

REGAL BELOIT CORP
Form 10-Q
November 07, 2012

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 September 29, 2012
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
Commission file number 001-07283

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

Wisconsin
(State of other jurisdiction of
incorporation) 39-0875718
(IRS Employer
Identification No.)
200 State Street, Beloit, Wisconsin 53511
(Address of principal executive office)
(608) 364-8800
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

Large Accelerated Filer Accelerated Filer
Non-accelerated filer (Do not check if a smaller reporting company) 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

As of November 2, 2012 there were 41,741,606 shares of the registrant's common stock, \$.01 par value per share, outstanding.

REGAL BELOIT CORPORATION
INDEX

| | Page |
|---|-----------|
| <u>PART I — FINANCIAL INFORMATION</u> | |
| Item 1 — <u>Condensed Consolidated Financial Statements</u> | |
| <u>Condensed Consolidated Statements of Income</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> | <u>5</u> |
| <u>Condensed Consolidated Balance Sheets</u> | <u>6</u> |
| <u>Condensed Consolidated Statements of Equity</u> | <u>7</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>8</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>9</u> |
| Item 2 — <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>24</u> |
| Item 3 — <u>Quantitative and Qualitative Disclosures about Market Risk</u> | <u>33</u> |
| Item 4 — <u>Controls and Procedures</u> | <u>34</u> |
| <u>PART II — OTHER INFORMATION</u> | |
| Item 1 — <u>Legal Proceedings</u> | <u>35</u> |
| Item 1A — <u>Risk Factors</u> | <u>35</u> |
| Item 2 — <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>35</u> |
| Item 6 — <u>Exhibits</u> | <u>36</u> |
| <u>Signature</u> | <u>37</u> |
| <u>Index to Exhibits</u> | <u>38</u> |

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,” “should,” “project” 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 recently 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;
- unanticipated costs or expenses that could be incurred relating to product warranty matters;
- 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 recently 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 February 29, 2012.

PART I—FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

REGAL BELOIT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in Millions, Except Cash Dividends Declared and Per Share Data)

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| Net Sales | \$779.5 | \$736.9 | \$2,451.3 | \$2,081.3 |
| Cost of Sales | 586.9 | 557.3 | 1,841.0 | 1,586.2 |
| Gross Profit | 192.6 | 179.6 | 610.3 | 495.1 |
| Operating Expenses | 109.3 | 101.5 | 344.6 | 298.0 |
| Income From Operations | 83.3 | 78.1 | 265.7 | 197.1 |
| Interest Expense | 10.6 | 10.5 | 33.6 | 20.4 |
| Interest Income | 0.4 | 0.5 | 1.2 | 1.2 |
| Income Before Taxes | 73.1 | 68.1 | 233.3 | 177.9 |
| Provision For Income Taxes | 17.9 | 20.6 | 63.9 | 53.6 |
| Net Income | 55.2 | 47.5 | 169.4 | 124.3 |
| Less: Net Income Attributable to Noncontrolling Interests | 0.9 | 1.8 | 3.7 | 5.5 |
| Net Income Attributable to Regal Beloit Corporation | \$54.3 | \$45.7 | \$165.7 | \$118.8 |
| Earnings Per Share Attributable to Regal Beloit Corporation: | | | | |
| Basic | \$1.30 | \$1.14 | \$3.98 | \$3.04 |
| Assuming Dilution | \$1.29 | \$1.13 | \$3.94 | \$3.00 |
| Cash Dividends Declared | \$0.19 | \$0.18 | \$0.56 | \$0.53 |
| Weighted Average Number of Shares Outstanding (in millions): | | | | |
| Basic | 41.7 | 39.9 | 41.7 | 39.1 |
| Assuming Dilution | 42.0 | 40.4 | 42.0 | 39.6 |
| See accompanying Notes to Condensed Consolidated Financial Statements | | | | |

REGAL BELOIT CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited)
 (Dollars in Millions)

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| Net Income | \$55.2 | \$47.5 | \$169.4 | \$124.3 |
| Other Comprehensive Income (Loss) | | | | |
| Change in pension benefits, net of tax effects of \$2.4 million and \$(2.0) million for the three months ended September 29, 2012 and October 1, 2011, and \$1.5 million and \$(1.3) million for the nine months ended September 29, 2012 and October 1, 2011, respectively | 3.9 | (3.3) |) 2.4 | (2.2) |
| Foreign currency translation adjustments | 20.0 | (51.2) |) 13.3 | (32.7) |
| Change in fair value of hedging activities, net of tax effects of \$6.2 million and \$(31.4) million for the three months ended September 29, 2012 and October 1, 2011, and \$11.8 million and \$(30.3) million for the nine months ended September 29, 2012 and October 1, 2011, respectively | 10.2 | (51.2) |) 19.3 | (49.5) |
| Hedging activities reclassified into earnings from Other Comprehensive Income (Loss), net of tax effects of \$3.0 million and \$(1.3) million for the three months ended September 29, 2012 and October 1, 2011, and \$8.6 million and \$(6.6) million for the nine months ended September 29, 2012 and October 1, 2011, respectively | 4.9 | (2.1) |) 14.0 | (10.8) |
| Total Other Comprehensive Income (Loss) | 39.0 | (107.8) |) 49.0 | (95.2) |
| Comprehensive Income (Loss) | 94.2 | (60.3) |) 218.4 | 29.1 |
| Less: Comprehensive Income Attributable to Noncontrolling Interests | 1.7 | 1.6 | 4.1 | 4.9 |
| Comprehensive Income (Loss) Attributable to Regal Beloit Corporation | \$92.5 | \$(61.9) |) \$214.3 | \$24.2 |

See accompanying Notes to Condensed Consolidated Financial Statements

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

| | September 29, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$185.8 | \$142.6 |
| Trade Receivables, less Allowances of \$12.0 million in 2012 and \$13.6 million in 2011 | 466.5 | 424.2 |
| Inventories | 594.9 | 575.8 |
| Prepaid Expenses and Other Current Assets | 108.5 | 99.9 |
| Deferred Income Tax Benefits | 42.9 | 48.6 |
| Total Current Assets | 1,398.6 | 1,291.1 |
| Net Property, Plant, and Equipment | 566.8 | 534.0 |
| Goodwill | 1,144.9 | 1,117.6 |
| Intangible Assets, Net of Amortization | 302.5 | 316.3 |
| Other Noncurrent Assets | 10.9 | 7.5 |
| Total Assets | \$3,423.7 | \$3,266.5 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$292.7 | \$249.4 |
| Dividends Payable | 7.9 | 7.5 |
| Hedging Obligations | 6.1 | 26.1 |
| Accrued Compensation and Employee Benefits | 88.1 | 81.7 |
| Other Accrued Expenses | 124.3 | 149.8 |
| Current Maturities of Debt | 83.8 | 10.0 |
| Total Current Liabilities | 602.9 | 524.5 |
| Long-Term Debt | 781.7 | 909.2 |
| Deferred Income Taxes | 131.3 | 100.1 |
| Hedging Obligations | 39.6 | 55.1 |
| Pension and Other Post Retirement Benefits | 52.3 | 60.6 |
| Other Noncurrent Liabilities | 39.0 | 40.6 |
| Commitments and Contingencies (see Note 13) | | |
| Equity: | | |
| Regal Beloit Corporation Shareholders' Equity: | | |
| Common Stock, \$.01 par value, 100.0 million shares authorized, 41.7 million shares and 41.6 million shares issued in 2012 and 2011, respectively | 0.4 | 0.4 |
| Additional Paid-In Capital | 697.6 | 689.4 |
| Retained Earnings | 1,093.7 | 951.3 |
| Accumulated Other Comprehensive Loss | (56.6 |) (105.2 |
| Total Regal Beloit Corporation Shareholders' Equity | 1,735.1 | 1,535.9 |
| Noncontrolling Interests | 41.8 | 40.5 |
| Total Equity | 1,776.9 | 1,576.4 |
| Total Liabilities and Equity | \$3,423.7 | \$3,266.5 |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | |

