Months Ended | Three Months Ended March 28, 2009 |
|--|--------------------------|--------------------------------------|
|--|--------------------------|--------------------------------------|

| | April 3, 2010 | | | |
|---|-----------------------|-----------------------|----------------------|----------|
| | Commodity Forwards | Commodity Forwards | Currency Forwards | Total |
| Gain (Loss) recognized in Cost of Sales | \$(0.1) | \$4.5 | \$(0.6) | \$3.9 |
| Loss recognized in Operating Expenses | \$- | \$- | \$(0.5) | \$(0.5) |

The net AOCI balance of (\$12.9) million loss at April 3, 2010 includes (\$2.7) million of net current deferred losses expected to be realized in the next twelve months.

16. 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

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 3, 2010 and January 2, 2010 (in millions):

| | April 3, 2010 | January 2, 2010 | |
|--|------------------|--------------------|-----------|
| Assets: | | | |
| Investments | \$147.1 | 117.6 | (Level 2) |
| Prepaid Expenses and Other Current Assets: | | | |
| Derivative Currency Contracts | \$2.5 | 0.2 | (Level 2) |
| Derivative Commodity Contracts | \$6.7 | 4.4 | (Level 2) |
| Other Noncurrent Assets: | | | |
| Derivative Currency Contracts | \$3.1 | 1.1 | (Level 2) |
| Liabilities: | | | |
| Accrued Expenses: | | | |
| Derivative Currency Contracts | \$1.4 | 5.5 | (Level 2) |
| Derivative Commodity Contracts | 0.1 | - | (Level 2) |
| Hedging Obligations – Long Term: | | | |
| Interest Rate Swap | \$32.2 | 31.2 | (Level 2) |

17. SUBSEQUENT EVENTS

As of April 3, 2010, several holders of the Company's convertible senior subordinated debt exercised their conversion right. The conversion notice for an additional \$38.7 million was received prior to quarter end, however, this settlement occurred subsequent to quarter end. The Company paid 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 for the \$38.7 million of redemptions settled totaled 906,736 shares of Company stock. 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 Condensed Consolidated Financial Statements.

On April 6, 2010, the Company acquired CMG Engineering Group Pty, Ltd. ("CMG") headquartered in Melbourne, Australia. CMG manufactures and distributes 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 purchase price was approximately \$85.9 million, including \$74.7 million in cash, approximately \$5.1 million in assumed liabilities and 100,000 shares of Company stock.

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.

OVERVIEW

The global macro economic environment has continued to improve in the first quarter of 2010. 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 continued to show strong growth rates. During the first quarter, we also benefited from the absorption benefits of higher production volumes and we continued to reduce manufacturing and operating expenses to improve our profitability.

Net sales for the three months ended April 3, 2010 increased 14.4% to \$507.3 million from \$443.3 million in the comparable period of 2009.

Net income attributable to Regal Beloit Corporation increased 195.3% to \$37.8 million for the three months ended April 3, 2010 as compared to \$12.8 million in the comparable period last year. Diluted earnings per share increased 151.3% to \$0.98 for the three months ended April 3, 2010 as compared to \$0.39 for the comparable period of 2009.

RESULTS OF OPERATIONS

NET SALES

| | (In millions) | | | |
|-----------------------|--------------------|----|-----------|----|
| | Three Months Ended | | | |
| | April 3, | | March 28, | |
| | 2010 | | 2009 | |
| Net Sales | \$507.3 | | \$443.3 | |
| Sales growth rate | 14.4 | % | (17.4 | %) |
| Net Sales by Segment: | | | | |
| Electrical segment | \$457.2 | | \$391.4 | |
| Sales growth rate | 16.8 | % | (17.4 | %) |
| Mechanical segment | \$50.1 | | \$51.9 | |
| Sales growth rate | (3.5 | %) | (17.0 | %) |

2010 versus 2009

Worldwide sales for the three months ended April 3, 2010 were \$507.3 million, a 14.4% increase over the \$443.3 million reported for the three months ended March 28, 2009.

In the Electrical segment sales increased 16.8% with sales for the residential HVAC motor business impacted by the higher efficiency product mix, and low prior year comparables resulting in a 32.9% increase during 2010 as compared to the first quarter 2009.

Driven by improving end markets, commercial and industrial motor sales in North America for the three months ended April 3, 2010 increased 9.8% over sales for the three months ended March 28, 2009. Global generator sales however, decreased 9.3% for the three months ended April 3, 2010 as compared to the prior year.

