

REGAL BELOIT CORP
Form POS AM
March 09, 2005

As filed with the Securities and Exchange Commission on March 9, 2005

Registration No. 333-116706

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 2
TO
FORM S-3
REGISTRATION STATEMENT Under THE SECURITIES ACT OF 1933

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

Wisconsin
(State or other jurisdiction of incorporation or organization)

39-0875718
(IRS Employer Identification No.)

200 State Street
Beloit, Wisconsin 53511-6254
(608) 364 8800
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

James L. Packard
Chairman and Chief Executive Officer
REGAL-BELOIT Corporation
200 State Street
Beloit, Wisconsin 53511-6254
(608) 364 8800
(Name, address, including zip code, and
telephone number, including area code, of agent for service)

with a copy to:

Benjamin F. Garmer, III
Foley & Lardner LLP
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
(414) 271-2400

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of the registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where this offer or sale is not permitted.

Subject to Completion, Dated March 9, 2005.

PROSPECTUS

\$115,000,000
REGAL-BELOIT CORPORATION
2.75% Convertible Senior Subordinated Notes Due 2024

We issued \$115,000,000 aggregate principal amount of our 2.75% Convertible Senior Subordinated Notes due 2024 in a private offering on April 5, 2004. Selling securityholders named in this prospectus may use this prospectus to resell from time to time their notes and the stock issuable upon conversion of their notes.

We will pay interest on the notes on March 15 and September 15 of each year, beginning September 15, 2004. We will pay contingent cash interest for any specified six-month period commencing March 20, 2009 if the average trading price of a note during a five trading-day period preceding such six-month period equals 120% or more of the principal amount of the notes. The contingent cash interest payable per note in respect of any six-month period will equal 0.25% of the average trading price of a note for such five trading-day period.

Each \$1,000 principal amount of the notes will be convertible at the holder's option into 39.1179 shares of our common stock, par value \$.01 per share, subject to adjustment in some cases, prior to stated maturity only under the following circumstances: (1) during any fiscal quarter commencing after June 30, 2004 if the sale price of our common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the preceding fiscal quarter exceeds 130% of the conversion price on that 30th trading day; (2) subject to some exceptions, during the five business day period after any five consecutive trading-day period in which the trading price per note for each day of that measurement period was less than 98% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of \$1,000 principal amount of the notes; (3) if we have called the notes for redemption; or (4) upon the occurrence of specified corporate transactions described in this prospectus. Upon conversion, we will have the right to deliver, in lieu of our common stock, cash or a combination of cash and shares of our common stock. Effective December 9, 2004, we have exercised our option to irrevocably elect to pay cash for the principal amount of the notes to any holders who convert their notes. We retain the right to elect to deliver cash or common stock, or a combination of cash and common stock, for the conversion obligations in excess of the principal amount of the notes.

Shares of our common stock are traded on the New York Stock Exchange under the symbol RBC. The last sale price of our common stock reported on the New York Stock Exchange on March 8, 2005 was \$31.35 per share.

We may redeem some or all of the notes for cash on or after March 20, 2009. A holder of the notes may require us to repurchase for cash all or a portion of the notes on March 15, 2009, 2014 or 2019, or, subject to specified exceptions, if we experience a fundamental change, as defined in this prospectus.

The notes are our general unsecured obligations ranking junior in right of payment to all our existing and future senior debt.

We will not receive any of the proceeds from the sale of the notes or the shares hereunder. The selling securityholders may offer the notes and the shares of common stock issuable upon their conversion through public or private transactions at prevailing market prices, or at privately negotiated prices. All costs, expenses and fees in connection with the registration of the notes and shares will be borne by us.

The notes were initially sold to qualified institutional buyers. The notes are not listed on any securities exchange or included on any automated quotation system.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Investing in the notes involves risks. See Risk Factors beginning on page 7.

The date of this prospectus is _____, 2005.

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In this prospectus, REGAL-BELOIT, company, we, us, and our refer to REGAL-BELOIT Corporation and its subsidiaries, except where the context otherwise requires or as otherwise indicated.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus is accurate as of the date on its respective covers, regardless of time of delivery of this prospectus or any sale of securities. Our business, financial condition, results of operations and prospects may have changed since those dates.

SUMMARY

About this Prospectus

This prospectus is part of a registration statement that REGAL-BELOIT filed with the Securities and Exchange Commission using a shelf registration or continuous offering process. Under this shelf prospectus, the selling securityholders may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities the selling securityholders may offer. Each time a selling securityholder sells securities, the selling securityholder is required to provide you with this prospectus, and, in some cases, a prospectus supplement containing specific information about the selling securityholder and the terms of the offering. That prospectus supplement may include a discussion of any risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in the prospectus supplement.

The following summary is qualified in its entirety by the more detailed information and historical consolidated financial statements, including the notes to those financial statements, incorporated by reference in this prospectus. Investors should carefully consider the information set forth under Risk Factors.