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(Dollars in Millions, Except Per Share Data)

| | Common Stock \$.01 Par Value | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non- controlling Interests | Total Equity |
|---|---------------------------------------|----------------------------------|----------------------|--|----------------------------------|-----------------|
| Balance as of January 1, 2011 | \$0.4 | \$535.8 | \$827.5 | \$ (1.7) | \$35.2 | \$1,397.2 |
| Net Income | — | — | 118.8 | — | 5.5 | 124.3 |
| Other Comprehensive Loss | — | — | — | (94.6) | (0.6) | (95.2) |
| Dividends Declared (\$0.53 per share) | — | — | (21.0) | — | — | (21.0) |
| Issuance of 2,834,026 shares of Common Stock for Acquisition | — | 140.9 | — | — | — | 140.9 |
| Stock Options Exercised, including income tax benefit and share cancellations | — | 1.2 | — | — | — | 1.2 |
| Share-based Compensation | — | 10.1 | — | — | — | 10.1 |
| Balance as of October 1, 2011 | \$0.4 | \$688.0 | \$925.3 | \$ (96.3) | \$40.1 | \$1,557.5 |

| | Common Stock \$.01 Par Value | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non- controlling Interests | Total Equity |
|---|---------------------------------------|----------------------------------|----------------------|--|----------------------------------|-----------------|
| Balance as of December 31, 2011 | \$0.4 | \$689.4 | \$951.3 | \$ (105.2) | \$40.5 | \$1,576.4 |
| Net Income | — | — | 165.7 | — | 3.7 | 169.4 |
| Other Comprehensive Income (Loss) | — | — | — | 48.6 | 0.4 | 49.0 |
| Dividends Declared (\$0.56 per share) | — | — | (23.3) | — | — | (23.3) |
| Stock Options Exercised, including income tax benefit and share cancellations | — | 1.5 | — | — | — | 1.5 |
| Share-based Compensation | — | 6.7 | — | — | — | 6.7 |
| Dividends declared to Non-controlling Interests | — | — | — | — | (2.8) | (2.8) |
| Balance as of September 29, 2012 | \$0.4 | \$697.6 | \$1,093.7 | \$ (56.6) | \$41.8 | \$1,776.9 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Nine Months Ended | |
|---|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$169.4 | \$124.3 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 95.0 | 69.7 |
| Excess tax benefits from share-based compensation | (1.7) | (1.0) |
| (Gain) loss on disposition of assets, net | (1.7) | (5.6) |
| Share-based compensation expense | 6.7 | 10.1 |
| Change in assets and liabilities, net of acquisitions | 8.5 | (21.3) |
| Net cash provided by operating activities | 276.2 | 176.2 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property, plant and equipment | (66.1) | (44.3) |
| Purchases of investment securities | (4.7) | — |
| Sales of investment securities | 1.5 | 56.0 |
| Business acquisitions, net of cash acquired | (103.0) | (764.9) |
| Grants received for capital expenditures | 7.1 | — |
| Proceeds from sale of assets | 2.7 | 15.1 |
| Net cash used in investing activities | (162.5) | (738.1) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings under revolving credit facility | 281.0 | 200.0 |
| Repayments under revolving credit facility | (263.0) | (172.0) |
| Proceeds from short-term borrowings | 36.4 | 21.5 |
| Repayments of short-term borrowings | (32.9) | (17.3) |
| Proceeds from long-term borrowings | — | 500.0 |
| Repayments of long-term debt | (75.2) | (0.1) |
| Dividends paid to shareholders | (22.9) | (20.1) |
| Proceeds from the exercise of stock options | 3.5 | 1.9 |
| Excess tax benefits from share-based compensation | 1.7 | 1.0 |
| Financing fees paid | — | (2.8) |
| Net cash (used in) provided by financing activities | (71.4) | 512.1 |
| EFFECT OF EXCHANGE RATES ON CASH | 0.9 | (0.3) |
| Net increase (decrease) in cash and cash equivalents | 43.2 | (50.1) |
| Cash and cash equivalents at beginning of period | 142.6 | 174.5 |
| Cash and cash equivalents at end of period | \$185.8 | \$124.4 |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | |

REGAL BELOIT CORPORATION
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 September 29, 2012
 (Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet of Regal Beloit Corporation (the "Company") as of December 31, 2011, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of September 29, 2012 and for the three and nine months ended September 29, 2012 and October 1, 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 2011 Annual Report on Form 10-K filed on February 29, 2012.

In the opinion of management, all adjustments considered necessary for a fair presentation of financial results have been made. Except as otherwise discussed, such adjustments consist of only those of a normal recurring nature. Operating results for the three and nine months ended September 29, 2012 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 29, 2012.

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

On January 1, 2012, the Company adopted new guidance which changes the presentation of comprehensive income. Under the new guidance, the Company has reported a separate Condensed Consolidated Statement of Comprehensive Income for all periods presented.

On January 1, 2012, the Company adopted new guidance which provides an option to first assess qualitative factors in determining whether is more likely than not that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company will perform its annual goodwill impairment test in the fourth quarter and does not expect the adoption of the guidance to have a material impact on its consolidated financial statements.

2. OTHER FINANCIAL INFORMATION

Inventories

Cost for approximately 41% and 45% of the Company's inventory is determined using the last-in, first-out (LIFO) inventory valuation method as of September 29, 2012 and December 31, 2011, respectively. The approximate percentage distribution between major classes of inventories was as follows:

| | September 29, 2012 | December 31, 2011 | | |
|------------------------------------|-----------------------|----------------------|--|---|
| Raw Material and Work in Process | 42 | % 38 | | % |
| Finished Goods and Purchased Parts | 58 | % 62 | | % |

Investments

Investments consist of term deposits of \$3.2 million with original maturities of greater than three months. Investments with maturities greater than one year may be classified as short term based on their highly liquid nature and their availability to fund future investing activities. Term deposits are included in Prepaid Expenses and Other Current Assets. The fair value of term deposits approximates their carrying value.

Property, Plant and Equipment

Property, plant, and equipment by major classification was as follows (in millions):

| | September 29, 2012 | December 31, 2011 |
|-----------------------------------|-----------------------|----------------------|
| Land and Improvements | \$76.2 | \$74.1 |
| Buildings and Improvements | 200.0 | 189.3 |
| Machinery and Equipment | 740.5 | 667.2 |
| Property, Plant and Equipment | 1,016.7 | 930.6 |
| Less: Accumulated Depreciation | (449.9 |) (396.6 |
| Net Property, Plant and Equipment | \$566.8 | \$534.0 |

3. ACQUISITIONS

The results of operations for acquired businesses are included in the Condensed Consolidated Financial Statements from the dates of acquisition. Acquisition-related expenses, which were recorded in operating expenses, were immaterial for the three and nine months ended September 29, 2012. Acquisition-related expenses were \$5.6 million and \$16.0 million for the three and nine months ended October 1, 2011, respectively.

2012 Acquisitions

During the nine months ended September 29, 2012, the Company acquired a Mexico based electrical products company for \$1.6 million. The Company also acquired assets from a Canadian affiliate of its Elco B.V. joint venture for \$1.4 million. These are reported as a part of the Company's Electrical segment.

On February 3, 2012, the Company acquired Milwaukee Gear Company ("MGC"), a Wisconsin-based leading manufacturer of highly engineered gearing components for oil and gas applications as well as a wide variety of other commercial and industrial applications. The purchase price of MGC was \$80.3 million paid in cash, net of cash acquired. MGC is reported as a part of the Company's Mechanical segment.

2011 EPC Acquisition

On August 22, 2011, the Company completed its acquisition of the Electrical Products Company ("EPC") of A.O. Smith Corporation (NYSE: AOS). EPC manufactures and sells a full line of motors for hermetic, pump, distribution, HVAC, and general industrial applications. EPC is based in Tipp City, Ohio and has operations in the United States, Mexico, China, and the United Kingdom. The purchase price included \$756.1 million in cash and non-cash consideration of \$140.9 million comprised of 2,834,026 shares of Company common stock. EPC is reported as part of the Company's Electrical segment.

Pro Forma Financial Information

The following pro forma financial information shows the results of continuing operations for the three and nine months ended October 1, 2011 as though the acquisition of EPC occurred at the beginning of the 2011 fiscal year. The pro forma financial information includes, where applicable, adjustments for: (i) the amortization of acquired intangible assets, (ii) additional interest expense on acquisition related borrowings and (iii) the income tax effect on the pro forma adjustments. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the acquisition been completed as of the date indicated above or the results that may be obtained in the future (in millions, except per share amounts):

| | Three Months Ended October 1, 2011 | Nine Months Ended October 1, 2011 |
|--|---|--|
| Pro forma net sales | \$847.0 | \$2,615.6 |
| Pro forma net income | 58.5 | 164.9 |
| Basic earnings per share as reported | \$1.14 | \$3.04 |
| Pro forma basic earnings per share | 1.41 | 3.97 |
| Diluted earnings per share as reported | 1.13 | 3.00 |
| Pro forma diluted earnings per share | 1.39 | 3.92 |

Other 2011 Acquisitions

On June 1, 2011, the Company acquired Australian Fan and Motor Company (“AFMC”) located in Melbourne, Australia. AFMC manufactures and distributes a wide range of direct drive blowers, fan decks, axial fans and sub fractional motors for sales in Australia and New Zealand. The purchase price of \$5.7 million was paid in cash, net of acquired debt and cash. AFMC is reported as part of the Company’s Electrical segment.

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. The purchase price included \$5.3 million paid in cash, net of acquired debt and cash and an additional amount should certain future performance expectations be met. At September 29, 2012, the Company has recorded a liability of \$13.7 million for this deferred contingent purchase price. Ramu is reported as part of the Company’s Electrical segment.

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.

4. COMPREHENSIVE INCOME

As required, the Company adopted new guidance on the presentation of comprehensive income during 2012. Condensed Consolidated Statements of Comprehensive Income are included in the Company’s Condensed Consolidated Financial Statements for all periods presented.