Sales in the Mechanical segment decreased 3.5% from the prior year period as a result of the slower recovery in later cycle industrial products.

From a geographic perspective, Asia-based sales increased 27.3% as compared to 2009. In total, sales to regions outside of the United States were 27.1% of total sales for the three months ended April 3, 2010 as compared to 26.7% in 2009. The impact of foreign currency exchange rates increased total sales by 1.6% for the three months ended April 3, 2010 as compared to the prior year period. Sales of high efficiency products were 17.7% of total sales in the three months ended April 3, 2010 versus 12.9% in the prior year period.

2009 versus 2008

Worldwide sales for the three months ended March 28, 2009 were \$443.3 million, a 17.4% decrease over the \$536.3 million reported for the three months ended March 29, 2008. First quarter 2009 sales included \$29.7 million of incremental sales from the businesses acquired in 2008 and the CPT acquisition in January 2009.

In the Electrical segment, sales decreased 17.4% including the impact of the acquisitions noted above. Exclusive of the acquired businesses, Electrical segment sales were down 23.7%. Sales for the residential HVAC motor business were negatively impacted by the economic slowdown and decreased 22.0% versus 2008. Sales of commercial and industrial motors in North America decreased approximately 23.0% for the first quarter of 2009, while sales of power generation products decreased 12.0% for the same period.

Sales in the Mechanical segment decreased 17.0% from the prior year period.

From a geographic perspective, Asia-based sales decreased 24.2% as compared to 2008. In total, sales to regions outside of the United States were 26.7% of total sales for 2009 in comparison to 25.6% for 2008. Sales of high efficiency product were 12.9% of total sales in the three months ended March 28, 2009 versus 12.2% in the prior year.

GROSS PROFIT

| | (In thousands) | | | |
|--------------------------|--------------------|-----------|---|---|
| | Three Months Ended | | | |
| | April 3, | March 28, | | |
| | 2010 | 2009 | | |
| Gross Profit | \$130,915 | \$90,570 | | |
| Gross profit percentage | 25.8 | % 20.4 | % | % |
| Gross Profit by Segment: | | | | |
| Electrical segment | \$117,050 | \$76,643 | | |
| Gross profit percentage | 25.6 | % 19.6 | % | % |
| Mechanical segment | \$13,865 | \$13,927 | | |
| Gross profit percentage | 27.7 | % 26.9 | % | % |

2010 versus 2009

The gross profit margin for the three months ended April 3, 2010 was 25.8% as compared to 20.4% reported for 2009. The gross profit margin for the Electrical segment was 25.6% for the three months ended April 3, 2010 versus 19.6% in the prior year. Electrical segment margins improved due to a mix change toward higher efficiency products, cost reduction efforts, including the benefit from recent plant consolidations, and the absorption benefits of higher production volumes. The Mechanical segment gross margin was 27.7% for the three months ended April 3, 2010 versus 26.9% in the prior year. The Mechanical segment gross margin improvements were driven primarily by cost reduction efforts.

2009 versus 2008

The gross profit margin for the three months ended March 28, 2009 was 20.4% as compared to the 22.8% reported for 2008. Higher material costs had a significant impact on 2008 partially offset by the contribution from new products, productivity efforts, pricing actions, and product mix. The raw material cost increases resulted primarily from increases in the cost of copper and steel. The gross profit margin for the Electrical segment reflected these impacts and decreased to 19.6% from 21.9% in 2008. Mechanical segment gross profit margin decreased to 26.9% in 2009 from 29.1% in the prior year.

OPERATING EXPENSES

| | (In thousands) | | | |
|--------------------------------|--------------------|-----------|---|---|
| | Three Months Ended | | | |
| | April 3, | March 28, | | |
| | 2010 | 2009 | | |
| Operating Expenses | \$68,150 | \$62,378 | | |
| As a percentage of net sales | 13.4 | % 14.1 | % | % |
| Operating Expenses by Segment: | | | | |
| Electrical segment | \$60,710 | \$54,737 | | |
| As a percentage of net sales | 13.3 | % 14.0 | % | % |
| Mechanical segment | \$7,440 | \$7,641 | | |
| As a percentage of net sales | 14.9 | % 14.8 | % | % |

2010 versus 2009

Operating expenses were \$68.2 million (13.4% of net sales) in the three months ended April 3, 2010 versus \$62.4 million (14.1% of net sales) in 2009. Higher sales volumes increased variable costs, and incremental spending on acquisition related costs raised operating costs in 2010. Electrical segment operating expenses were 13.3% of net sales for the three months ended April 3, 2010 versus 14.0% in the prior year. Mechanical segment operating expenses were 14.9% of net sales in 2010 and 14.8% in 2009.