The Company

Overview

We are one of the largest global manufacturers of commercial and industrial electric motors, heating, ventilation and air conditioning/refrigeration, or HVAC, motors, electric generators and controls, and mechanical motion control products. Many of our products hold leading market positions in a variety of essential commercial and industrial applications, and we believe we have one of the most comprehensive product lines in the markets we serve. We sell our products to a diverse global customer base using more than 20 recognized brand names through a multi-channel distribution model to leading original equipment manufacturers, distributors and end users across many markets. We believe this strategy, coupled with a high level of customer service, provides us with a competitive selling advantage and allows us to more fully penetrate our target markets.

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Our electrical products include HVAC motors, a full line of alternating current (AC) and direct current (DC) commercial and industrial electric motors, electric generators and controls, capacitors and electrical connecting devices. Our mechanical products include gears and gearboxes, marine transmissions, high-performance automotive transmissions and ring and pinions, manual valve actuators, and cutting tools. Original equipment manufacturers and end users in a variety of motion control and other industrial applications increasingly combine the types of electrical and mechanical products we offer. We seek to take advantage of this trend and to enhance our market penetration by leveraging cross-marketing and product line bundling opportunities between our electrical and mechanical products.

We market our products through multiple business units, with each typically having its own branded product offering and sales organization. These sales organizations consist of varying combinations of our own internal direct sales people as well as exclusive and non-exclusive manufacturers representative organizations. We manufacture the vast majority of the products that we sell, and we have manufacturing, sales, engineering and distribution facilities throughout the United States and Canada as well as in Mexico, India, China and Europe.

Recent Developments

In 2004, we acquired the commercial AC motors and HVAC motors and capacitors businesses of General Electric Company, or GE. We acquired GE's commercial AC motors business on August 30, 2004 for \$72.5 million in cash. The commercial AC motors business, which adds approximately \$140 million in annual sales, manufactures a full line of alternating current motors for pump, compressor, equipment and commercial alternating current applications. The business includes a significant manufacturing presence in Mexico and technical resources in India.

We acquired GE's HVAC motors and capacitors businesses on December 31, 2004. The HVAC motors business, which represents approximately 90% of the revenues of the acquired businesses, produces a full line of electric motors for use in residential and commercial HVAC systems. The capacitors business represents the balance of the revenues and produces a line of capacitors used in HVAC systems, high intensity lighting and other applications. In total, the businesses add approximately \$500 million in annual sales. Based on the trading price of our common stock as of the closing of the acquisition, the purchase price for the acquisition was approximately \$400 million and consisted of \$270 million in cash and the issuance of 4,559,048 shares of our common stock to GE. Included in the acquisition were motor manufacturing facilities in Faridabad, India; Reynosa, Mexico; and Springfield, Missouri; and a capacitor manufacturing facility in Juarez, Mexico. The acquired businesses also maintain technology development, administrative and sales support teams in Fort Wayne, Indiana and electric motor engineering resources located in Hyderabad, India. We and GE entered into a shareholders agreement related to the common stock we issued to GE in the transaction.

Corporate Information

Our principal executive offices are located at 200 State Street, Beloit, Wisconsin 53511-6254, and our telephone number is (608) 364-8800. Our website address is www.regal-beloit.com. However, the information contained on our website is not part of this prospectus.

The Offering

Issuer	REGAL-BELOIT Corporation.
Securities Offered	\$115,000,000 aggregate principal amount of 2.75% Convertible Senior Subordinated Notes due 2024 and the shares of common stock that may be issued upon conversion of the notes.
Maturity Date	March 15, 2024, unless earlier converted, redeemed or repurchased.
Ranking	The notes are our general unsecured obligations and rank junior in right of payment to all of our existing and future senior debt. The indenture for the notes does not restrict the amount of senior debt or other indebtedness that we or any of our subsidiaries can incur. At September 28, 2004, our senior debt totaled approximately \$160.6 million. See "Description of the Notes-- Subordination." At September 28, 2004, we had no outstanding debt that would rank junior to the notes. The notes are not guaranteed by any of our subsidiaries and, accordingly, the notes are effectively subordinated to the indebtedness and other liabilities of our subsidiaries, including trade creditors. As of September 28, 2004, our subsidiaries had indebtedness of approximately \$4.4 million, excluding other liabilities of approximately \$167.1 million and intercompany indebtedness.
Interest	We will pay interest on the notes on March 15 and September 15 of each year, beginning September 15, 2004. In addition, we may be required to pay contingent interest, as set forth below under "Description of the Notes-- Contingent Interest."
Contingent Interest	<p>We will pay contingent interest to the holders of notes for any six-month period from March 15 to September 14 and from September 15 to March 14, commencing with the period beginning March 20, 2009 and ending September 14, 2009, if the average trading price of a note for the five trading days ending on the third trading day immediately preceding the relevant six-month period equals or exceeds 120% of the principal amount of the notes.</p> <p>The amount of contingent interest payable per note in respect of any six-month period will equal 0.25% of the average trading price of a note for the five trading-day period referred to above. Such payments will be paid on the interest payment date immediately following the last day of the relevant six-month period.</p>
Conversion Rights	<p>You may convert your notes prior to stated maturity only under any of the following circumstances:</p> <p>during any fiscal quarter commencing after June 30, 2004, if the closing sale price of our common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the preceding fiscal quarter is more than 130% of the conversion price on that 30th trading day;</p>

