REGAL BELOIT CORP
Form 10-Q
November 06, 2007

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

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

for the quarterly period ended
September 29, 2007
or

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

Commission file number
001-07283

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

Wisconsin	**39-0875718**
(State of other jurisdiction of incorporation)	(IRS Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO ¨

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

Large Accelerated Filer ý Accelerated Filer ¨ Non-accelerated filer ¨

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

32,098,630 Shares, Common Stock, $.01 Par Value (as of October 26, 2007)

REGAL BELOIT CORPORATION

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CAUTIONARY STATEMENT

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

- economic changes in global markets where we do business, such as currency exchange rates, inflation rates, interest rates, recession, foreign government policies and other external factors that we cannot control;
- unanticipated fluctuations in commodity prices and raw material costs;
- cyclical downturns affecting the global market for capital goods;
- unexpected issues and costs arising from the integration of acquired companies and businesses;
- marketplace acceptance of new and existing products including the loss of, or a decline in business from, any significant customers;
- the impact of capital market transactions that we may effect;
- the availability and effectiveness of our information technology systems;
- unanticipated costs associated with litigation matters;
- actions taken by our competitors;
- difficulties in staffing and managing foreign operations;

- other risks and uncertainties including but not limited to those described in **Item 1A-Risk Factors** of the Company's Annual Report on Form 10-K filed on February 28, 2007 and from time to time in our reports filed with U.S. Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements. The forward-looking statements included in this Form 10-Q are made only as of their respective dates, and we undertake no obligation to update these statements to reflect subsequent events or circumstances. See also **Item 1A - Risk Factors** in the Company's Annual Report on Form 10-K filed on February 28, 2007.

PART I - FINANCIAL INFORMATION
REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(In Thousands of Dollars, Except Per Share Data)

ITEM I. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	**September 29, 2007**	September 30, 2006
Net Sales	**$ 449,374**	$ 419,301	**$ 1,327,815**	$ 1,252,896
Cost of Sales	**342,660**	316,231	**1,019,998**	952,521
Gross Profit	**106,714**	103,070	**307,817**	300,375
Operating Expenses	**53,339**	50,021	**147,056**	145,842
Income From Operations	**53,375**	53,049	**160,761**	154,533
Interest Expense	**5,116**	5,038	**14,607**	15,287
Interest Income	**365**	170	**695**	430
Income Before Taxes & Minority Interest	**48,624**	48,181	**146,849**	139,676
Provision For Income Taxes	**16,638**	17,623	**50,301**	50,812
Income Before Minority Interest	**31,986**	30,558	**96,548**	88,864
Minority Interest in Income, Net of Tax	**747**	818	**2,243**	2,027
Net Income	**$ 31,239**	$ 29,740	**$ 94,305**	$ 86,837
Earnings per Share of Common Stock:				
Basic	**$ 1.00**	$ 0.96	**$ 3.02**	$ 2.82
Assuming Dilution	**$ 0.92**	$ 0.89	**$ 2.78**	$ 2.60

Cash Dividends Declared	**$ 0.15**	$ 0.14	**$ 0.44**	$ 0.41
Weighted Average Number of Shares Outstanding:				
Basic	**31,320,838**	30,888,136	**31,227,373**	30,802,048
Assuming Dilution	**34,104,123**	33,440,015	**33,943,057**	33,347,817

See accompanying notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars)

ASSETS	**(Unaudited) September 29, 2007**	(From Audited Statements) December 30, 2006
Current Assets:		
Cash and Cash Equivalents	**$ 55,564**	$ 36,520
Receivables, less Allowances for Doubtful Accounts of $6,795 in 2007 and $5,886 in 2006	**297,159**	218,036
Inventories	**285,839**	275,138
Prepaid Expenses and Other Current Assets	**31,645**	22,557
Future Income Tax Benefits	**26,452**	22,877
Total Current Assets	**696,659**	575,128
Property, Plant and Equipment:		
Land and Improvements	**21,838**	18,400
Buildings and Improvements	**123,627**	105,425
Machinery and Equipment	**420,596**	360,674
Property, Plant and Equipment, at Cost	**566,061**	484,499
Less - Accumulated Depreciation	**(239,424)**	(215,619)
Net Property, Plant and Equipment	**326,637**	268,880
Goodwill	**636,077**	546,152
Intangible Assets, net of Amortization	**102,989**	43,257
Other Noncurrent Assets	**14,458**	10,102
Total Assets	**$ 1,776,820**	$ 1,443,519
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities:		
Accounts Payable	**175,300**	108,050
Commerical Paper Borrowings	**-**	49,000
Dividends Payable	**4,699**	4,345
Accrued Compensation and Employee Benefits	**57,575**	51,192
Other Accrued Expenses	**60,570**	45,578
Income Taxes Payable	**4,278**	-
Current Maturities of Debt	**8,532**	376
Total Current Liabilities	**310,954**	258,541
Long-Term Debt	**497,262**	323,946
Deferred Income Taxes	**75,071**	65,937
Other Noncurrent Liabilities	**10,967**	12,302
Minority Interest in Consolidated Subsidiaries	**12,171**	9,634

Pension and Other Postretirement Benefits		**24,276**		23,184
Shareholders' Investment:				
Common Stock, $.01 par value, 100,000,000 shares authorized in 2007, 50,000,000 authorized in 2006; 32,096,130 issued in 2007 and 31,812,043 issued in 2006		**321**		318
Additional Paid-In Capital		**334,276**		329,142
Less - Treasury Stock, at cost, 774,100 shares in 2007 and 2006		**(15,228)**		(15,228)
Retained Earnings		**515,970**		435,971
Accumulated Other Comprehensive Income (Loss)		**10,780**		(228)
Total Shareholders' Investment		**846,119**		749,975
Total Liabilities and Shareholders' Investment	**$**	**1,776,820**	$	1,443,519