Foreign currency translation adjustments, hedging activities on derivative instruments and pension benefit adjustments are included in Equity in Accumulated Other Comprehensive Loss. The components of the ending balances of Accumulated Other Comprehensive Loss are as follows (in millions):

| | September 29, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| Foreign currency translation adjustments | \$(7.1 |) \$(20.0 |
| Hedging activities, net of tax | (17.5 |) (50.8 |
| Pension benefits, net of tax | (32.0 |) (34.4 |
| | \$(56.6 |) \$(105.2 |

5. WARRANTY COSTS

The Company generally recognizes the cost associated with its standard warranty on its products at the time of sale. The amount recognized is based on historical experience. The following is a reconciliation of the changes in accrued warranty costs for the three and nine months ended September 29, 2012 and October 1, 2011 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| Beginning balance | \$26.0 | \$40.9 | \$24.2 | \$12.8 |
| Deduct: Payments | (5.9 |) (5.8 |) (19.3 |) (11.7 |
| Add: Provision | 7.1 | 2.5 | 22.3 | 36.4 |
| Acquisition | — | 3.9 | 0.1 | 3.9 |
| Translation Adjustments | 0.1 | (0.1 |) — | — |
| Ending balance | \$27.3 | \$41.4 | \$27.3 | \$41.4 |

The warranty provision for the nine months ended October 1, 2011 included \$28.0 million in accrued costs due to the previously disclosed warranty expense item.

Accrued warranty costs are included with Other Accrued Expenses on the Condensed Consolidated Balance Sheets.

6. BUSINESS SEGMENTS

The Company has two reportable segments, Mechanical and Electrical (in millions):

| | Electrical | Mechanical | Eliminations | Total |
|---------------------------------------|------------|------------|--------------|-----------|
| Three months ended September 29, 2012 | | | | |
| External sales | \$708.3 | \$71.2 | \$— | \$779.5 |
| Intersegment sales | 0.9 | 1.3 | (2.2) |) — |
| Total sales | 709.2 | 72.5 | (2.2) |) 779.5 |
| Segment income from operations | 73.2 | 10.1 | — | 83.3 |
| Identifiable assets | 3,216.1 | 207.6 | — | 3,423.7 |
| Depreciation and amortization | 32.3 | 2.1 | — | 34.4 |
| Three months ended October 1, 2011 | | | | |
| External Sales | \$667.5 | \$69.4 | \$— | \$736.9 |
| Intersegment sales | 2.1 | 0.7 | (2.8) |) — |
| Total sales | 669.6 | 70.1 | (2.8) |) 736.9 |
| Segment income from operations | 69.4 | 8.7 | — | 78.1 |
| Identifiable assets | 3,259.5 | 113.1 | — | 3,372.6 |
| Depreciation and amortization | 24.7 | 1.4 | — | 26.1 |
| | Electrical | Mechanical | Eliminations | Total |
| Nine months ended September 29, 2012 | | | | |
| External sales | \$2,223.3 | \$228.0 | \$— | \$2,451.3 |
| Intersegment sales | 2.7 | 2.9 | (5.6) |) — |
| Total sales | 2,226.0 | 230.9 | (5.6) |) 2,451.3 |
| Segment income from operations | 234.1 | 31.6 | — | 265.7 |
| Identifiable assets | 3,216.1 | 207.6 | — | 3,423.7 |
| Depreciation and amortization | 87.3 | 7.7 | — | 95.0 |
| Nine months ended October 1, 2011 | | | | |
| External Sales | \$1,873.1 | \$208.2 | \$— | \$2,081.3 |
| Intersegment sales | 7.2 | 1.9 | (9.1) |) — |
| Total sales | 1,880.3 | 210.1 | (9.1) |) 2,081.3 |
| Segment income from operations | 169.8 | 27.3 | — | 197.1 |
| Identifiable assets | 3,259.5 | 113.1 | — | 3,372.6 |
| Depreciation and amortization | 65.3 | 4.4 | — | 69.7 |

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 September 29, 2012, most 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 millions):

| | Total | Electrical Segment | Mechanical Segment |
|--|-----------|--------------------|--------------------|
| Balance as of December 31, 2011 | \$1,117.6 | \$1,105.0 | \$12.6 |
| Acquisitions and Valuation Adjustments | 21.7 | 0.3 | 21.4 |
| Foreign Currency Translation Adjustments | 5.6 | 5.6 | — |
| Balance as of September 29, 2012 | \$1,144.9 | \$1,110.9 | \$34.0 |

Intangible Assets

Intangible assets consisted of the following (in millions):

| | Useful Life (years) | September 29, 2012 | | December 31, 2011 | |
|-------------------------------------|---------------------|--------------------|--------------------------|-------------------|--------------------------|
| | | Gross Value | Accumulated Amortization | Gross Value | Accumulated Amortization |
| Customer Relationships | 3 - 14 | \$243.0 | \$(72.8) | \$227.5 | \$(56.4) |
| Technology | 3 - 9 | 130.1 | (37.4) | 128.2 | (24.7) |
| Trademarks | 3 - 20 | 32.5 | (14.9) | 30.9 | (12.8) |
| In-process Research and Development | N/A | 17.2 | — | 17.2 | — |
| Patent and Engineering Drawings | 10 | 16.6 | (12.9) | 16.6 | (11.7) |
| Non-compete Agreements | 3 - 5 | 8.1 | (7.0) | 8.1 | (6.6) |
| | | \$447.5 | (145.0) | \$428.5 | (112.2) |
| Net Values | | | \$302.5 | | \$316.3 |

The estimated expected future annual amortization for intangible assets is as follows (in millions):

| Year | Estimated Amortization |
|------|------------------------|
| 2012 | \$44.4 |
| 2013 | 43.6 |
| 2014 | 42.4 |
| 2015 | 34.7 |
| 2016 | 30.9 |

Amortization expense recorded for the three and nine months ended September 29, 2012 was \$11.1 million and \$32.8 million respectively. Amortization expense recorded for the three and nine months ended October 1, 2011 was \$8.7 million and \$23.1 million, respectively.

In-process research and development projects are estimated to be completed by the end of 2013 and amortization will begin upon project completion.

8. DEBT AND BANK CREDIT FACILITIES

The Company's indebtedness as of September 29, 2012 and December 31, 2011 was as follows (in millions):

| | September 29, 2012 | December 31, 2011 |
|---------------------------|-----------------------|----------------------|
| Senior notes | \$750.0 | \$750.0 |
| Term loan | 70.0 | 145.0 |
| Revolving credit facility | 27.0 | 9.0 |
| Other | 18.5 | 15.2 |
| | 865.5 | 919.2 |
| Less: Current maturities | (83.8 |) (10.0 |
| Non-current portion | \$781.7 | \$909.2 |

At September 29, 2012, the Company had \$750.0 million of senior notes (the “Notes”) outstanding. Details on the senior notes are (in millions):

| | Principal | Interest Rate | Maturity |
|----------------------------|-----------|-------------------------|-------------|
| Floating Rate Series 2007A | \$150.0 | Floating ⁽¹⁾ | August 2014 |
| Floating Rate Series 2007A | 100.0 | Floating ⁽¹⁾ | August 2017 |
| Fixed Rate Series 2011A | 100.0 | 4.1% | July 2018 |
| Fixed Rate Series 2011A | 230.0 | 4.8 to 5.0% | July 2021 |
| Fixed Rate Series 2011A | 170.0 | 4.9 to 5.1% | July 2023 |
| | \$750.0 | | |

(1) Interest rates vary as LIBOR varies. At September 29, 2012, the interest rate was between 1.0% and 1.2%.

In 2008, the Company entered into a Term Loan Agreement (“Term Loan”) with certain financial institutions, whereby it borrowed an aggregate principal amount of \$165.0 million. During 2011, the Company repaid \$20.0 million of the Term Loan. In the third quarter of 2012, the Company repaid an additional \$75.0 million of the Term Loan. 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 total funded debt to consolidated earnings before interest, taxes, depreciation, and amortization (“EBITDA”) as defined in the Loan Agreement. These interest rates also vary as LIBOR varies. At September 29, 2012, the interest rate of 1.2% was based on a margin over LIBOR.

The Company also has a \$500.0 million revolving credit facility (the “Facility”) that matures in June 2016. The Facility permits the Company to borrow at interest rates based upon a margin above LIBOR. The margin varies with the ratio of total funded debt to EBITDA, net of specified cash, as defined in the Facility. These interest rates also vary as LIBOR varies. At September 29, 2012, there was \$27.0 million outstanding on the Facility and the interest rate was 1.7%. The Company pays a commitment fee on the unused amount of the Facility, which also varies with the ratio of total funded debt to EBITDA.

Based on rates for instruments with comparable maturities, credit risks, and terms, which are classified as Level 2 inputs, the approximate fair value of the Company's debt was \$899.2 million and \$951.0 million as of September 29, 2012 and December 31, 2011, respectively.

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 September 29, 2012.

The Company 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 September 29, 2012, other notes payable of approximately \$18.5 million were outstanding with a weighted average interest rate of 2.5%.