2009 versus 2008

Operating expenses were \$62.4 million (14.1% of net sales) in the three months ended March 28, 2009 versus \$64.5 million (12.0% of sales) in 2007. Electrical segment operating expenses were 14.0% of sales in 2009 and 11.9% of sales in 2008. Mechanical operating expenses as a percent of sales increased to 14.8% from 13.0% in 2008.

INCOME FROM OPERATIONS

| | (In thousands) | | | |
|------------------------------------|--------------------|-------------------|---|--|
| | Three Months Ended | | | |
| | April 3, 2010 | March 28, 2009 | | |
| Income from Operations | \$62,765 | \$28,192 | | |
| As a percentage of net sales | 12.4 | % 6.4 | % | |
| Income from Operations by Segment: | | | | |
| Electrical segment | \$56,340 | \$21,906 | | |
| As a percentage of net sales | 12.3 | % 5.6 | % | |
| Mechanical segment | \$6,425 | \$6,286 | | |
| As a percentage of net sales | 12.8 | % 12.1 | % | |

2010 versus 2009

Income from operations was \$62.8 million for the three months ended April 3, 2010 and \$28.2 million in the prior year. As a percentage of sales, income from operations was 12.4% in 2010 versus 6.4% in 2009. Income from operations improved, driven by a mix toward higher efficiency products, cost reduction efforts, including the benefit from recent plant consolidations, and the absorption benefits of higher production volumes. Electrical segment income from operations was 12.3% of net sales in 2010 versus 5.6% in 2009. The Mechanical segment income from operations was 12.8% of net sales for 2010 versus 12.1% of net sales in 2009.

2009 versus 2008

Income from operations was \$28.2 million versus \$57.6 million in the comparable period of 2008. As a percent of sales, income from operations was 6.4% for the three months ended March 28, 2009 versus 10.7% in the comparable period of 2007. As a percent of sales, Electrical segment operating income decreased to 5.6% in 2009 from 10.0% in 2008. This decrease reflected lower operating profit margins from the acquired businesses, and significantly increased raw material costs partially offset by contributions from new products, pricing actions, and productivity. As a percent of sales, Mechanical segment operating income decreased to 12.1% in 2009 from 16.1% in 2008.

INTEREST EXPENSE, NET

| | (In thousands) | | | |
|--|--------------------|-------------------|---|--|
| | Three Months Ended | | | |
| | April 3, 2010 | March 28, 2009 | | |
| Interest Expense, Net | \$4,420 | \$6,986 | | |
| Quarter End Weighted Average Interest Rate | 3.7 | % 3.4 | % | |

2010 versus 2009

Net interest expense for the three months ended April 3, 2010 was \$4.4 million versus \$7.0 million for the three months ended March 28, 2009. During 2010, the Company's net interest expense decreased driven by lower average amounts of debt outstanding, a \$1.1 million decrease in non-cash convertible debt financing expense, and higher interest income.

2009 versus 2008

Net interest expense was \$7.0 million versus \$8.0 million in the comparable period of 2008. The decrease is driven by lower interest rates in 2009 versus the comparable period of 2008.

PROVISION FOR INCOME TAXES

| | (In thousands) | | | |
|--------------------|--------------------|-----------|---|---|
| | Three Months Ended | | | |
| | April 3, | March 28, | | |
| | 2010 | 2009 | | |
| Income Taxes | \$18,477 | \$7,230 | | |
| Effective Tax Rate | 31.7 | % 34.1 | % | % |

2010 versus 2009

The effective tax rate for the three months ended April 3, 2010 was 31.7% compared to 34.1% in the prior year period. The decrease in the effective tax rate is driven by changes in the global distribution of income.

2009 versus 2008

The effective tax rate for the three months ended March 28, 2009 was 34.1% versus 35.4% in the prior year period. The decrease in the effective tax rate results from the global distribution of income.