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	September 29, 2007	September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 94,305**	$ 86,837
Adjustments to reconcile net income to net cash provided		
by operating activities; net of effect of acquisitions		
Depreciation and amortization	**30,345**	25,835
Minority interest	**2,243**	2,027
Excess tax benefit from stock-based compensation	**(6,681)**	(1,960)
Gain on sale of assets, net	**(34)**	(1,881)
Stock-based compensation expense	**2,802**	2,665
Change in assets and liabilities, net	**45,337**	(60,713)
Net cash provided by operating activities	**168,317**	52,810
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	**(23,818)**	(37,689)
Purchases of short-term investments, net	**-**	(5,853)
Business acquisitions, net of cash acquired	**(253,241)**	(10,962)
Sale of property, plant and equipment	**160**	15,555
Net cash used in investing activities	**(276,899)**	(38,949)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from short-term borrowing	**8,200**	-
Long-term debt proceeds	**250,000**	-
Payments of long-term debt	**(333)**	(333)
Net repayments under revolving credit facility	**(76,200)**	(23,600)
Net (repayments) proceeds from commercial paper borrowings	**(49,000)**	22,737
Dividends paid to shareholders	**(13,394)**	(12,301)
Proceeds from the exercise of stock options	**1,684**	5,132
Excess tax benefits from stock-based compensation	**6,681**	1,960
Distributions to minority partners	**(106)**	-
Financing fees paid	**(1,397)**	-
Net cash provided by (used in) financing activities	**126,135**	(6,405)

EFFECT OF EXCHANGE RATES ON CASH		**1,491**		(17)
Net increase in cash and cash equivalents		**19,044**		7,439
Cash and cash equivalents at beginning of period		**36,520**		32,747
Cash and cash equivalents at end of period	**$**	**55,564**	$	40,186

See accompanying notes to Condensed Consolidated Financial Statements.

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REGAL BELOIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 29, 2007
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet as of December 30, 2006, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of September 29, 2007 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 Annual Report on Form 10-K filed on February 28, 2007.

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 nine months ended September 29, 2007 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 29, 2007.

2. SHORT-TERM INVESTMENTS

Short-term marketable investments include investments with maturities of greater than three months and less than one year. Such marketable investments were classified as available-for-sale and are reported at fair market value and classified within Prepaid Expenses and Other Current Assets. Mark-to-market gains on such investments are not material.

3. INVENTORIES

Cost for approximately 72% of the Company's inventory is determined using the last-in, first-out (LIFO) inventory valuation method. The approximate percentage distribution between major classes of inventories was as follows:

	September 29, 2007	December 30, 2006
Raw Material	**15%**	11%
Work-in Process	**20%**	21%
Finished Goods and Purchased Parts	**65%**	68%

4. ACQUISITIONS AND DIVESTITURES

On August 31, 2007, the Company completed the acquisition of certain assets comprising the commercial and industrial division of the Fasco Motor business ("Fasco") from Tecumseh Products, Inc. and certain of its affiliates. On August 31, 2007, the Company also separately acquired the stock of Jakel Incorporated ("Jakel"). Both of the acquired businesses manufacture and market motors and blower systems for a variety of air moving applications including alternative fuel systems, water heaters, heating ventilating and air conditioning (HVAC) systems and other commercial products.

The acquisitions of Fasco and Jakel extend our product offerings, strengthen our management team, and provide opportunities for synergies and cost savings. The combined purchase price of $250.8 million, net of cash acquired. The results of operations of Fasco and Jakel are included in our consolidated financial statements beginning on September 1, 2007 as part of the Electrical Segment.

The purchase price allocation is preliminary, pending primarily the finalization of working capital adjustments and further analysis of contingencies. The excess of the purchase price over the estimated fair values of the net assets acquired was assigned to goodwill. Adjustments to the estimated fair values may be recorded during the allocation period, not to exceed one year from the date of acquisition.

On May 8, 2006, the Company completed the sale of substantially all of the assets of the Company's Regal Cutting Tools business to YG-1 Co. Ltd. The Company recorded a net gain of $0.2 million which was included as a reduction of operating expenses.

On May 1, 2006, the Company completed the acquisition of selected assets and liabilities of Changzhou Sinya Electromotor Co. Ltd., Jiangsu Southern Sinya Electric Co. Ltd. and Changzhou Xiesheng Plastic Co. Ltd. (collectively "Sinya"). Sinya operations are located in Changzhou, China and primarily produce electric motors for the HVAC industry.

5. COMPREHENSIVE INCOME

The Company's comprehensive income for the third quarter and first nine months of 2007 and 2006 was as follows:

	(In Thousands of Dollars)			
	Third Quarter Ending		Nine Months Ending	
	September 29, 2007	September 30, 2006	**September 29, 2007**	September 30, 2006
Net income as reported	**$ 31,239**	$ 29,740	**$ 94,305**	$ 86,837
Comprehensive income (loss) from:				
Additional Pension Liability, net of tax	**-**	-	**-**	(13)
Translation adjustments	**3,510**	(452)	**10,322**	60
Changes in fair value of hedging activities, net of tax	**205**	2,357	**(3,285)**	6,985
Hedging activities reclassified into earnings from accumulated other comprehensive income ("AOCI"), net of tax	**(665)**	(1,366)	**3,436**	(5,290)
Amortization of net prior service costs and actuarial losses	**179**	-	**535**	-
Comprehensive income	**$ 34,468**	$ 30,279	**$ 105,313**	$ 88,579

6. WARRANTY COSTS

The Company recognizes the cost associated with its standard warranty on its products at the time of sale. The amount recognized is based on historical experience. The following is a reconciliation of the changes in accrued warranty costs for the third quarter and first nine months of 2007 and 2006 (in thousands):

	Third Quarter Ending		Nine Months Ending	
	September 29, 2007	September 30, 2006	**September 29, 2007**	September 30, 2006
Beginning balance	**$ 6,028**	$ 5,509	**$ 6,300**	$ 5,679
Deduct: Payments	**(2,318)**	(1,677)	**(5,772)**	(4,797)
Add: Provision	**2,390**	2,257	**5,572**	5,207

Add: Acquisitions		**2,144**		-		**2,144**		-
Ending balance	**$**	**8,244**	$	6,089	**$**	**8,244**	$	6,089

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7. BUSINESS SEGMENTS

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

(Unaudited)