9. PENSION PLANS

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

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| Service cost | \$0.6 | \$0.6 | \$1.8 | \$1.9 |
| Interest cost | 1.9 | 1.7 | 5.6 | 5.7 |
| Expected return on plan assets | (1.8 |) (1.6 |) (5.5 |) (5.2 |
| Amortization of prior service cost and net actuarial loss | 0.9 | 0.9 | 2.8 | 2.7 |
| Net periodic benefit expense | \$1.6 | \$1.6 | \$4.7 | \$5.1 |

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 2012 fiscal year is \$3.6 million and \$0.2 million, respectively.

During the first nine months of 2012 and 2011, the Company contributed \$10.9 million and \$5.7 million, respectively, to defined benefit pension plans. The Company expects to make an additional contribution of \$0.5 million in 2012. The Company contributed a total of \$6.5 million in 2011. 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 2011 Annual Report on Form 10-K filed on February 29, 2012.

10. SHAREHOLDERS' EQUITY

The Company recognized approximately \$2.3 million and \$4.0 million in share-based compensation expense for the three month period ended September 29, 2012 and October 1, 2011, respectively. Share-based compensation expense for the nine month period ended September 29, 2012 and October 1, 2011 was \$6.7 million and \$10.2 million, respectively. The total excess income tax benefit recognized relating to share-based compensation for the nine months ended September 29, 2012 and October 1, 2011 was approximately \$1.7 million and \$1.0 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 September 29, 2012, total unrecognized compensation cost related to share-based compensation awards was approximately \$24.4 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 2.9 years.

The Company was authorized, as of September 29, 2012, 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, restricted stock and restricted stock units. Approximately 1.0 million shares were available for future grant or payment under the various plans at September 29, 2012.

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 majority of the Company's annual share-based incentive awards are made in the fiscal second quarter. For the nine months ended September 29, 2012 and October 1, 2011, 255,225 and 289,612 share-based incentive awards were granted, respectively. The per share weighted average fair value of share-based incentive awards granted during those respective periods was \$22.45 and \$26.81.

The assumptions used in our Black-Scholes valuation related to grants were as follows:

| | September 29, 2012 | | October 1, 2011 | |
|-------------------------|-----------------------|---|--------------------|---|
| Risk-free interest rate | 1.3 | % | 2.6 | % |
| Expected life (years) | 7.0 | | 7.0 | |
| Expected volatility | 37.6 | % | 35.5 | % |
| Expected dividend yield | 1.2 | % | 1.0 | % |

A summary of share-based awards (options and SARs) as of September 29, 2012 follows below. Forfeitures of share-based awards during the nine months ended September 29, 2012 totaled 23,640.

| Number of Shares | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (years) | Aggregate Intrinsic Value (in millions) |
|------------------|-----------|---------------------------------|---|---|
| Outstanding | 1,634,030 | \$ 53.35 | 6.7 | \$ 28.2 |
| Exercisable | 711,815 | 41.47 | 4.7 | 20.7 |

Restricted Stock and Restricted Stock Units

The Company also grants restricted stock awards and values such 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.

Changes in restricted stock awards for the nine months ended September 29, 2012 were as follows:

| | Shares | Weighted Average Value |
|--|----------|------------------------|
| Unvested restricted stock awards, December 31, 2011 | 138,330 | \$60.67 |
| Granted | 95,916 | 63.72 |
| Vested | (32,640) |)43.68 |
| Forfeited | (1,345) |)57.05 |
| Unvested restricted stock awards, September 29, 2012 | 200,261 | \$64.92 |

11. INCOME TAXES

The effective tax rate for the three months ended September 29, 2012 was 24.5% versus 30.3% for the three months ended October 1, 2011. The effective tax rate for the nine months ended September 29, 2012 was 27.4% versus 30.1% for the nine months ended October 1, 2011. The change in the third quarter effective rates was driven primarily by the qualification in China of a high technology tax incentive for two of our facilities that resulted in a retroactive benefit of \$2.3 million.

As of September 29, 2012 and December 31, 2011, the Company had approximately \$5.8 million and \$7.1 million, respectively, 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 files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. U.S. federal tax returns from 2009 through 2011 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 millions):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------------|--------------------|-----------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| Denominator for basic EPS (weighted average) | 41.7 | 39.9 | 41.7 | 39.1 |
| Effect of dilutive securities | 0.3 | 0.5 | 0.3 | 0.5 |
| Denominator for diluted EPS | 42.0 | 40.4 | 42.0 | 39.6 |

The "Effect of dilutive securities" represents the dilution impact of equity awards for the three and nine months ended September 29, 2012 and October 1, 2011, respectively. For the nine months ended September 29, 2012 and October

1, 2011,

17

there were 0.3 million options and 1.3 million options, respectively, where the exercise price was above the market price, and which were excluded from the calculation of the effect of dilutive shares as the effect of such options was anti-dilutive.

13. CONTINGENCIES

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 effect on its interim consolidated financial statements as a whole.

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 the Company 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 and estimated exposures in amounts that the Company believes are adequate, and the Company does not believe that the outcome of any such lawsuit, individually or in the aggregate, will have a material effect on the Company's interim consolidated financial statements as a whole.

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 condensed consolidated balance sheets. 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 September 29, 2012.

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. All derivative instruments used by the Company impact operating cash flows.

At September 29, 2012, the Company had an additional \$(0.6) million, net of tax, of derivative losses on closed hedge instruments in Accumulated Other Comprehensive Income (Loss) ("AOCI") that will be realized in earnings when the hedged items impact earnings. At December 31, 2011, the Company had an additional \$(2.5) 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 September 29, 2012, the Company had outstanding the following commodity forward contracts (with maturities extending through December 2013) to hedge forecasted purchases of commodities (notional amounts expressed in terms of the dollar value of the hedged item in millions):

Notional
Amount

| | |
|----------|---------|
| Copper | \$119.0 |
| Aluminum | 7.4 |

As of September 29, 2012, the Company had outstanding the following currency forward contracts (with maturities extending through December 2014) to hedge forecasted foreign currency cash flows (in millions):

18

| | Notional Amount |
|-------------------|--------------------|
| Mexican Peso | \$184.1 |
| Chinese Renminbi | 126.8 |
| Indian Rupee | 37.4 |
| Thai Baht | 20.3 |
| Australian Dollar | 5.7 |

As of September 29, 2012, 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 September 29, 2012 and December 31, 2011 were (in millions):

| | September 29, 2012 | | | |
|--|---------------------|-------------------------------|-------------------------------------|------------------------|
| | Prepaid Expenses | Other Noncurrent Assets | Hedging Obligations (current) | Hedging Obligations |
| Designated as hedging instruments: | | | | |
| Interest rate swap contracts | \$— | \$— | \$— | \$38.4 |
| Foreign exchange contracts | 5.6 | 3.8 | 4.4 | 1.2 |
| Commodity contracts | 7.5 | 0.4 | 0.5 | — |
| Not designated as hedging instruments: | | | | |
| Commodity contracts | 1.2 | — | 1.2 | — |
| Total Derivatives | \$14.3 | \$4.2 | \$6.1 | \$39.6 |
| | | | | |
| | December 31, 2011 | | | |
| | Prepaid Expenses | Other Noncurrent Assets | Hedging Obligations (current) | Hedging Obligations |
| Designated as hedging instruments: | | | | |
| Interest rate swap contracts | \$— | \$— | \$— | \$42.0 |
| Foreign exchange contracts | 0.4 | 0.1 | 13.6 | 11.7 |
| Commodity contracts | 2.1 | 1.0 | 12.2 | 1.4 |
| Not designated as hedging instruments: | | | | |
| Foreign exchange contracts | 0.1 | — | — | — |
| Commodity contracts | 0.2 | — | 0.3 | — |
| Total Derivatives | \$2.8 | \$1.1 | \$26.1 | \$55.1 |

The effect of derivative instruments on the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 29, 2012 and October 1, 2011, was (in millions):

Derivatives Designated as Cash Flow Hedging Instruments

| | Three Months Ended September 29, 2012 | | | | October 1, 2011 | | | |
|---|--|----------------------|---------------------------|---------|-----------------------|----------------------|---------------------------|-----------|
| | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total |
| Gain (Loss) recognized in Other Comprehensive Income (Loss) | \$9.2 | \$8.6 | \$(1.4) | \$16.4 | \$(42.0) | \$(30.8) | \$(9.7) | \$(82.5) |
| Amounts reclassified from Other Comprehensive Income (Loss): | | | | | | | | |
| Gain (Loss) recognized in Net Sales | — | (0.2) | — | (0.2) | — | 0.1 | — | 0.1 |
| Gain (Loss) recognized in Cost of Sales | (2.6) | (2.7) | — | (5.3) | 4.5 | 2.3 | — | 6.8 |
| Loss recognized in Interest Expense | — | — | (2.4) | (2.4) | — | — | (3.5) | (3.5) |
| | | | | | | | | |
| | Nine Months Ended September 29, 2012 | | | | October 1, 2011 | | | |
| | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total | Commodity Forwards | Currency Forwards | Interest Rate Swaps | Total |
| Gain (Loss) recognized in Other Comprehensive Income (Loss) | \$13.0 | \$23.7 | \$(5.6) | \$31.1 | \$(42.2) | \$(22.2) | \$(15.4) | \$(79.8) |
| Amounts reclassified from Other Comprehensive Income (Loss): | | | | | | | | |
| Gain (Loss) recognized in Net Sales | — | (1.2) | — | (1.2) | — | 0.5 | — | 0.5 |
| Gain (Loss) recognized in Cost of Sales | (9.1) | (3.1) | — | (12.2) | 21.6 | 5.2 | — | 26.8 |
| Loss recognized in Interest Expense | — | — | (9.2) | (9.2) | — | — | (9.9) | (9.9) |

The ineffective portion of hedging instruments recognized during the three and nine months ended September 29, 2012 and October 1, 2011 was immaterial.