during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of notes for each day of that measurement period was less than 98% of the product of the closing sale price of our common stock on such day and the number of shares issuable upon conversion of \$1,000 principal amount of the notes; provided, however, if you convert your notes in reliance on this subsection on any trading day during such measurement period the closing sale price of shares of our common stock was between 100% and 130% of the average conversion price of the notes on such day you will receive, in lieu of common stock based on the conversion rate, cash or common stock or a combination of cash and common stock, at our option, with a value equal to the principal amount of the notes plus accrued and unpaid interest, if any, including contingent interest, if any, and liquidated damages, if any, as of the conversion date;

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if we have called those notes for redemption; or

upon the occurrence of specified corporate transactions described under "Description of the Notes -- Conversion Rights."

For each \$1,000 principal amount of notes surrendered for conversion, you will receive 39.1179 shares of our common stock. This represents an initial conversion price of approximately \$25.56 per share of common stock. As described in "Description of the Notes-- Conversion Rate Adjustments," the conversion rate may be adjusted for some reasons.

Upon conversion, you will not receive any cash payment representing accrued and unpaid interest, if any, or accrued and unpaid contingent interest, if any. Instead, any such amounts will be deemed paid by the common stock received by you on conversion.

Upon conversion, we will have the right to deliver, in lieu of our common stock, cash or a combination of cash and shares of our common stock. Effective December 9, 2004, we have exercised our option to irrevocably elect to pay cash for the principal amount of the notes to any holders who convert their notes. We retain the right to elect to deliver cash or common stock, or a combination of cash and common stock, for the conversion obligations in excess of the principal amount of the notes. See "Description of the Notes-- Conversion Rights-- Payment Upon Conversion."

Notes called for redemption may be surrendered for conversion until the close of business on the business day prior to the redemption date.

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Sinking Fund	None.
Optional Redemption by Us	We may not redeem the notes prior to March 20, 2009. We may redeem some or all of the notes for cash on or after March 20, 2009, upon at least 30 days but not more than 60 days notice by mail to holders of notes at the principal amount of the notes redeemed, plus accrued and unpaid interest, if any, and accrued and unpaid contingent interest, if any, and accrued and unpaid liquidated damages, if any, to the redemption date.
Repurchase of Notes by Us at the Option of the Holder	You may require us to repurchase for cash all or a portion of your notes on March 15, 2009, March 15, 2014 and March 15, 2019 at a price equal to 100% of the principal amount of the notes plus accrued and unpaid interest, if any, accrued and unpaid contingent interest, if any, and accrued and unpaid liquidated damages, if any, to the date of repurchase.
Repurchase of Notes by Us at the Option of the Holder Upon a Fundamental Change	Upon a fundamental change, as defined under "Description of the Notes-- Repurchase of the Notes at the Option of the Holders Upon a Fundamental Change," you may require us, subject to certain conditions, to repurchase for cash all or a portion of your notes. We will pay a repurchase price equal to 100% of the principal amount of the notes plus accrued interest, if any, accrued contingent interest, if any, and accrued and unpaid liquidated damages, if any, to the repurchase date.
United States Federal Income Tax Considerations	We and each holder agree in the indenture to treat the notes as contingent payment debt instruments for U.S. federal income tax purposes. As a holder of notes, you will be deemed to have agreed to accrue original issue discount on a constant yield to maturity basis at a rate comparable to the rate at which we would borrow in a noncontingent, nonconvertible borrowing with comparable structural terms, which we have determined is 8.75%, compounded semi-annually, even though the notes will have a lower stated interest rate. You may recognize taxable income in each year significantly in excess of interest payments (whether fixed or contingent) actually received that year. Additionally, you will generally be required to recognize ordinary income on the gain, if any, realized on a sale, exchange, conversion or redemption of the notes. In the case of a conversion, this gain will be

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measured by the fair market value of the stock received. You should consult your tax advisors as to the United States federal, state, local or other tax consequences of acquiring, owning and disposing of the notes and our common stock. See "Certain Material U.S. Federal Income Tax Considerations."

Use of Proceeds

We will not receive any proceeds from the sale by selling securityholders of the notes or shares of common stock issuable upon conversion of the notes.