	Mechanical Segment				Electrical Segment			
	Third Quarter Ending		Nine Months Ending		Third Quarter Ending		Nine Months Ending	
	September 29, 2007	September 30, 2006	**September 29, 2007**	September 30, 2006	**September 29, 2007**	September 30, 2006	**September 29, 2007**	September 30, 2006
Net Sales	**$ 50,620**	$ 48,931	**$ 156,602**	$ 154,934	**$ 398,754**	$ 370,370	**$ 1,171,213**	$ 1,097,962
Income from Operations	**7,205**	5,458	**22,485**	16,299	**46,170**	47,591	**138,276**	138,234
% of Net Sales	**14.2%**	11.2%	**14.4%**	10.5%	**11.6%**	12.8%	**11.8%**	12.6%
Goodwill at end of period	**$ 530**	$ 530	**$ 530**	$ 530	**$ 635,547**	$ 546,842	**$ 635,547**	$ 546,842

8. GOODWILL AND OTHER INTANGIBLES

On August 31, 2007, the Company completed the acquisition of certain assets comprising the commercial and industrial division of the Fasco Motor business ("Fasco") from Tecumseh Products, Inc. On August 31, 2007, the Company also separately acquired the stock of Jakel Incorporated ("Jakel") (see Note 4).

The purchase price allocation is preliminary, pending primarily the finalization of working capital and further analysis of contingencies. The excess of purchase price over estimated fair value was assigned to goodwill. Adjustments to the estimated fair value of the net assets acquired may be recorded during the allocation period, not to exceed one year from the date of acquisition. A preliminary allocation of $89.8 million was included in goodwill at September 29, 2007. Changes in the carrying amount of goodwill for the nine moths ending September 29, 2007 were as follows (in thousands):

	Electrical Segment	Mechanical Segment	Total
Balance as of December 30, 2006	$ 545,622	$ 530	$ 546,152
Acquisitions	89,791	-	89,791
Translation	134	-	134
Balance as of September 29, 2007	$ 635,547	$ 530	$ 636,077

At September 29, 2007, a preliminary allocation of $65.0 million was made for other amortizable intangible assets related to the Fasco and Jakel acquisitions. Amortization expense of $0.5 million was recorded from the date of acquisition, August 31, 2007, through September 29, 2007. Other intangible assets consisted of the following (in thousands):

		September 29, 2007		
Asset Description	Useful Life (years)	Gross Value	Accumulated Amortization	Net Book Value
Non-Compete Agreements	3 -5	$ 5,517	$ 2,240	$ 3,277
Trademarks	3 - 5	6,734	4,164	2,570
Patents	9 - 10.5	15,410	4,263	11,147
Engineering Drawings	10	1,200	337	863
Customer Relationships	10	28,600	7,968	20,632
Subtotal		57,461	18,972	38,489
Acquisitions		65,000	500	64,500
Total		$ 122,461	$ 19,472	$ 102,989

		December 30, 2006		
Asset Description	Useful Life (years)	Gross Value	Accumulated Amortization	Net Book Value
Non-Compete Agreements	3 -5	$ 5,470	$ 1,425	$ 4,045
Trademarks	3 - 5	6,490	3,311	3,179
Patents	9 - 10.5	15,410	3,107	12,303
Engineering Drawings	10	1,200	247	953
Customer Relationships	10	28,600	5,823	22,777
Total		$ 57,170	$ 13,913	$ 43,257

Estimated Amortization (in thousands)

2007	2008	2009	2010	2011
$ 9.1	$ 12.3	$ 11.9	$ 11.5	$ 10.7

Amortization expense recorded for the three and nine months ended September 29, 2007 was $2.2 million and $5.7 million, respectively. The Company performs an annual evaluation of goodwill and other intangible assets in the fourth quarter of each fiscal year for impairment as required by SFAS 142, "Goodwill and Other Intangible Assets".

9. DEBT AND BANK CREDIT FACILITIES

The Company's indebtedness, excluding commercial paper borrowings, as of September 29, 2007 and December 30, 2006 was as follows (in thousands):

September 29, 2007	December 30, 2006

Senior notes	**$**	**250,000**	$	-
Revolving credit facility		**121,000**		197,200
Convertible senior subordinated debt		**115,000**		115,000
Other		**19,794**		12,122
		505,794		324,322
Less: Current maturities		**(8,532)**		(376)
Non-current portion	**$**	**497,262**	$	323,946

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

On April 30, 2007, the Company amended its revolving credit facility ("Facility"). The committed amount of the Facility increased from $475.0 million to $500.0 million. The conditional commitment, subject to certain approvals and covenants, increased from $75.0 million to $200.0 million. The Facility permits the Company to borrow at interest rates (5.5% at September 29, 2007) based upon a margin above LIBOR, which margin varies with the ratio of total funded debt to EBITDA . These interest rates also vary as LIBOR varies. We pay a commitment fee on the unused amount of the Facility, which also varies with the ratio of our total debt to our EBITDA as defined in the Facility.

The Notes and the Facility require us to meet specified financial ratios and to satisfy certain financial condition tests. We were in compliance with all debt covenants as of September 29, 2007.

There were no commercial paper borrowings outstanding at September 29, 2007. There was $49.0 million of commercial paper borrowings outstanding at December 30, 2006, all of which had original maturity terms of 90 days or less, with a weighted interest rate of 5.5%. Total commercial paper outstanding cannot exceed $50.0 million under the terms of the Facility. The Facility provides the liquidity backstop for outstanding commercial paper. Accordingly, the combined outstanding balances of the Facility and commercial paper cannot exceed $500.0 million.

The Company's $115.0 million, 2.75% convertible senior subordinated debt is convertible as the closing price of the Company's common stock exceeded the contingent conversion share price for the specified amount of time. As a result, holders of the notes may surrender the notes for conversion at any time until the maturing of the bonds in March 2024. Holders that exercise their right to convert the notes will receive up to the principal amount of the notes in cash, with the balance of the conversion obligation, if any, to be satisfied in shares of Company common stock or cash, at the Company's discretion. No notes have been converted into cash or shares of common stock as of September 29, 2007.

As of September 29, 2007, a foreign subsidiary of the Company had outstanding $8.2 million denominated in U.S. dollars. The borrowings were made under a $15.0 million unsecured credit facility which expires in December 2008. The notes are all short term and bear interest at a margin over LIBOR.