Derivatives Not Designated as Cash Flow Hedging Instruments

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| | September 29, 2012 | | October 1, 2011 | | September 29, 2012 | | October 1, 2011 | |
| | Commodity Forwards | Currency Forwards | Commodity Forwards | Currency Forwards | Commodity Forwards | Currency Forwards | Commodity Forwards | Currency Forwards |
| Gain recognized in Net Sales | \$— | \$— | \$— | \$(0.3) | \$— | \$— | \$— | \$(0.3) |
| Gain (Loss) recognized in Cost of Sales | 0.4 | (0.5) | (0.2) | 0.7 | 0.1 | 0.1 | (0.4) | (0.2) |

The net AOCI hedging component balance of \$(17.5) million loss at September 29, 2012 includes \$(2.8) million of net current deferred losses expected to be realized in the next twelve months.

15. FAIR VALUE

The Company uses a three-tier hierarchy to assess the inputs used to measure the fair value of financial assets and liabilities.

| | |
|---------|---|
| 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 fair value of the Company's accounts receivable and accounts payable approximated book value as of September 29, 2012 and December 31, 2011, respectively, due to their short-term nature. See Note 8 of Notes to Condensed Consolidated Financial Statements for disclosure of the approximate fair value of the Company's debt at September 29, 2012 and December 31, 2011.

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 September 29, 2012 and December 31, 2011 (in millions):

| | September 29, 2012 | December 31, 2011 | Classification |
|--|-----------------------|----------------------|----------------|
| Assets: | | | |
| Prepaid Expenses and Other Current Assets: | | | |
| Derivative Currency Contracts | \$5.6 | \$0.5 | Level 2 |
| Derivative Commodity Contracts | 8.7 | 2.6 | Level 2 |
| Investments | 3.2 | — | Level 2 |
| Other Noncurrent Assets: | | | |
| Derivative Currency Contracts | 3.8 | 0.1 | Level 2 |
| Derivative Commodity Contracts | 0.4 | 1.0 | Level 2 |
| Liabilities: | | | |
| Other Accrued Expenses: | | | |
| Deferred Contingent Purchase Price | \$0.4 | \$2.0 | Level 3 |
| Hedging Obligations Current: | | | |
| Derivative Currency Contracts | 4.4 | 13.6 | Level 2 |
| Derivative Commodity Contracts | 1.7 | 12.5 | Level 2 |
| Hedging Obligations: | | | |
| Interest Rate Swap | 38.4 | 42.0 | Level 2 |
| Derivative Currency Contracts | 1.2 | 11.7 | Level 2 |
| Derivative Commodity Contracts | — | 1.4 | Level 2 |
| Other Noncurrent Liabilities: | | | |
| Deferred Contingent Purchase Price | 20.4 | 21.5 | Level 3 |

The Company's derivative contracts are valued at fair value using the market or income approaches. The Company measures the fair value of foreign exchange contracts using Level 2 inputs based on observable spot and forward rates in active markets. The Company measures the fair value of commodity contracts using Level 2 inputs through observable market transactions in active markets provided by financial institutions. The Company measures the fair value of interest rate swaps using Level 2 inputs in an income approach for valuation based on expected interest rate yield curves over the remaining duration of the interest rate swaps. During the nine months ended September 29, 2012, there were no transfers between classification Levels 1, 2 or 3.

The table below sets forth a summary of changes in fair market value of the Company's Level 3 liabilities for the three and nine months ended September 29, 2012 and October 1, 2011 (in millions):

| | Three Months Ended | | Nine Months Ended | |
|-----------------------|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| Beginning Balance | \$23.2 | \$25.9 | \$23.5 | \$11.0 |
| Valuation Adjustments | 0.3 | — | 0.9 | (1.8) |
| Acquisitions | 0.4 | — | 0.4 | 16.7 |
| Payments | (3.1) | — | (4.0) | — |
| Ending Balance | \$20.8 | \$25.9 | \$20.8 | \$25.9 |

The Level 3 liabilities described above are comprised entirely of the deferred contingent purchase price of the Company's acquisitions and are measured using Level 3 inputs. The contingent consideration, payable in cash, is based upon sales or earnings before interest and income taxes for the acquired businesses for the applicable contingency period. The fair value of the contingent consideration is a Level 3 input; the measurement of which is derived using a probability weighted discounted cash flow analysis. The Company has estimated that the maximum contingent amount will be paid under all agreements so the key assumption is the estimated timing of the payments. The discounted cash flow utilized risk-based discount rates ranging from approximately 5.0% to 8.0%. See Note 8 of Notes to Condensed Consolidated Financial Statements for the disclosure on the Company's fair value of debt

16. RELATED PARTY TRANSACTIONS

As part of the consideration paid for the acquisition of certain assets of Elco S.p.A. on November 1, 2010, the Company assumed \$22.3 million payable to an entity that is affiliated with its Elco Group B.V. joint venture partner resulting from a bankruptcy proceeding involving Elco S.p.A.. During the first nine months of 2012, the final two installments totaling \$10.5 million were paid.

17. RESTRUCTURING ACTIVITY

During 2012, the Company began a restructuring effort to consolidate several of its manufacturing facilities in North America and Europe. The Company recorded pre-tax provisions of \$5.2 million in the third quarter 2012 and \$5.7 million during the nine months ended September 29, 2012 related to these efforts. The Company made payments of \$1.0 million during the nine months ended September 29, 2012.

18. SUBSEQUENT EVENT

On October 2, 2012, the Company acquired Marlin Coast Motor Rewinding ("MCMR") for an immaterial purchase price. MCMR, based in Cairns, North Queensland, Australia, is a leader in the supply, service and overhaul of electric machines. MCMR is reported as a part of the Company's Electrical segment.

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

Over the past several years, as part of our strategic growth plans, we have typically acquired multiple businesses in any given fiscal year. When we refer to the financial impact of the "recently acquired businesses," we are referring to the results of operations of acquired businesses prior to the first anniversary of their acquisition.

On an ongoing basis, we focus on a variety of key indicators to monitor business performance. These indicators include organic and total sales growth (including volume and price components), gross profit margin, operating profit, net income and earnings per share, and measures to optimize the management of working capital, capital expenditures, cash flow and Return On Invested Capital ("ROIC"). We monitor these indicators, as well as our corporate governance practices (including our Code of Business Conduct and Ethics), to ensure that we maintain business health and strong internal controls.

To achieve our financial objectives, we are focused on initiatives to drive and fund growth. We seek to capture significant opportunities for growth by identifying and meeting customer product needs within our core product categories, developing new products, and identifying category expansion opportunities. We meet these customer product needs through focused product research and development efforts as well as through a disciplined acquisition strategy. Our acquisition strategy emphasizes acquiring companies that offer market growth potential as a result of geographic base, technology or synergy opportunities. The cash flow needed to fund our growth is developed through continuous, corporate-wide initiatives to lower costs and increase effective asset utilization.

We also prioritize investments that generate higher return on capital. Our management team is compensated based on a modified Economic Value Added ("EVA") program which reinforces capital allocation disciplines that drive increases in shareholder value. The key metrics in our program include total sales growth, organic sales growth, operating margin percent, operating cash flow as a percent of net income, and ROIC.

Given the current global economic uncertainty, we anticipate that the near-term operating environment will remain challenging. Slower economic growth or recessions in the U.S. and international markets may reduce the demand for our products. In particular, we are seeing recent declines in sales of our products used in commercial, industrial, power generation and residential HVAC applications. We believe these sales declines are due to slower economic growth,

recession or uncertainty about future economic conditions in the markets in which we compete.

Net sales for the third quarter 2012 increased 5.8% to \$779.5 million compared to \$736.9 million in the third quarter 2011. Net sales for the third quarter 2012 included \$105.7 million of incremental net sales from recently acquired businesses.

Net Income Attributable to Regal Beloit Corporation increased 18.8% to \$54.3 million for the third quarter 2012 compared to \$45.7 million for the third quarter 2011. Diluted earnings per share increased to \$1.29 for the third quarter 2012 compared to \$1.13 for the third quarter 2011.

Net cash provided by operating activities was \$276.2 million for the nine months ended September 29, 2012, an increase of \$100.0 million from the comparable prior year period.