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Trustee, Paying Agent and Conversion Agent

U.S. Bank National Association

Form, Denomination and Registration

The notes were issued in fully registered, book-entry form in denominations of \$1,000 principal amount and integral multiples thereof. The notes are represented by one or more global notes, deposited with the trustee as custodian for The Depository Trust Company and registered in the name of Cede & Co., DTC's nominee. See "Description of the Notes-- Form, Denomination and Registration."

Listing and Trading

The notes are not listed on any national securities exchange or included in any automated quotation system. The notes, however, are designated for inclusion in the PORTAL(R) Market. Our common stock is traded on the New York Stock Exchange under the symbol "RBC."

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RISK FACTORS

Before making an investment in the notes, you should carefully consider the following risk factors, in addition to the other information included or incorporated by reference in this prospectus. The risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of the notes and our common stock could decline, and you may lose all or part of the money you paid to buy the notes.

Risks Related to Our Business

Our future success depends on our ability to integrate effectively acquired companies and manage our growth.

On August 30, 2004, we completed the acquisition of GE's commercial AC motor business. On December 31, 2004, we completed the acquisition of the HVAC motors and capacitors businesses of GE. With these two acquisitions, we have more than doubled the number of our employees to over 10,000 (with more than 3,600 new employees in Mexico and 1,600 new employees in India, including temporary workers), added five manufacturing operations in the United States, Mexico, India and China, and significantly increased our revenue and cost structures.

Our future success depends on our ability to integrate effectively acquired companies and manage our growth.

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Realization of the benefits of these GE acquisitions requires the integration of some or all of the sales and marketing, distribution, manufacturing, engineering, finance and administrative operations and information of the newly acquired businesses. Combined, these GE acquisitions have been the largest we have completed to date and, although GE has agreed to provide various services to us during a transition period, the magnitude of these acquisitions may present significant integration challenges and costs to us. The successful integration of these businesses will require substantial attention from our senior management and the management of the acquired businesses, which will decrease the time that they have to serve and attract customers. We cannot assure you that we will be able to integrate successfully these businesses, that we will operate the acquired businesses profitably, or that we will obtain the beneficial effect expected from these acquisitions. Our financial condition, results of operations, and cash flows could be materially and adversely affected if we do not successfully integrate the new businesses.

In addition, we continue to pursue new acquisitions, some of which could be material to our business if completed. We cannot assure you that we will be able to integrate successfully our recent acquisitions or any future acquisitions, that these acquired companies will operate profitably, or that we will realize the potential benefits from these acquisitions.

Our dependence on, and the price of, raw materials may adversely affect our profits.

The principal raw materials used to produce our products are copper, aluminum and steel. We source raw materials on a global or regional basis, and the prices of those raw materials are susceptible to price fluctuations due to supply/demand trends, transportation costs, government regulations and tariffs, changes in currency exchange rates, price controls, the economic climate and other unforeseen circumstances. If we are unable to pass on raw materials price increases to our customers, our future profitability may be materially adversely affected.

In our HVAC motor business, we depend on revenues from several significant customers, and any loss, cancellation or reduction or, or delay in, purchases by these customers could harm our business.

Several significant customers of our HVAC motors business represent a significant portion of our revenues. Our success will depend on our continued ability to develop and manage relationships with these customers. We expect that significant customer concentration will continue for the foreseeable future in our HVAC motor business. Our dependence in the HVAC motor business on sales from a relatively small number of customers makes our relationship with each of these customers important to our business. We cannot assure you that we will be able to retain significant customers. Some of our customers may in the future shift some or all of their purchases of products from us to our competitors or to other sources. The loss of one or more of our largest customers, any reduction or delay in sales to these customers, our inability to develop relationships successfully with additional customers, or future price concessions that we may make could significantly harm our business.

We increasingly manufacture our products outside the United States, which may present additional risks to our business.

As a result of our recent acquisitions, a significant portion of our net sales are attributable to products manufactured outside of the United States, principally in Mexico, India and China. Approximately half of our over 10,000 total employees and 10 of our 31 principle manufacturing facilities are located outside the United States. International operations generally are subject to various risks, including political, religious, and economic instability, local labor market conditions, the imposition of foreign tariffs and other trade restrictions, the impact of foreign government regulations, and the effects of income and withholding tax, governmental expropriation, and differences in business practices. We may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international manufacturing and sales that could cause loss of revenue. Unfavorable changes in the political, regulatory, and business climate could have a material adverse effect on our financial condition, results of operations, and cash flows.

Cyclicality adversely affects us.

Our business is cyclical and dependent on industrial and consumer spending and is therefore impacted by the strength of the economy generally, interest rates and other factors. Economic factors adversely affecting original equipment manufacturer production and consumer spending could adversely impact us. During periods of expansion in original equipment manufacturer production, we generally have benefited from increased demand for our products. Conversely, during recessionary periods, we have been adversely affected by reduced demand for our products.

We operate in highly competitive electric motor, power generation and mechanical motion control markets.