10. PENSION PLANS

As of December 30, 2006, the Company adopted SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans.* The Company's net periodic pension cost is comprised of the following components:

	(In Thousands)			
	Third Quarter Ending		Nine Months Ending	
	September 29, 2007	September 30, 2006	**September 29, 2007**	September 30, 2006
Service cost	**$ 1,211**	$ 940	**$ 3,633**	$ 2,820
Interest cost	**1,266**	1,094	**3,800**	3,282
Expected return on plan assets	**(1,283)**	(1,227)	**(3,848)**	(3,677)
Amortization of prior service cost	**32**	123	**95**	369
Amortization of net actuarial loss	**239**	1,578	**716**	4,748
Net periodic benefit expense	**$ 1,465**	$ 2,508	**$ 4,396**	$ 7,542

The estimated net actuarial loss and prior service cost for defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during the 2007 fiscal year is $1.0 million and $0.1 million, respectively.

In the third quarter of 2007, the Company contributed $2.6 million to defined benefit pension plans. Contributions to defined benefit pension plans for the nine months ended September 29, 2007 and September 30, 2006 were $2.8 million and $2.6 million, respectively. The Company expects to contribute an additional $0.2 million, for total contributions of $3.0 million in 2007. The Company contributed a total of $3.0 million in 2006. 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 Annual Report on Form 10-K filed on February 28, 2007.

11. SHAREHOLDERS' INVESTMENT

The Company recognized approximately $0.9 million and $0.8 million in share-based compensation expense during the third quarter of 2007 and 2006, respectively. Share-based compensation expense for the nine months ended September 29, 2007 and September 30, 2006 was $2.8 million and $2.7 million, respectively. The total income tax benefit recognized relating to share-based compensation for the nine months ended September 29, 2007 and September 30, 2006 was approximately $6.7 and $2.0 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 recipient. As of September 29, 2007, total unrecognized compensation cost related to share-based compensation awards was approximately $10.2 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 2.8 years.

On April 20, 2007, shareholders approved the 2007 Regal Beloit Corporation 2007 Equity Incentive Plan ("2007 Plan"), which authorized an additional 2.5 million shares for issuance under the 2007 Plan. Under the 2007 Plan and the Company's 2003 and 1998 stock plans, the Company was authorized as of September 29, 2007 to deliver up to 5.0 million shares of common stock upon exercise of non-qualified stock options or incentive stock options, or upon grant or in payment of stock appreciation rights, and restricted stock. Approximately 2.8 million shares were available for future grant or payment under the various plans at September 29, 2007.

On April 20, 2007, the Company's shareholders approved an amendment to the Company's Articles of Incorporation that increased the number of shares of common stock that the Company is authorized to issue from 50 million shares to 100 million shares. Each authorized share is accompanied by one Common Stock Purchase Right as described in our Annual Report on Form 10-K filed on February 28, 2007.

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 (SAR's). 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 option and SAR incentive awards are made in the fiscal second quarter. The per share weighted average fair value of share-based incentive awards granted in the May, 2007 annual grant was $16.68. The fair value of the awards is estimated on the date of the grant using the Black-Scholes pricing model and the following assumptions: risk-free interest rate of 4.7%, expected dividend yield of 1.2%, expected volatility of 32.0% and an estimated life of 7 years.

A summary of share-based awards (options and SAR's) as of September 29, 2007 is as follows:

	Shares	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)

Number of shares:						
Outstanding	1,480,825	$	31.17	6.1	$	26.5
Exercisable	724,408	$	23.59	4.7	$	18.5

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Restricted Stock

The Company also granted a total of 31,500 restricted stock awards to certain employees during the nine-months ended September 29, 2007. Restrictions generally lapse three years after the date of grant. The Company values restricted stock awards at the closing market value of its common stock on the date of grant.

12. INCOME TAXES

The Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) as of the beginning of fiscal 2007, December 31, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes by defining criteria that a tax position on an individual matter basis must meet before that position is recognized in the financial statements. Additionally, FIN 48 provides guidance on measurement, derecognition, classification, interest and penalties, interim period accounting, disclosures and transition. As a result of adopting FIN 48, the Company determined that approximately $0.6 million (including approximately $0.4 million in estimated interest payments) of tax benefits previously recognized were considered uncertain tax positions; as such these deductions may not be sustained upon examination by taxing authorities. This adjustment was reflected as a reduction of retained earnings. In addition, consistent with the provisions of FIN 48, the Company reclassified $6.9 million of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date. As a result of the adoption of FIN 48, certain tax liabilities as of December 30, 2006 were reclassified in the condensed consolidated balance sheet. Income tax liabilities of $6.3 million were reclassified from current liabilities to non-current liabilities. In addition, $5.9 million of prepaid taxes were reclassified from current liabilities to current assets in the December 30, 2006 comparative condensed consolidated balance sheet.

As of the adoption date at the beginning of the fiscal year, the Company had approximately $6.9 million of unrecognized tax benefits, $3.3 million of which would affect its effective tax rate if recognized. As of September 29, 2007, the Company had approximately $7.6 million of unrecognized tax benefits, $4.0 million of which would affect its effective tax rate if recognized. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Federal tax returns from 2003 through 2006 and various state tax returns from 2001 through 2006 remain subject to income tax examinations by tax authorities. The Company estimates that the unrecognized tax benefits will not change significantly within the next year.

13. EARNINGS PER SHARE (EPS)

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

	Third Quarter Ending		Nine Months Ending	
	September 29, 2007	September 30, 2007	**September 29, 2007**	September 30, 2007
Denominator for basic EPS - weighted average shares	**31,321**	30,888	**31,227**	30,802
Effect of dilutive securities	**2,783**	2,552	**2,716**	2,546
Denominator for diluted EPS	**34,104**	33,440	**33,943**	33,348

Options for common shares where the exercise price was above the market price at September 29, 2007, totaling approximately 140,000 shares, have been excluded from the calculation of the effect of dilutive securities as the effect of such options is anti-dilutive. There were 14,500 anti-dilutive option shares outstanding at September 30, 2006.