25

Results of Operations

Net Sales

| | Three Months Ended | | | | Nine Months Ended | | | |
|-----------------------|-----------------------|---|--------------------|---|-----------------------|---|--------------------|---|
| | September 29, 2012 | | October 1, 2011 | | September 29, 2012 | | October 1, 2011 | |
| | (Dollars in Millions) | | | | | | | |
| Net Sales | \$779.5 | | \$736.9 | | \$2,451.3 | | \$2,081.3 | |
| Sales growth rate | 5.8 | % | 24.7 | % | 17.8 | % | 23.7 | % |
| Net Sales by Segment: | | | | | | | | |
| Electrical segment | \$708.3 | | \$667.5 | | \$2,223.3 | | \$1,873.0 | |
| Sales growth rate | 6.1 | % | 26.5 | % | 18.7 | % | 24.2 | % |
| Mechanical segment | \$71.2 | | \$69.4 | | \$228.0 | | \$208.3 | |
| Sales growth rate | 2.6 | % | 10.2 | % | 9.5 | % | 19.4 | % |

Three Months Ended September 29, 2012

Net sales for the third quarter 2012 included \$105.7 million of incremental net sales from the recently acquired businesses. Excluding the recently acquired businesses, net sales for the third quarter 2012 decreased 8.6% and reflected (i) price decreases of approximately 0.1%, (ii) a decrease of approximately 6.7% related to volume and mix changes and (iii) a decrease from foreign currency translation of approximately 1.7%.

In the Electrical segment, net sales for the third quarter 2012 included \$94.6 million of incremental net sales from the recently acquired businesses. Excluding the recently acquired businesses, Electrical segment net sales declined 8.1%. Electrical North American residential HVAC motor net sales, excluding the recently acquired businesses, increased 0.4% in the third quarter 2012. North American commercial and industrial motor net sales, adjusted for the divested pool and spa business, decreased 6.4% in the third quarter 2012 from the third quarter 2011.

Mechanical segment net sales included incremental sales from the recently acquired business of \$11.1 million in the third quarter of 2012. Excluding the recently acquired business, Mechanical segment sales in North America for the third quarter of 2012 decreased 0.9% compared to the third quarter 2011.

Net sales of high efficiency products were 21.8% of total net sales in the third quarter 2012 compared to 15.4% in the third quarter 2011. The impact of foreign currency exchange rates decreased total net sales by approximately 1.7% for the third quarter 2012 compared to a 1.8% positive impact for the third quarter 2011. Net sales to regions outside of the United States decreased 9.4% compared to the third quarter 2011 and represented 31.4% of total net sales in the third quarter 2012 compared to 35.9% in the third quarter 2011.

Nine Months Ended September 29, 2012

Net sales for the nine months ended September 29, 2012 included \$533.9 million of incremental net sales from the recently acquired businesses. Excluding the recently acquired businesses, net sales for the nine months ended September 29, 2012 decreased 7.9% and reflected (i) price increases of approximately 1.2% to offset increased material costs, (ii) a decrease of approximately 7.7% related to volume and mix changes and (iii) a decrease from foreign currency translation of approximately 1.4%.

In the Electrical segment, net sales for the nine months ended September 29, 2012 included \$501.8 million of incremental net sales from the recently acquired businesses. North American residential HVAC motor net sales, excluding the recently acquired businesses, decreased 14.8% in the nine months ended September 29, 2012 from the nine months ended October 1, 2011. North American commercial and industrial motor net sales, adjusted for the divested pool and spa business, decreased 0.9% in the nine months ended September 29, 2012 from the nine months ended October 1, 2011.

Mechanical segment net sales included incremental sales from the recently acquired business of \$22.3 million for the nine months ended September 29, 2012. Excluding the recently acquired business, Mechanical segment sales in North America for the nine months ended September 29, 2012 increased 6.1% compared to the nine months ended October

1, 2011.

26

Net sales of high efficiency products were 20.1% of total net sales in the nine months ended September 29, 2012 compared to 17.0% in the nine months ended October 1, 2011. The impact of foreign currency exchange rates decreased total net sales by approximately 1.4% for the nine months ended September 29, 2012 compared to a 1.7% positive impact for the nine months ended October 1, 2011. Net sales to regions outside the United States increased 4.0% for the nine months ended September 29, 2012 compared to the nine months ended October 1, 2011 and represented 32.4% of total net sales for the nine months ended September 29, 2012 compared to 36.5% for the nine months ended October 1, 2011.

Gross Profit

| | Three Months Ended | | Nine Months Ended | |
|--------------------------|-----------------------|-----------------|--------------------|-----------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| | (Dollars in Millions) | | | |
| Gross Profit | \$192.6 | \$179.6 | \$610.3 | \$495.1 |
| Gross profit percentage | 24.7 % | 24.4 % | 24.9 % | 23.8 % |
| Gross Profit by Segment: | | | | |
| Electrical segment | \$173.2 | \$160.0 | \$549.3 | \$436.0 |
| Gross profit percentage | 24.5 % | 24.0 % | 24.7 % | 23.3 % |
| Mechanical segment | \$19.4 | \$19.6 | \$61.0 | \$59.1 |
| Gross profit percentage | 27.2 % | 28.2 % | 26.8 % | 28.4 % |

Three Months Ended September 29, 2012

Gross profit margin for the third quarter 2012 was 24.7% compared to 24.4% for the third quarter 2011.

Electrical segment gross profit margin was 24.5% for the third quarter 2012, compared to 24.0% for the third quarter 2011. Gross profit for the Electrical segment included \$2.8 million of restructuring expenses in 2012 while third quarter 2011 gross profit included EPC purchase accounting inventory adjustments of \$10.3 million.

Gross profit margin for the Mechanical segment was 27.2% for the third quarter 2012, compared to 28.2% in the third quarter 2011.

Nine Months Ended September 29, 2012

Gross profit margin for the nine months ended September 29, 2012 was 24.9% compared to 23.8% for the nine months ended October 1, 2011.

Gross profit margin for the Electrical segment was 24.7% for the nine months ended September 29, 2012, compared to 23.3% for the nine months ended October 1, 2011. Gross profit for the Electrical segment for the nine months ended September 29, 2012 included \$3.3 million of restructuring costs. Electrical segment gross profit for the nine months ended October 1, 2011 included \$28.0 million from a previously disclosed warranty expense item and \$10.3 million of EPC purchase accounting inventory adjustments that negatively impacted gross profit margin.

Gross profit margin for the Mechanical segment was 26.8% for the nine months ended September 29, 2012, compared to 28.4% in the nine months ended October 1, 2011. The decrease in the gross profit margin for the Mechanical segment for the nine months ended September 29, 2012 included \$0.7 million of inventory purchase accounting adjustments related to the acquisition of Milwaukee Gear Company.

Operating Expenses

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| | (Dollars in Millions) | | | |
| Operating Expenses | \$109.3 | \$101.5 | \$344.6 | \$298.0 |
| As a percentage of net sales | 14.0 | % 13.8 | % 14.1 | % 14.3 |
| Operating Expenses by Segment: | | | | |
| Electrical segment | \$99.9 | \$90.7 | \$315.2 | \$266.1 |
| As a percentage of net sales | 14.1 | % 13.6 | % 14.2 | % 14.2 |
| Mechanical segment | \$9.4 | \$10.8 | \$29.4 | \$31.9 |
| As a percentage of net sales | 13.2 | % 15.6 | % 12.9 | % 15.3 |

Three Months Ended September 29, 2012

Operating expenses for the third quarter 2012 increased \$7.8 million driven by an incremental \$9.5 million related to the recently acquired businesses.

Electrical segment operating expenses for the third quarter 2012 included an incremental \$8.5 million related to the recently acquired businesses, restructuring expenses of \$2.4 million and minimal acquisition related expenses. In the third quarter 2011, Electrical segment acquisition expenses of \$5.9 million were offset by a gain of \$6.5 million on the divested business.

Mechanical segment operating expenses included an incremental \$1.0 million related to the recently acquired business.

Nine Months Ended September 29, 2012

Operating expenses for the nine months ended September 29, 2012 increased \$46.6 million driven by \$55.2 million related to the recently acquired businesses.

Electrical segment operating expenses for the nine months ended September 29, 2012 included \$52.1 million related to the recently acquired businesses, restructuring expenses of \$2.4 million and minimal acquisition related expenses. In the nine months ended 2011, Electrical segment operating expenses included acquisition related expenses of \$16.0 million partially offset by a \$6.5 million gain on the divested business.

Mechanical segment operating expenses for the nine months ended September 29, 2012 included \$3.1 million related to the recently acquired business and reflected an incremental gain on sale of assets of \$1.5 million.