The electric motor, power generation and mechanical motion control markets are highly competitive. Some of our competitors are larger and have greater financial and other resources than we do. There can be no assurance that our products will be able to compete successfully with the products of these other companies.

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The failure to obtain new business from new products or to retain or increase business with redesigned existing or customized products could also adversely affect our business. It may be difficult in the short-term for us to obtain new sales to replace any unexpected decline in the sale of existing or customized products. We may incur significant expense in preparing to meet anticipated customer requirements, which may not be recovered.

There is substantial and continuing pressure from the major original equipment manufacturers and larger distributors to reduce costs, including the cost of products purchased from outside suppliers such as us. As a result of the cost pressures of our customers, our ability to compete depends in part on our ability to generate production cost savings and, in turn, find reliable, cost effective outside suppliers to manufacture and source components of our products. If we are unable to generate sufficient production or sourcing cost savings in the future to offset price reductions, then our gross margin could be adversely affected.

Our leverage could adversely affect our financial health and make us vulnerable to adverse economic and industry conditions.

We have incurred indebtedness that is substantial relative to our shareholders' investment. Our indebtedness has important consequences. For example, it could:

make it difficult for us to fulfill our obligations under our credit and other debt agreements;

make it more challenging for us to obtain additional financing to fund our business strategy and acquisitions, debt service requirements, capital expenditures, and working capital;

increase our vulnerability to interest rate changes and general adverse economic and industry conditions;

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require us to dedicate a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing the availability of our cash flow to finance acquisitions and to fund working capital, capital expenditures, research and development efforts and other general corporate activities;

limit our flexibility in planning for, or reacting to, changes in our business and our markets; and

place us at a competitive disadvantage relative to our competitors that have less debt.

In addition, our credit facility requires us to maintain specified financial ratios and satisfy certain financial condition tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. If an event of default under our credit facility occurs, then the lenders could elect to declare all amounts outstanding under the credit facility, together with accrued interest, to be immediately due and payable.

Our sales of products incorporated into HVAC systems are seasonal and are affected by the weather; mild or cooler weather could have an adverse effect on our operating performance.

Many of our motors are incorporated into HVAC systems that OEMs sell to end users. The number of installations of new and replacement HVAC systems or components is higher during the spring and summer seasons due to the increased use of air conditioning during warmer months. Mild or cooler weather conditions during the spring and summer seasons often result in end users deferring the purchase of new or replacement HVAC systems or components. As a result, prolonged periods of mild or cooler weather conditions in the spring or summer seasons in broad geographical areas could have a negative impact on the demand for our HVAC motors and, therefore, could have an adverse effect on our operating performance. In addition, due to variations in weather conditions from year to year, our operating performance in any single year may not be indicative of our performance in any future year.

We may be adversely impacted by an inability to identify and complete acquisitions.

A substantial portion of our growth in the past five years has come through acquisitions, and an important part of our growth strategy is based upon acquisitions. We may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms or otherwise complete acquisitions in the future. If we are unable to successfully complete acquisitions, our ability to significantly grow our company will be limited.

We may be adversely impacted by an inability to identify and complete acquisitions.

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Goodwill comprises a significant portion of our total assets, and if we determine that goodwill has become impaired in the future, net income in such years may be materially and adversely affected.

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. Through December 31, 2001, we amortized the cost of goodwill and other intangibles on a straight-line basis over the estimated periods benefited ranging from 5 to 40 years with the amount amortized in a particular period constituting a non-cash expense that reduced our net income. On January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles", and discontinued the amortization of goodwill. We now review goodwill and other intangibles annually for impairment and any excess in carrying value over the estimated fair value is charged to the results of operations. A reduction in net income resulting from the write down or impairment of goodwill would affect financial results and could have a material and adverse impact upon the market price of our common stock.

We may suffer losses as a result of foreign currency fluctuations.

The net assets, net earnings and cash flows from our wholly owned subsidiaries in Mexico and India are based on the U.S. dollar equivalent of such amounts measured in the applicable functional currency. These foreign operations have the potential to impact our financial position due to fluctuations in the local currency arising from the process of re-measuring the local functional currency in the U.S. dollar. Any increase in the value of the U.S. dollar in relation to the value of the local currency will adversely affect our revenues from our foreign operations when translated into U.S. dollars. Similarly, any decrease in the value of the U.S. dollar in relation to the value of the local currency will increase our development costs in our foreign operations, to the extent such costs are payable in foreign currency, when translated into U.S. dollars.

We may be adversely affected by environmental, health and safety laws and regulations.

We are subject to various laws and regulations relating to the protection of the environment and human health and safety and have incurred and will continue to incur capital and other expenditures to comply with these regulations. Failure to comply with any environmental regulations could subject us to future liabilities, fines or penalties or the suspension of production. In addition, we are currently involved in some remediation activities at certain sites, none of which we believe are material. In the event of the imposition of additional cleanup obligations at these or other sites or more stringent environmental laws in the future, we could be adversely affected.