NET INCOME ATTRIBUTABLE TO REGAL BELOIT CORPORATION AND EARNINGS PER SHARE

| | (In millions, except per share data) | |
|---|--------------------------------------|-------------------|
| | Three Months Ended | |
| | April 3, 2010 | March 28, 2009 |
| Net Income Attributable to Regal Beloit Corporation | \$37.8 | \$12.8 |
| Fully Diluted Earnings per Share | \$0.98 | \$0.39 |
| Average Number of Diluted Shares | 38.6 | 32.6 |

2010 versus 2009

Net Income Attributable to Regal Beloit Corporation for the three months ended April 3, 2010 was \$37.8 million, an increase of 195.3% versus the \$12.8 million reported in 2009. Fully diluted earnings per share was \$0.98 as compared to \$0.39 reported for the three months ended March 28, 2009. The average number of diluted shares was 38,622,314 during the three months ended April 3, 2010 as compared to 32,594,802 during the three months ended March 28, 2009.

2009 versus 2008

Net Income Attributable to Regal Beloit Corporation for the three months ended March 28, 2009 was \$12.8 million, a decrease of 59.3% versus the \$31.4 million reported in the comparable period of 2008. Fully diluted earnings per share was \$0.39 as compared to \$0.95 per share reported in 2008. The average number of diluted shares was 32,594,802 during the three months ended March 28, 2009 as compared to 33,117,034 during the comparable period of 2008.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity is operating cash flow which we target to equal or exceed our net income. In addition to operating income, 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 at acceptable terms.

Distress and volatility in financial markets has created increased levels of uncertainty regarding available debt and equity capital. We have assessed our liquidity and continue to monitor the impact of the broader volatility on our business including vendors and customers. We have determined that there has not been a significant impact on our financial position, results of operations, or liquidity as of April 3, 2010.

Our working capital was \$679.4 million at April 3, 2010, an increase of 1.4% from \$670.3 million at year-end 2009. At April 3, 2010 our current ratio, the ratio of our current assets to current liabilities, was 2.8:1 versus 3.2:1 at the previous year-end. The decrease in our current ratio is driven by the reclassification of our Convertible Notes from Long-Term Debt to Current Maturities of Debt due to the exercise of conversion rights by bondholders (See also Note 9 of Notes to Condensed Consolidated Financial Statements).

Cash flow provided by operating activities (“operating cash flow”) was \$44.4 million in 2010, a \$25.8 million increase from 2009. The increase was driven by a \$25.9 million increase in net income.

Cash flow used in investing activities was (\$40.3) million in 2010, \$31.0 million more than in 2009 driven by the net purchase of investment securities of \$29.1 million. Capital spending increased to \$11.2 million in 2010 from \$8.1 million a year earlier.

Cash flow used in financing activities was (\$8.7) million in 2010 compared to cash flow provided of \$8.0 million in 2009. The \$16.7 million change is driven by the repayment of \$4.6 million in total debt in 2010 versus the net borrowing of \$10.8 million in the comparable period of 2009.

At April 3, 2010, 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”), 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.

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 (total debt excluding convertible 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 senior funded debt to EBITDA.

The Company has 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 April 3, 2010, the interest rate of 1.2% 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 debt covenants as of April 3, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The following information should be read in conjunction with the Company’s 2009 Annual Report on Form 10-K filed on March 2, 2010. 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 April 3, 2010, net of interest rate swaps, we had \$300.4 million of fixed rate debt and \$171.5 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 April 3, 2010, 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 derivatives are recorded on the balance sheet at fair value and are accounted for as cash flow hedges, changes in fair value are recorded in accumulated other comprehensive income (loss) 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 4 and 5 are inapplicable and have been omitted.

ITEM 1. LEGAL PROCEEDINGS

On July 30, 2009, we 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 our 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 our response and counterclaims against Nordyne we are 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 its G7 furnace systems and iQ Drive 23-seer air conditioning systems. We have 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. 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.

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 2009 Annual Report on Form 10-K filed on March 2, 2010.

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 April 3, 2010.

| 2009 Fiscal Month | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced | Maximum Number of Shares that May Be Purchased Under the Plan or |
|----------------------|---|---------------------------------------|--|--|
|----------------------|---|---------------------------------------|--|--|

| | | | Plans or Programs | Program |
|-------------------------------------|-------|---------|----------------------|-----------|
| January 3, 2010 to February 6, 2010 | 346 | \$50.88 | - | 2,115,900 |
| February 7, 2010 to March 6, 2010 | 1,712 | 56.60 | - | 2,115,900 |
| March 7, 2010 to April 3, 2010 | 221 | 59.59 | - | 2,115,900 |
| Total | 2,279 | | - | |

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 3, 2010, there were 2,279 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 |
|----------------|--|
| 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. Sections 1350. |

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

Date: May 11, 2010

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