14. CONTINGENCIES

An action (the "Action") was filed on June 4, 2004, and amended in September 2004, against one of the Company's subsidiaries, Marathon Electric Manufacturing Corporation ("Marathon"), by Enron Wind Energy Systems, LLC, Enron Wind Contractors, LLC and Zond Minnesota Construction Company, LLC (collectively, "Enron Wind"). The Action was filed in the United States Bankruptcy Court for the Southern District of New York (the "Court") where each of the Enron Wind entities has consolidated its Chapter 11 bankruptcy petition as part of the Enron Corporation bankruptcy proceedings. In the Action, Enron Wind has asserted various claims relating to the alleged failures and/or degradations of performance of about 564 generators sold by Marathon to Enron Wind from 1997 to 1999.

In the Action, Enron Wind was seeking to recover the purchase price of the generators and transportation costs totaling about $21 million and consequential, incidental and punitive damages incurred by it and by its customers totaling an additional $100 million.

On July 30, 2007, Marathon entered into a settlement agreement with Enron Wind to resolve all matters alleged by Enron Wind in the Action, subject to approval by the Court. On September 21, 2007, the Court approved the settlement agreement. Under the terms of the settlement agreement, Enron Wind has fully released and discharged Marathon from all claims relating to the Action and, in exchange, Enron Wind received a monetary payment. After contributions from other involved parties, the after-tax impact of Marathon's portion of the payment under the settlement agreement is approximately $1.15 million.

On April 26, 2007, the Company received notice that the U.S. Environmental Protection Agency ("U.S. EPA") has filed an action against the Company in the United States District Court for the Northern District of Illinois seeking reimbursement of the U.S. EPA's unreimbursed past and future remediation costs incurred in cleaning up an environmental site located near a former manufacturing facility of the Company in Illinois. In 1999, the Company and other parties identified as potentially responsible parties ("PRPs") reached an agreement with the U.S. EPA to partially fund the costs of certain response actions taken with respect to this site. In 2004, the Company received communications from the U.S. EPA indicating that the Company was identified as one of three PRPs regarding additional remedial actions to be taken by the U.S. EPA at this site. In response, the Company provided to the U.S. EPA its environmental expert's assessment of the site in 2004. The Company believes that it is not a PRP with respect to the site in question and intends to defend vigorously the associated claim. As of September 29, 2007 amounts that have been recorded in the Company's financial statements related to this contingency are immaterial.

The Company is, from time to time, party to other lawsuits arising from its normal business operations. It is believed that the outcome of these lawsuits will have no material effect on the Company's financial position or its results of operations.

15. DERIVATIVE INSTRUMENTS

The Company periodically enters into commodity futures and options hedging transactions to reduce the impact of changing prices for certain commodities, such as copper and aluminum, based upon certain firm commitments to purchase such commodities. These transactions are designated as cash flow hedges and the contract terms of commodity hedge instruments generally mirror those of the hedged item, providing a high degree of risk reduction and correlation. Derivative commodity assets of $7.4 million and $1.7 million are recorded in current assets as of September 29, 2007 and December 30, 2006, respectively. The unrealized gain on the effective portion of the contracts of $4.5 million net of tax and $1.0 million net of tax, as of September 29, 2007 and December 30, 2006, was recorded in accumulated other comprehensive income ("AOCI").

The Company uses a cash flow hedging strategy to protect against an increase in the cost of forecasted foreign currency denominated transactions. As of September 29, 2007, derivative currency assets of $2.7 million and $0.6 million are recorded in other current assets and other non-current assets, respectively. At December 30, 2006, derivative currency assets of $2.2 million and $1.0 million were recorded in other current assets and other non-current assets, respectively. The unrealized gain on the effective portion of the contracts of $2.0 million net of tax as of September 29, 2007 and December 30, 2006, was recorded in AOCI.

The Company has LIBOR-based floating rate borrowings, which expose the Company to variability in interest payments due to changes in interest rates. During the third quarter of 2007, the Company 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. As of September 29, 2007, an interest rate swap liability of $5.8 million was included in other non-current liabilities. The unrealized loss on the effective portion of the contracts of $3.7 million net of tax as of September 29, 2007 was recorded in AOCI.

The net AOCI balance of $2.8 million at September 29, 2007 is comprised of $6.0 million of current deferred gains expected to be realized in the next year, and $3.2 of non-current deferred losses. The impact of hedge ineffectiveness was immaterial for all periods included in this report.

16. SUBSEQUENT EVENTS

On October 12, 2007 the Company acquired Morrill Motors. The acquired business is a leading designer and manufacturer of fractional horsepower motors and components for the commercial refrigeration and freezer markets. Included in the motor offering are technology based-variable speed products. The business will be reported as part of the Company's Electrical Segment. The purchase price was paid in cash, subject to final working capital and other customary post close adjustments.

On November 2, 2007 the Company announced the acquisition of Alstom's motors and fans business in India. The business is located in Kolkata, India and manufactures and markets a full range of low and medium voltage industrial motors and fans for the industrial and process markets in India. Alstom is noted for high quality process duty motors with a full range from 1 to 3500 hp. The business will be reported as part of the Company's Electrical Segment. The purchase price was paid in cash.

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

Excluding HVAC, the end markets for the Company’s products continued to show strength during the third quarter of 2007. Net sales increased 7.2% to $449.4 million from $419.3 million in the third quarter of 2006. Third quarter 2007 sales included $28.3 million of sales related to the acquired Fasco and Jakel businesses.

Net income increased 5.0% to $31.2 million in the third quarter of 2007 as compared to $29.7 million in the comparable period last year. Diluted earnings per share increased 3.4% to $0.92 in the third quarter of 2007 as compared to $0.89 for the comparable period of 2006.

RESULTS OF OPERATIONS

Third Quarter 2007 versus Third Quarter 2006

Sales for the quarter were $449.4 million, a 7.2% increase over the $419.3 million reported for the third quarter of 2006. Third quarter 2007 sales included $28.3 million of sales related to the acquired Fasco and Jakel businesses.

In the Electrical Segment, sales increased 7.7%. The soft housing market and a comparison to a strong 2006 that was favorably impacted by the SEER 13 legislation impacted sales in the HVAC business, which decreased 16.8%. The sales for the remainder of the motor businesses increased 8.9%. Sales for the power generation businesses increased 33.6%. Sales in the Mechanical Segment for the quarter ended September 29, 2007 were 3.5% above the equivalent period of 2006.