Risks Related to Our Common Stock

We have implemented, and Wisconsin law contains, anti-takeover provisions that may adversely affect the rights of holders of our common stock.

Our articles of incorporation contain provisions that could have the effect of discouraging or making it more difficult for someone to acquire us through a tender offer, a proxy contest or otherwise, even though such an acquisition might be economically beneficial to our shareholders. These provisions include a board of directors divided into three classes of directors serving staggered terms of three years each and the removal of directors only for cause and only with the affirmative vote of a majority of the votes entitled to be cast in an election of directors. These provisions may make the removal of management more difficult, even in cases where removal would be favorable to the interests of our shareholders. See "Description of Capital Stock - Certain Anti-Takeover Provisions."

Each currently outstanding share of our common stock includes, and each newly issued share of our common stock will include, a common share purchase right. The rights are attached to and trade with the shares of common stock and generally are not exercisable. The rights will become exercisable if a person or group acquires, or announces an intention to acquire, 15% (20% in the case of GE and its subsidiaries) or more of our outstanding common stock. The rights have some anti-takeover effects and generally will cause substantial dilution to a person or group that attempts to acquire control of us without conditioning the offer on either redemption of the rights or amendment of the rights to prevent this dilution. The rights could have the effect of delaying, deferring or preventing a change of control. See "Description of Capital Stock - Common Share Purchase Rights."

We are subject to the Wisconsin Business Corporation Law, which contains several provisions that could have the effect of discouraging non-negotiated takeover proposals or impeding a business combination. These provisions include:

requiring a supermajority vote of shareholders, in addition to any vote otherwise required, to approve business combinations not meeting adequacy of price standards;

prohibiting some business combinations between us and an interested shareholder for a period of three years, unless the combination was approved by our board of directors prior to the time the shareholder became a 10% or greater beneficial owner of our shares or under some other circumstances;

We have implemented, and Wisconsin law contains, anti-takeover provisions that may adversely affect the rights of

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limiting actions that we can take while a takeover offer for us is being made or after a takeover offer has been publicly announced; and

limiting the voting power of shareholders who own more than 20% of our stock.

Our stock price may be subject to significant fluctuations and volatility.

The market price of shares of our common stock may be volatile. Among the factors that could affect our common stock price are those discussed above under **Risks Related to Our Business** as well as:

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quarterly fluctuation in our operating income and earnings per share results;

decline in demand for our products;

significant strategic actions by our competitors, including new product introductions or technological advances;

fluctuations in interest rates;

cost increases in energy, raw materials or labor;

changes in revenue or earnings estimates or publication of research reports by analysts; and

domestic and international economic and political factors unrelated to our performance.

In addition, the stock markets have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

Risks associated with our shareholder agreement with GE and sales of shares by GE.

On December 31, 2004, we issued 4,559,048 shares of our common stock to GE in connection with our acquisition of its HVAC motor and capacitors businesses. As of March 8, 2005, GE's ownership of our common stock represented approximately 15.7% of our shares outstanding. In connection with the issuance of common stock, we entered into a shareholder agreement with GE. The shareholder agreement requires us to provide GE with opportunities to sell the shares of the common stock under certain circumstances, including an obligation that we use our commercially reasonable best efforts to complete a firm commitment underwritten public offering of at least 3,419,286 shares held by GE within 60 days after the registration statement on Form S-3 that we filed on February 14, 2005 is declared effective by the Securities and Exchange Commission. In addition, beginning on December 31, 2005, until GE holds 1,139,762 or fewer shares of our common stock, it may demand that we conduct subsequent public offerings to sell its shares. Once GE holds 1,139,762 or fewer shares, it may sell those shares at any time through brokerage transactions within the volume limitations of Rule 144 of the 1933 Act. Depending on the number of shares sold by GE, the timing of such sales and the price at which the sales are made, sales of shares by GE could have a negative impact on the trading price of our common stock and could increase the volatility in the trading price of our common stock.

The shareholder agreement also provides value protection to GE under which we have agreed that, in the event that the aggregate net proceeds received by GE from the sale of all the shares of common stock sold by it are less than \$109 million we will pay to GE the difference between \$109 million and such aggregate net proceeds, up to a maximum amount of \$20 million.

Risks Related to the Notes

The notes are subordinated in right of payment to our other senior indebtedness and may be subordinated in right of payment to future subordinated indebtedness.

