REGAL BELOIT CORP
Form 10-Q
November 07, 2012

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, 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	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 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 ý 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	ý	Accelerated Filer	¨
Non-accelerated filer	o (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 ý
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

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.

6

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	Nine Months Ended 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):

		September 29, 2012		December 31, 2011	
	Useful Life (years)	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):

15

	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%

16

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