Gross margin for the quarter was 23.7%, compared to 24.6% in the third quarter of 2006. Material costs, including copper and aluminum, continued to increase and had a significant impact on our gross margins during the quarter. These costs were partially offset by new products, productivity, pricing actions and positive product mix resulting in a net 0.9% decrease in gross margin.

Operating expenses were $53.3 million (11.9% of sales) in the third quarter of 2007 versus $50.0 million (11.9% of sales) in third quarter of 2006. Third quarter 2007 operating expenses included a $1.8 million expense to settle the Company’s litigation with Enron Wind. Income from operations was $53.4 million versus $53.0 million in the third quarter of 2006. As a percent of sales, income from operations was 11.9% in the third quarter of 2007 versus 12.7% for the third quarter of 2006. This decrease reflected increased raw material costs partially offset by contributions from new products, pricing actions, productivity, and the leveraging of fixed costs.

Net interest expense was $4.8 million versus $4.9 million in the third quarter of 2006. The decrease reflected lower levels of average debt outstanding, which was partially offset by higher interest rates.

The tax rate for the quarter was 34.2% versus 36.6% in the prior year period. The tax rate was impacted by the distribution of income, which was weighted more to lower tax rate countries than during the comparable period of 2006.

Net income for the third quarter of 2007 was $31.2 million, an increase of 5.0% versus the $29.7 million reported in same period of 2006. Fully diluted earnings per share was $0.92 as compared to $0.89 per share reported in the third quarter of 2006. The average number of diluted shares was 34,104,123 during the third quarter of 2007 as compared to 33,440,015 during the comparable period last year.

Nine Months Ended September 29, 2007 versus Nine Months Ended September 30, 2006

Sales for the nine months ended September 29, 2007 were $1,327.8 million, which is a 6.0% increase over the $1,252.9 million reported for the comparable period of 2006. The Fasco and Jakel businesses that were acquired on August 31, 2007 added $28.3 million to sales for the nine months ended September 29, 2007 versus the prior year comparable period. The sale of substantially all of the assets of the Company's cutting tool business (completed May 2006) reduced 2007 sales by approximately $7.1 million. The Sinya motor business reported sales of $60.3 million for the nine months ending September 29, 2007, as compared to $21.9 million from the acquisition date of May 1, 2006 through September 30, 2006.

Excluding our HVAC business, we saw strong demand for our products throughout the first nine months of 2007, driven by strong end market activity. Electrical Segment sales increased 6.7% as compared to the first nine months of 2006. Sales for this segment showed strength in all product lines except HVAC, which has been affected by a soft housing market in 2007 and comparisons with a strong 2006 that was favorably impacted by the SEER 13 legislation. The Fasco and Jakel businesses that were acquired on August 31, 2007 added $28.3 million to Electrical Segment sales for the nine months ended September 29, 2007 versus the prior year comparable period. Mechanical Segment sales for the first nine months of 2007 were comparable to sales for the first nine months of the prior year; however sales for the nine months ended September 30, 2006 included $7.1 million of sales related to the Company's cutting tools business. Substantially all of the assets of the Company's cutting tools business were sold in May, 2006.

Gross margin for the nine months ended September 29, 2007 was 23.2%, which is 0.8% points lower than the comparable period of 2006. Material costs had a significant impact on the first nine months of 2007, partially offset by the contribution from new products, productivity efforts, pricing actions and positive product mix across our entire business. The raw material cost increases resulted primarily from increases in the costs of copper and aluminum.

Operating expenses were $147.1 million (11.1% of sales) versus $145.8 million (11.6% of sales) in the comparable period of 2006. Third quarter 2007 operating expenses included a $1.8 million expense to settle the Company's litigation with Enron Wind. Included in operating expenses in the first nine months of 2006 was a $1.6 million gain resulting from the sale of real property in the Mechanical Segment. Operating expenses for the first nine months of 2006 also included $2.0 million of incremental expense related to the Regal Beloit Supplemental Executive Retirement Plan resulting from a change in assumptions associated with retirement benefits for certain key executives. Income from operations was $160.8 million versus $154.5 million in the comparable period of 2006, an increase of 4.1%. As a percent of sales, income from operations was 12.1% for the nine months ended September 29, 2007 versus 12.3% in the prior year.

Net interest expense was $13.9 million versus $14.9 million in the comparable period of 2006. This decrease was driven by an average lower level of debt outstanding, partially offset by an increase in interest rates.

LIQUIDITY AND CAPITAL RESOURCES

Our working capital was $385.7 million at September 29, 2007, a 21.8% increase from $316.6 million at year-end 2006. The $69.1 million increase was driven by a $47.7 million working capital increase from the Fasco and Jakel acquisitions. The ratio of our current assets to our current liabilities ("current ratio") was 2.2:1 at September 29, 2007 and December 30, 2006.

Net cash provided by operating activities was $168.3 million for the nine months ended September 29, 2007 as compared to $52.8 million in the comparable period of 2006. Net cash used in investing activities was $276.9 million in the first nine months of 2007 as compared to the $38.9 million used in the prior year. The increase was driven by the acquisitions of Fasco and Jakel in the third quarter of 2007. Additions to property, plant and equipment were $23.8 million in the first nine months of 2007, which was $13.9 million less than the comparable period of 2006. Our

cash provided by financing activities was $126.1 million during the first nine months of 2007 versus $6.4 million used in the comparable period of 2006. The increase in cash provided by financing activities is driven by a $250.0 million increase in by long-term debt during the nine months ended September 29, 2007 as compared to the first nine months of 2006. Offsetting this increase was an additional $124.3 million of commercial paper and revolving credit facility that were repaid during the nine months ended September 29, 2007 as compared to the comparable period of 2006.

Our outstanding long-term debt increased from $323.9 million at December 30, 2006 to $497.3 million at September 29, 2007. Of our total long-term debt, $121.0 million was outstanding under our $500.0 million unsecured revolving credit facility that expires on April 30, 2012 (the "Facility"). The Facility permits the Company to borrow at interest rates based upon a margin above the London Inter-Bank Offered Rate ("LIBOR"), which margin varies with the ratio of total funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") as defined in the Facility. These interest rates also vary as LIBOR varies. We pay a commitment fee on the unused amount of the Facility, which also varies with the ratio of our total debt to our EBITDA.