The notes are unsecured obligations subordinated in right of payment to all of our existing and future senior indebtedness. In the event of our bankruptcy, liquidation or reorganization or upon acceleration of the notes due to an event of default under the indenture and in certain other

The notes are subordinated in right of payment to our other senior indebtedness and may be subordinated in right of

events, our assets will be available to pay obligations on the notes only after all our senior indebtedness has been paid. As of September 28, 2004, we had \$160.6 million in outstanding senior indebtedness. As a result, there may not be sufficient assets remaining to pay amounts due on any or all of the outstanding notes. In addition, the indenture does not prevent us from issuing notes that are subordinated in right of payment to our senior indebtedness, yet senior in right of payment to the notes, the issuance of which could further affect our ability to pay obligations on the notes as described above.

The notes are effectively subordinated to existing and future indebtedness and other liabilities of our subsidiaries.

We derive a substantial portion of our revenues from, and hold some of our assets through, our subsidiaries. As a result, we may rely in part upon distributions and advances from our subsidiaries in order to assist us in meeting our payment obligations under the notes and our other obligations. In general, these subsidiaries are separate and distinct legal entities and will have no obligation to pay any amounts due on our debt securities, including the notes, or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or otherwise. Our right to receive any assets of any subsidiary in the event of a bankruptcy or liquidation of the subsidiary, and therefore the right of our creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if we were a creditor of any subsidiary, our rights as a creditor would be subordinated to any indebtedness of that subsidiary senior to that held by us, including secured indebtedness to the extent of the assets securing such indebtedness. As of September 28, 2004, our subsidiaries had outstanding indebtedness of approximately \$4.4 million, excluding other liabilities of approximately \$167.1 million and intercompany indebtedness.

We may not have the funds necessary to repurchase the notes when required by holders.

Each holder of the notes may require us to repurchase for cash all or a portion of that holder's notes on March 15, 2009, 2014, 2019 or, if a fundamental change, as defined in the indenture, of REGAL-BELOIT Corporation occurs. A fundamental change also may constitute an event of default under, and result in the acceleration of the maturity of, indebtedness under another indenture or other indebtedness that we may incur in the future. We cannot assure you that we would have sufficient financial resources, or would be able to arrange financing, to pay the purchase price for the notes tendered by holders. Failure by us to repurchase the notes when required will result in an event of default with respect to the notes.

Our stock price, and therefore the price of the notes, may be subject to significant fluctuations and volatility.

The market price of the notes is expected to be significantly affected by the market price of our common stock. This may result in greater volatility in the trading value of the notes than would be expected for non convertible debt securities that we issue. Among the factors that could affect our common stock price are those discussed above under "Risks Related to Our Business" as well as:

- quarterly fluctuation in our operating income and earnings per share results;
- decline in demand for our products;
- significant strategic actions by our competitors, including new product introductions or technological advances;
- fluctuations in interest rates;
- cost increases in energy, raw materials or labor;
- changes in revenue or earnings estimates or publication of research reports by analysts; and
- domestic and international economic and political factors unrelated to our performance.

In addition, the stock markets have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock and of the notes.

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The trading prices for the notes are directly affected by the trading prices for our common stock, which are impossible to predict.

The price of our common stock could be affected by possible sales of our common stock by investors who view the notes as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity that may develop involving our common stock. The hedging or arbitrage could, in turn, affect the trading prices of the notes.

The conditional conversion feature of the notes could result in you not receiving the value of the common stock into which the notes are convertible.

The notes are convertible into common stock only if specific conditions are met. If the specific conditions for conversion are not met, you may not be able to receive the value of the common stock into which your notes would otherwise be convertible.

You should consider the United States federal income tax consequences of owning notes.

Under the indenture, we will agree, and beneficial owners of the notes, by their purchase of notes, will be deemed to have agreed, to treat the notes for U.S. federal income tax purposes as indebtedness that is subject to the regulations governing contingent payment debt instruments. The discussion below, and the discussion under the heading **Certain Material U.S. Federal Income Tax Considerations**, assume that the notes will be so treated. However, the U.S. federal income tax characterization of the notes is uncertain and, thus, we cannot assure you that the Internal Revenue Service will not assert that the notes should be treated in a different manner. Such an alternative characterization could affect the amount, timing and character of income, gain or loss in respect of an investment in the notes.

In general, a beneficial owner of notes who is a United States Holder, as defined below under **Certain Material U.S. Federal Income Tax Considerations Tax Consequences to United States Holders**, will be required to include interest in excess of the stated interest paid on the notes in its gross income for U.S. federal income tax purposes, regardless of whether such owner uses the cash or accrual method of tax accounting.

Each holder of notes will recognize a gain or loss on the sale, exchange, conversion or retirement of a note in an amount equal to the difference between the amount realized on the sale, exchange, conversion or retirement, including the fair market value of any common stock received upon conversion or otherwise, and the holder's adjusted tax basis in the notes. Any gain recognized by a holder on the sale, exchange, conversion or retirement of a note generally will be ordinary interest income; any loss generally will be ordinary loss to the extent of the interest previously included in income, and thereafter, capital loss. Please consult your own tax advisors as to the U.S. federal, state, local or other tax consequences of acquiring, owning and disposing of the notes. A summary of the U.S. federal income tax consequences of ownership of the notes is described in this prospectus under the heading **Certain Material U.S. Income Tax Considerations**.