Income from Operations

| | Three Months Ended | | Nine Months Ended | |
|------------------------------|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| | (Dollars in Millions) | | | |
| Income from Operations | \$83.3 | \$78.1 | \$265.7 | \$197.1 |
| As a percentage of net sales | 10.7 | % 10.6 | % 10.8 | % 9.5 |

Income from Operations by Segment

| | | | | |
|------------------------------|--------|--------|---------|---------|
| Electrical segment | \$73.3 | \$69.3 | \$234.1 | \$169.8 |
| As a percentage of net sales | 10.3 | % 10.4 | % 10.5 | % 9.1 |
| Mechanical segment | \$10.0 | \$8.8 | \$31.6 | \$27.3 |
| As a percentage of net sales | 14.2 | % 12.6 | % 13.9 | % 13.1 |

Three Months Ended September 29, 2012

Income from operations was \$83.3 million for the third quarter 2012 compared to \$78.2 million for the third quarter 2011. As a percentage of sales, income from operations was 10.7% for the third quarter 2012 compared to 10.6% for the third quarter 2011. Income from operations for the third quarter 2012 included \$5.2 million of restructuring expenses

Electrical segment income from operations was 10.3% of net sales for the third quarter 2012 compared to 10.4% of net sales for the third quarter 2011. Income from operations for the third quarter 2012 included \$5.2 million of restructuring expenses. Income from operations for the third quarter 2011 included EPC purchase accounting inventory adjustments of \$10.3 million and \$5.9 million of acquisition related expenses offset by a \$6.5 million gain on the divested business.

Mechanical segment income from operations was 14.2% of net sales for the third quarter 2012 compared to 12.6% of net sales for the third quarter 2011.

Nine Months Ended September 29, 2012

Income from operations was \$265.7 million for the nine months ended September 29, 2012 compared to \$197.1 million for the nine months ended October 1, 2011. As a percentage of sales, income from operations was 10.8% for the nine months ended September 29, 2012 compared to 9.5% for the nine months ended October 1, 2011. Income from operations for the nine months ended September 29, 2012 included \$5.7 million of restructuring expenses.

Electrical segment income from operations for the nine months ended September 29, 2012 included \$5.7 million of restructuring expenses. Income from operations for the nine months ended October 1, 2011 included \$28.0 million from a previously disclosed warranty expense item, \$10.3 million of EPC purchase accounting inventory adjustments and acquisition related costs of \$16.0 million partially offset by a \$6.5 million gain on the divested business.

Mechanical segment income from operations was 13.9% of net sales for the nine months ended September 29, 2012 compared to 13.1% of net sales for the nine months ended October 1, 2011.

Interest Expense, Net

| | Three Months Ended | | Nine Months Ended | |
|-----------------------|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| | (Dollars in Millions) | | | |
| Interest Expense, Net | \$10.2 | \$10.0 | \$32.4 | \$19.2 |

Three Months Ended September 29, 2012

Net interest expense for the third quarter of 2012 was flat compared to the third quarter of 2011.

Nine Months Ended September 29, 2012

Net interest expense for the nine months ended September 29, 2012 was \$32.4 million compared to \$19.2 million for the nine months ended October 1, 2011. During 2012, the Company's net interest expense increased driven by higher debt outstanding to fund the August 2011 acquisition of the Electrical Products Company of A.O. Smith Corporation.

Provision for Income Taxes

| | Three Months Ended | | Nine Months Ended | |
|--------------------|-----------------------|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| | (Dollars in Millions) | | | |
| Income Taxes | \$17.9 | \$20.6 | \$63.9 | \$53.6 |
| Effective Tax Rate | 24.5 | % 30.3 | % 27.4 | % 30.1 |

Three Months Ended September 29, 2012

The effective tax rate for the third quarter 2012 was 24.5% compared to 30.3% for the third quarter 2011 driven primarily by the qualification in China of a high technology tax incentive for two of our facilities that resulted in a retroactive benefit of \$2.3 million.

Nine Months Ended September 29, 2012

The effective tax rate for the nine months ended September 29, 2012 was 27.4% compared to 30.1% for the nine months ended October 1, 2011 driven primarily by the global mix of earnings and the qualification in China of a high technology tax incentive for two of our facilities that resulted in a retroactive benefit of \$2.3 million.

Net Income Attributable to Regal Beloit Corporation and Earnings Per Share

| | Three Months Ended | | Nine Months Ended | |
|---|--|--------------------|-----------------------|--------------------|
| | September 29, 2012 | October 1, 2011 | September 29, 2012 | October 1, 2011 |
| | (Amounts in Millions, Except Per Share Data) | | | |
| Net Income Attributable to Regal Beloit Corporation | \$54.3 | \$45.7 | \$165.7 | \$118.8 |
| Fully Diluted Earnings Per Share | \$1.29 | \$1.13 | \$3.94 | \$3.00 |
| Average Number of Diluted Shares | 42.0 | 40.4 | 42.0 | 39.6 |

Three Months Ended September 29, 2012

Net Income Attributable to Regal Beloit Corporation for the third quarter 2012 was \$54.3 million, an increase of 18.8% compared to \$45.7 million for the third quarter 2011. Fully diluted earnings per share was \$1.29 for the third quarter 2012 compared to \$1.13 for the first quarter 2011. The average number of diluted shares was 42.0 million during the third quarter 2012 compared to 40.4 million during the third quarter 2011.

Nine Months Ended September 29, 2012

Net Income Attributable to Regal Beloit Corporation for the nine months ended September 29, 2012 was \$165.7 million, an increase of 39.5% compared to \$118.8 million for the nine months ended October 1, 2011. Fully diluted earnings per share was \$3.94 for the nine months ended September 29, 2012 compared to \$3.00 for the nine months ended October 1, 2011. The average number of diluted shares was 42.0 million during the nine months ended September 29, 2012 compared to 39.6 million during the nine months ended October 1, 2011.

Liquidity and Capital Resources

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

Cash flow provided by operating activities (“operating cash flow”) was \$276.2 million for the nine months ended September 29, 2012, a \$100.0 million increase from the nine months ended October 1, 2011. The increase in operating cash flow was driven by higher sales volume and earnings from 2011 acquisitions reflected in full nine month 2012 operating results. Net income was \$45.1 million higher for the nine months ended September 29, 2012 compared to the nine months ended October 1, 2011.

Cash flow used in investing activities was \$162.5 million for the nine months ended September 29, 2012, a \$575.6 million decrease from the nine months ended October 1, 2011 primarily due to the prior year acquisition of EPC. Capital expenditures were \$66.1 million in the nine months ended September 29, 2012 compared to \$44.3 million in the nine months ended October 1, 2011. Business acquisitions were \$103.0 million for the nine months ended September 29, 2012, driven by the acquisition of Milwaukee Gear Company, compared to \$764.9 million for the nine months ended October 1, 2011 which included the EPC acquisition.

Cash flow used in financing activities for the nine months ended September 29, 2012 was \$71.4 million compared to cash flow provided by financing activities of \$512.2 million in the nine months ended October 1, 2011, primarily due to the \$500.0 million of long-term borrowings in 2011 and the \$75.0 million repayment of long-term borrowings in 2012.

Working capital was \$795.7 million at September 29, 2012, an increase of 3.8% from \$766.6 million at December 31, 2011.

The following table presents selected financial information and ratios as of September 29, 2012 and December 31, 2011 (in millions):

| | September 29, 2012 | December 31, 2011 |
|---------------------------|-----------------------|----------------------|
| Cash and Cash Equivalents | \$185.8 | \$142.6 |
| Trade Receivables, Net | 466.5 | 424.2 |
| Inventories, Net | 594.9 | 575.8 |
| Working Capital | 795.7 | 766.6 |
| Current Ratio | 2.3:1 | 2.5:1 |

A significant amount of operating income is earned in jurisdictions where it is deemed to be permanently reinvested. Our most prominent jurisdiction of operation is the U.S. We currently do not intend nor foresee a need to repatriate funds to the U.S., and no provision for U.S. income taxes has been made with respect to such earnings. It is expected that existing cash and cash equivalents available to the U.S., the cash generated by U.S. operations, committed credit lines as well as the expected ability to access the capital markets will be sufficient to fund U.S. operating and capital needs for at least the next twelve months and thereafter for the foreseeable future. There are no current trends, demands or uncertainties that are believed reasonably likely to require repatriation or to have a material impact on our ability to fund our U.S. operations.

At September 29, 2012, we had \$750.0 million of senior notes (the “Notes”) outstanding. Details on the senior notes at September 29, 2012 were (in millions):

| | Principal | Interest Rate | Maturity |
|----------------------------|-----------|---------------|-------------|
| Floating Rate Series 2007A | \$150.0 | Floating (1) | August 2014 |
| Floating Rate Series 2007A | 100.0 | Floating (1) | August 2017 |
| Fixed Rate Series 2011A | 100.0 | 4.1% | July 2018 |
| Fixed Rate Series 2011A | 230.0 | 4.8 to 5.0% | July 2021 |
| Fixed Rate Series 2011A | 170.0 | 4.9 to 5.1% | July 2023 |
| | \$750.0 | | |

(1) Interest rates vary as LIBOR varies. At September 29, 2012, the interest rate was between 1.0% and 1.2%.

31

We have interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. In 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. During 2011, we repaid \$20.0 million of the Term Loan. In the third quarter of 2012, the Company repaid an additional \$75.0 million of the Term Loan. 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 total funded debt to consolidated earnings before interest, taxes, depreciation, and amortization (“EBITDA”) as defined in the Term Loan. These interest rates also vary as LIBOR varies. At September 29, 2012, the interest rate of 1.2% was based on a margin over LIBOR.