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

The Notes and the Facility require us to meet specified financial ratios and to satisfy certain financial condition tests. We were in compliance with all debt covenants as of September 29, 2007.

In addition to the Facility and the Notes, at September 29, 2007, we also had $115.0 million of convertible senior subordinated debt outstanding at a fixed interest rate of 2.75%, and $19.8 million of other debt. At September 29, 2007, our borrowing availability under the Facility was $373.3 million based on the Facility's credit limit.

As of September 29, 2007, a foreign subsidiary of the Company had outstanding $8.2 million denominated in U.S. dollars. The borrowings were made under a $15.0 million unsecured credit facility which expires in December 2008. The notes are all short term and bear interest at a margin over LIBOR.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

We recognized revenue when all of the following have occurred: an agreement of sale exists; pricing is determinable; collection is reasonably assured; and product has been delivered and acceptance has occurred according to contract terms.

We use contracts and customer purchase orders to determine the existence of an agreement of sale. We use shipping documents and customer acceptance, when applicable, to verify delivery. We assess whether the sale price is subject to refund or adjustment, and we assess collectibility based on the creditworthiness of the customer as well as the customer's payment history.

Returns, Rebates and Incentives

Our primary incentive program provides distributors with cash rebates or account credits based on agreed amounts that vary depending on the end user or original equipment manufacturing (OEM) customer to whom our distributor ultimately sells the product. We also offer various other incentive programs that provide distributors and direct sale customers with cash rebates, account credits or additional products and services based on meeting specified program criteria. Certain distributors are offered a right to return product, subject to contractual limitations.

We record accruals for customer returns, rebates and incentives at the time of revenue recognition based primarily on historical experience. Adjustments to the accrual may be required if actual returns, rebates and incentives differ from historical experience or if there are changes to other assumptions used to estimate the accrual.

Impairment of Long-Lived Assets or Goodwill and Other Intangibles
We evaluate the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable through future cash flows. We evaluate the recoverability of goodwill and other intangible assets with indefinite useful lives annually or more frequently if events or circumstances indicate that an asset might be impaired. We use judgment when applying the impairment rules to determine when an impairment is necessary. Factors that could trigger an impairment review include significant underperformance relative to historical or forecasted operating results, a significant decrease in the market value of an asset or significant negative industry or economic trends. We perform our annual impairment test in accordance with SFAS 142, *"Goodwill and Other Intangible Assets."*

Retirement Plans
Approximately half of our domestic employees are covered by defined benefit pension plans with the remaining employees covered by defined contribution plans. Most of our foreign employees are covered by government sponsored plans in the countries in which they are employed. Our obligations under our domestic defined benefit plans are determined with the assistance of actuarial firms. The actuaries provide us with information and recommendations regarding such factors as withdrawal rates and mortality rates. The actuaries also provide us with information and recommendations from which management makes further assumptions on such factors as the long-term expected rate of return on plan assets, the discount rate on benefit obligations, and where applicable, the rate of annual compensation increases. Based upon the assumptions made, the investments made by the plans, overall conditions and movement in financial markets, particularly the stock market and how actual withdrawal rates, life-spans of benefit recipients, and other factors differ from assumptions, annual expenses and recorded assets or liabilities of these defined benefit plans may change significantly from year to year. Based on our annual review of actuarial assumptions as well as historical rates of return on plan assets and existing long-term bond rates, we set the long-term rate of return on plan assets at 8.5% and an average discount rate at 5.9% for our defined benefit plans as of December 30, 2006.

Income Taxes
We operate in numerous taxing jurisdictions and are subject to regular examinations by various U.S. Federal, state, and foreign jurisdictions for various tax periods. Our income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which we do business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, our estimates of income tax liabilities may differ from actual payments or assessments.

Use of Estimates and Assumptions
The preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

New Accounting Pronouncements
In February 2007, Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items generally on an instrument-by-instrument basis at fair value that are not currently required to be measured at fair value. SFAS 159 is intended to provide entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for the Company on January 1, 2008, although early adoption is

permitted. If the Company elects to adopt SFAS 159 early, it would need to concurrently early adopt the provisions of Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* ("SFAS 157"), which is described below. The Corporation is evaluating the provisions of SFAS 159.

In September 2006, the FASB issued SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158"). SFAS 158 requires that companies prospectively recognize through Accumulated Other Comprehensive Income the over funded or under funded status of their defined benefit plans as an asset or liability in their balance sheets. The Company adopted SFAS 158 as of December 30, 2006.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 will be effective beginning in fiscal 2008. We are evaluating the new standard to determine the effect on our financial statements and related disclosures.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 in the first quarter of 2007. See Note 12 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company is exposed to interest rate risk on certain of its short-term and long-term debt obligations used to finance our operations and acquisitions. At September 29, 2007, we had $123.8 million of fixed rate debt and $382.0 million of variable rate debt, the latter subject to interest rate risk. As a result, interest rate changes impact future earnings and cash flow assuming other factors are constant. The Company utilizes interest rate swaps to manage fluctuations in cash flows resulting from exposure to interest rate risk on forecasted variable rate interest payments. Details regarding the instruments, as of September 29, 2007, are as follows:

Instrument	Notional Amount	Maturity	Rate Paid	Rate Received	Fair Value Gain (Loss)
Swap	$150.0 million	August 23, 2014	5.3%	LIBOR (3 month)	$ (3 . 2) million
Swap	$100.0 million	August 23, 2017	5.4%	LIBOR (3 month)	$ (2 . 6) million

A hypothetical 10% change in our weighted average borrowing rate on outstanding variable rate debt at September 29, 2007, would result in a change in after-tax annualized earnings of approximately $0.4 million.

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

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

derivative financial instruments for speculative purposes. We do not hedge our exposure to the translation of reported results of foreign subsidiaries from local currency to United States dollars.

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

Derivative commodity assets of $7.4 million and $1.7 million are recorded in current assets as of September 29, 2007, and December 30, 2006, respectively. The unrealized gain on the effective portion of the contracts of $4.5 million net of tax and $1.0 million net of tax, as of September 29, 2007 and December 30, 2006, was recorded in accumulated other comprehensive income.

The Company uses a cash flow hedging strategy to protect against an increase in the cost of forecasted foreign currency denominated transactions. As of September 29, 2007, derivative currency assets of $2.7 million and $0.6 million are recorded in other current assets and other non-current assets, respectively. At December 30, 2006, derivative currency assets of $2.2 million and $1.0 million were recorded in other current assets and other non-current assets, respectively. The unrealized gain on the effective portion of the contracts of $2.0 million net of tax as of September 29, 2007, and December 30, 2006 was recorded in AOCI.

In the third quarter of 2007, the Company entered into pay fixed/receive LIBOR-based floating interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk. As of September 29, 2007, a interest rate swap liability of $5.8 million was included in other non-current liabilities. The unrealized loss on the effective portion of the contracts of $3.7 million net of tax as of September 29, 2007 was recorded in AOCI.

The net AOCI balance of $2.8 million at September 29, 2007 is comprised of $6.0 million of current deferred gains expected to be realized in the next year, and $3.2 of non-current deferred losses. The impact of hedge ineffectiveness was immaterial for all periods included in this report.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

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

PART II - OTHER INFORMATION

Items 3 and 5 are inapplicable and have been omitted.

ITEM 1. LEGAL PROCEEDINGS

An action (the "Action") was filed on June 4, 2004, and amended in September 2004, against one of the Company's subsidiaries, Marathon Electric Manufacturing Corporation ("Marathon"), by Enron Wind Energy Systems, LLC, Enron Wind Contractors, LLC and Zond Minnesota Construction Company, LLC (collectively, "Enron Wind"). The Action was filed in the United States Bankruptcy Court for the Southern District of New York (the "Court") where each of the Enron Wind entities has consolidated its Chapter 11 bankruptcy petition as part of the Enron Corporation bankruptcy proceedings. In the Action, Enron Wind has asserted various claims relating to the alleged failures and/or degradations of performance of about 564 generators sold by Marathon to Enron Wind from 1997 to 1999.

In the Action, Enron Wind was seeking to recover the purchase price of the generators and transportation costs totaling about $21 million and consequential, incidental and punitive damages incurred by it and by its customers totaling an additional $100 million.

On July 30, 2007, Marathon entered into a settlement agreement with Enron Wind to resolve all matters alleged by Enron Wind in the Action, subject to approval by the Court. On September 21, 2007, the Court approved the settlement agreement. Under the terms of the settlement agreement, Enron Wind has fully released and discharged Marathon from all claims relating to the Action and, in exchange, Enron Wind received a monetary payment. After contributions from other involved parties, the after-tax impact of Marathon's portion of the payment under the settlement agreement is approximately $1.15 million.

On April 26, 2007, the Company received notice that the U.S. Environmental Protection Agency ("U.S. EPA") has filed an action against the Company in the United States District Court for the Northern District of Illinois seeking reimbursement of the U.S. EPA's unreimbursed past and future remediation costs incurred in cleaning up an environmental site located near a former manufacturing facility of the Company in Illinois. In 1999, the Company and other parties identified as potentially responsible parties ("PRPs") reached an agreement with the U.S. EPA to partially fund the costs of certain response actions taken with respect to this site. In 2004, the Company received communications from the U.S. EPA indicating that the Company was identified as one of three PRPs regarding additional remedial actions to be taken by the U.S. EPA at this site. In response, the Company provided to the U.S. EPA its environmental expert's assessment of the site in 2004. The Company believes that it is not a PRP with respect to the site in question and intends to defend vigorously the associated claim. As of September 29, 2007 amounts that have been recorded in the Company's financial statements related to this contingency are immaterial.

The Company is, from time to time, party to other lawsuits arising from its normal business operations. It is believed that the outcome of these other lawsuits will have no material effect on the Company's financial position or its results of operations.

ITEM 1A. RISK FACTORS

The business and financial results of the Company are subject to numerous risks and uncertainties. The risks and uncertainties have not changed materially from those reported in the 2006 Annual Report on Form 10-K.

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

The following table contains detail related to the repurchase of common stock based on the date of trade during the quarter ended September 29, 2007.

2007 Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Be Purchased Under the Plan or Programs
July 1, 2007 to August 4, 2007	-	$ -	-	1,225,900
August 5, 2007 to September 1, 2007	-	$ -	-	1,225,900
September 2, 2007 to September 29, 2007	-	$ -	-	1,225,900
Total	-		-	

Under the Company's equity incentive plans, participants may pay the exercise price or satisfy all or a portion of the federal, state and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold shares of common stock otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned shares of common stock, in each case having a value equal to the exercise price or the amount to be withheld. During the third quarter of 2007, there were no shares acquired.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
4.1	Note Purchase Agreement, dated as of August 23, 2007, by and among Regal Beloit Corporation and Purchasers listed in Schedule A attached thereto. [Incorporated by reference to Exhibit 4.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 24, 2007]
4.2	Subsidiary Guaranty Agreement, dated as of August 23, 2007, from certain subsidiaries of Regal Beloit Corporation. [Incorporated by reference to Exhibit 4.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 24, 2007]
4.3	First Amendment, dated as of August 23, 2007, to the Second Amended and Restated Credit Agreement, dated as of April 30, 2007, by and among Regal Beloit Corporation, various financial institutions and Bank of America, N.A., as Administrative Agent. [Incorporated by reference to Exhibit 4.3 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 24, 2007]
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

SIGNATURE

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)

Date: November 6, 2007

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

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description
2.1	Purchase Agreement, dated as of July 3, 2007, by and among Regal Beloit Corporation, Tecumseh Products Company, Fasco Industries, Inc. and Motores Fasco de Mexico, S. de R.L. de C.V. [Incorporated by reference to Exhibit 2.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on September 7, 2007]
4.1	Note Purchase Agreement, dated as of August 23, 2007, by and among Regal Beloit Corporation and Purchasers listed in Schedule A attached thereto. [Incorporated by reference to Exhibit 4.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 24, 2007]
4.2	Subsidiary Guaranty Agreement, dated as of August 23, 2007, from certain subsidiaries of Regal Beloit Corporation. [Incorporated by reference to Exhibit 4.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 24, 2007]
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