We also have a \$500.0 million revolving credit facility that matures in 2016. The Facility permits borrowing at interest rates based upon a margin above LIBOR. The margin varies with the ratio of total funded debt to EBITDA as defined in the Facility. These interest rates also vary as LIBOR varies. At September 29, 2012, there was \$27.0 million outstanding on the Facility. We had \$445.1 million of available borrowing capacity under the Facility at September 29, 2012.

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 September 29, 2012.

Critical Accounting Policies and Estimates

Our disclosures of critical accounting policies, which are contained in its Annual Report on Form 10-K for the year ended December 31, 2011, have not materially changed since that report was filed.

The Condensed Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles that often require management to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts presented and disclosed in the financial statements. Management reviews these estimates and assumptions based on historical experience, changes in business conditions and other relevant factors they believe to be reasonable under the circumstances. In any given reporting period, our actual results may differ from the estimates and assumptions used in preparing the Condensed Consolidated Financial Statements.

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 qualified 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. The ineffective portion of the 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 September 29, 2012, net of interest rate swaps, we had \$502.2 million of fixed rate debt and \$363.3 million of variable rate debt. As a result, interest rate changes in variable rate debt 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 the weighted average borrowing rate on outstanding variable rate debt at September 29, 2012 would result in a change in after-tax annualized earnings of approximately \$0.1 million. We 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 September 29, 2012, are as follows (in millions):

| Instrument | Notional Amount | Maturity | Rate Paid | Rate Received | Fair Value (Loss) |
|------------|-----------------|-----------------|-----------|-------------------|-------------------|
| Swap | \$150.0 | August 23, 2014 | 5.3 | % LIBOR (3 month) | \$(14.9) |
| Swap | 100.0 | August 23, 2017 | 5.4 | % LIBOR (3 month) | (23.5) |

As of September 29, 2012 and December 31, 2011, the interest rate swap liability of \$(38.4) million and \$(42.0) million, respectively, was included in Hedging Obligations. The unrealized loss on the effective portion of the contracts net of tax of \$(23.8) million and \$(26.0) million as of September 29, 2012 and December 31, 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. 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 September 29, 2012, derivative currency assets (liabilities) of \$5.6 million, \$3.8 million, \$(4.4) million, and \$(1.2) million, are recorded in Prepaid Expenses, Other Noncurrent Assets, Hedging Obligations-Current, and Hedging Obligations, respectively. As of December 31, 2011, derivative currency assets (liabilities) of \$0.5 million, \$0.1 million, \$(13.6) million, and \$(11.7) million are recorded in Prepaid Expenses, Other Noncurrent Assets, Hedging Obligations-Current, and Hedging Obligations, respectively. The unrealized gain (loss) on the effective portion of the contracts of \$2.3 million net of tax, and \$(15.4) million net of tax, as of September 29, 2012 and December 31, 2011, was recorded in AOCI. At September 29, 2012, we had an additional \$(0.1) million, net of tax, of currency losses on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact

earnings. At December 31, 2011, we had an additional \$0.3 million of derivative currency gains on closed hedge instruments in AOCI that were realized in 2012 earnings when the hedged items impacted earnings.

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 September 29, 2012 (in millions):

33

| Currency | Notional Amount | Fair Value | Gain (Loss) From | |
|-------------------|--------------------|---------------|---|---|
| | | | 10% Appreciation of Counter Currency | 10% Depreciation of Counter Currency |
| Mexican Peso | \$184.1 | \$7.0 | \$18.4 | \$ (18.4) |
| Chinese Renminbi | 126.8 | (0.4) | 12.7 | (12.7) |
| Indian Rupee | 37.4 | (2.8) | 3.7 | (3.7) |
| Thai Baht | 20.3 | — | 2.0 | (2.0) |
| Australian Dollar | 5.7 | — | 0.6 | (0.6) |

Gains and losses indicated in the sensitivity analysis would be offset by gains and losses on the underlying forecasted non-U.S. dollar denominated cash flows.

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. The majority of 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 \$8.7 million, \$0.4 million and \$(1.7) million are recorded in Prepaid Expenses, Other Noncurrent Assets and Hedging Obligations-Current respectively, at September 29, 2012. Derivative commodity assets (liabilities) of \$2.6 million, \$1.0 million, \$(12.5), and \$(1.4) million are recorded in Prepaid Expenses, Other Noncurrent Assets, Hedging Obligations-Current and Hedging Obligations, respectively, at December 31, 2011. The unrealized gain (loss) on the effective portion of the contracts of \$4.6 million net of tax and \$(6.4) million net of tax, as of September 29, 2012 and December 31, 2011, respectively, was recorded in AOCI. At September 29, 2012, we had an additional \$(0.5) million, net of tax, of derivative commodity losses on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. At December 31, 2011, there was an additional \$(3.0) million, net of tax, of derivative commodity losses on closed hedge instruments in AOCI that were realized in 2012 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 September 29, 2012 (dollars in millions):

| Commodity | Notional Amount | Fair Value | Gain (Loss) From | |
|-----------|--------------------|---------------|--|---|
| | | | 10% Appreciation of Commodity Prices | 10% Depreciation of Commodity Prices |
| Copper | \$119.0 | \$7.3 | \$11.9 | \$ (11.9) |
| Aluminum | 7.4 | 0.1 | 0.7 | (0.7) |

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

The net AOCI balance of \$(17.5) million loss at September 29, 2012 includes \$(2.8) million of net current deferred losses 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)

34

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 the Company files or submits under the Exchange Act is accumulated and communicated to our management, including its Chief Executive Officer and its 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

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in the legal matters described in Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2011, which is incorporated here by reference.

ITEM 1A. RISK FACTORS

Our business and financial results are subject to numerous risks and uncertainties. The risks and uncertainties have not changed materially from those reported in Item 1A in our 2011 Annual Report on Form 10-K for the year ended December 31, 2011, which is incorporated here by reference.

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 September 29, 2012.

| 2012 Fiscal Month | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as a Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May be Purchased Under the Plans or Programs |
|-----------------------------|----------------------------------|------------------------------|--|--|
| July 1 to August 4 | — | \$— | — | 2,115,900 |
| August 5 to September 1 | 22,006 | \$70.50 | — | 2,115,900 |
| September 2 to September 29 | — | — | — | 2,115,900 |
| | 22,006 | | — | |

Under our 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 quarter ended September 29, 2012, there were 22,006 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. Section 1350. |
| 101 | The following materials from Regal Beloit Corporation's Quarterly Report on Form 10-Q for the quarter ended September 29, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements, furnished herewith. |

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
(Principal Financial Officer)

Date: November 7, 2012

REGAL BELOIT CORPORATION
(Registrant)

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

Date: November 7, 2012

INDEX TO EXHIBITS

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| 101 | The following materials from Regal Beloit Corporation's Quarterly Report on Form 10-Q for the quarter ended September 29, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements, furnished herewith. |

EXHIBIT 12

REGAL BELOIT CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

| | Nine Months Ended September 29, 2012 | Years Ended | | | | |
|--|--|----------------------|--------------------|--------------------|----------------------|----------------------|
| | | December 31, 2011 | January 1, 2011 | January 2, 2010 | December 27, 2008 | December 29, 2007 |
| Earnings available for fixed charges: | | | | | | |
| Income before taxes and Noncontrolling interests | \$233.3 | \$226.3 | \$220.7 | \$137.9 | \$199.3 | \$180.3 |
| Interest expense | 33.6 | 31.1 | 19.6 | 23.3 | 32.6 | 26.7 |
| Estimated interest component of rental expense | 10.1 | 10.7 | 6.6 | 6.3 | 5.3 | 4.4 |
| Total earnings available for fixed charges | \$277.0 | \$268.1 | \$246.9 | \$167.5 | \$237.2 | \$211.4 |
| Fixed charges: | | | | | | |
| Interest expense | \$33.6 | \$31.1 | \$19.6 | \$23.3 | \$32.6 | \$26.7 |
| Estimated interest component of rental expense | 10.1 | 10.7 | 6.6 | 6.3 | 5.3 | 4.4 |
| Total fixed charges | \$43.7 | \$41.8 | \$26.2 | \$29.6 | \$37.9 | \$31.1 |
| Ratio of earnings to fixed charges | 6.3 | 6.4 | 9.4 | 5.7 | 6.3 | 6.8 |

Exhibit 31.1

Certifications

I, Mark J. Gliebe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Regal Beloit Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mark J. Gliebe
Mark J. Gliebe
Chief Executive Officer

Date: November 7, 2012

Exhibit 31.2

Certifications

I, Charles A. Hinrichs, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Regal Beloit Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles A. Hinrichs
Charles A. Hinrichs
Vice President
Chief Financial Officer

Date: November 7, 2012

Exhibit 32.1

CERTIFICATIONS of the
Chief Executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Regal Beloit Corporation (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the three months ended September 29, 2012 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark J. Gliebe
Mark J. Gliebe
Chief Executive Officer

/s/ Charles A. Hinrichs
Charles A. Hinrichs
Vice President
Chief Financial Officer

Date: November 7, 2012