There may be no public market for the notes.

We have not applied and do not intend to apply for listing of the notes on any securities exchange or any automated quotation system. We cannot be sure that any market for the notes will develop, or if one does develop, that it will be maintained. If an active market for the notes fails to develop or be sustained, the trading price and liquidity of the notes could be adversely affected.

If you are able to resell your notes, many other factors may affect the price you receive, which may be lower than you believe to be appropriate.

If you are able to resell your notes, the price you receive will depend on many other factors that may vary over time, including:

the number of potential buyers;

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the level of liquidity of the notes;

ratings published by major credit rating agencies;

our financial performance;

the amount of indebtedness we have outstanding;

If you are able to resell your notes, many other factors may affect the price you receive, which may be lower than you

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the level, direction and volatility of market interest rates generally;

the market for similar securities;

the redemption and repayment features of the notes to be sold; and

the time remaining to the maturity of your notes.

As a result of these factors, you may only be able to sell your notes at prices below those you believe to be appropriate, including prices below the price you paid for them.

The conversion rate of the notes may not be adjusted for all dilutive events.

The conversion rate of the notes is subject to adjustment for some events, including the issuance of stock dividends on our common stock, the issuance of rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness or assets, certain cash dividends and certain tender or exchange offers as described under Description of the Notes Conversion Rights Conversion Rate Adjustments. The conversion rate will not be adjusted for other events, such as an issuance of common stock for cash, that may adversely affect the trading price of the notes or the common stock. There can be no assurance that an event that adversely affects the value of the notes, but does not result in an adjustment to the conversion rate, will not occur.

You may have to pay taxes with respect to distributions on our common stock that you do not receive.

The conversion rate of the notes is subject to adjustment for certain events arising from stock splits and combinations, stock dividends, certain cash dividends and certain other actions by us that modify our capital structure. See Description of the Notes Conversion Rights Conversion Rate Adjustments. If the conversion rate is adjusted as a result of a distribution that is taxable to our common stock holders, such as a cash dividend in excess of \$0.12 per share, you would be required to include an amount in income for federal income tax purposes, notwithstanding the fact that you do not actually receive such distribution. The amount that you would have to include in income will generally be equal to the amount of the distribution, or in the case of a cash dividend, the amount of the dividend in excess of \$0.12 per share, that you would have received if you had settled the purchase contract and purchased our common stock. See Certain Material U.S. Federal Income Tax Considerations.

The notes do not restrict our ability to incur additional debt or to take other action that could negatively impact holders of the notes.

We are not restricted under the terms of the indenture and the notes from incurring additional indebtedness or securing indebtedness other than the notes. In addition, the notes do not require us to achieve or maintain any minimum financial results relating to our financial position or results of operations. Our ability to recapitalize, incur additional debt, secure existing or future debt and take a number of other actions that are not limited by the terms of the indenture and the notes could have the effect of diminishing our ability to make payments on the notes when due. In addition, we are not restricted from repurchasing subordinated indebtedness or common stock by the terms of the indenture and the notes.

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Our financial performance and other factors could adversely impact our ability to make payments on the notes.

Our ability to make scheduled payments with respect to our indebtedness, including the notes, will depend on our financial and operating performance, which, in turn, is subject to prevailing economic conditions and to financial, business and other factors beyond our control.

Conversion of the notes will dilute the ownership interest of existing shareholders, including holders who had previously converted their notes.

The conversion of some or all of the notes will dilute the ownership interests of existing shareholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the price of our common stock.

If you hold notes, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock.

If you hold notes, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will have rights with respect to our common stock only if and when we deliver shares of common stock to you upon conversion of your notes and, in limited cases, under the conversion rate adjustments applicable to the notes. For example, in the event that an amendment is proposed to our articles or incorporation or by-laws requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to delivery of common stock to you, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference in the prospectus contain forward-looking statements made pursuant to the safe harbor provisions of 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, should, plan, expect, anticipate, estimate, believe, predict, intend, potential or continue or the negative of these terms or other words of similar import, although some forward-looking statements are expressed differently. All statements other than statements of historical fact included in this prospectus and the documents incorporated by reference in this prospectus regarding our financial position, business strategy and plans or objectives for future operations are forward-looking statements. We cannot guarantee the accuracy of the forward-looking statements, and you should be aware that results and events could differ materially and adversely from those contained in the forward-looking statements due to a number of factors, including:

unexpected issues and costs arising from the integration of acquired companies and businesses, such as our recent acquisitions of the HVAC motors and capacitors businesses and the Commercial AC motors business from GE;

marketplace acceptance of our recent acquisitions, including the loss of, or a decline in business from, any significant customers;

unanticipated fluctuations in commodity prices and raw material costs and issues affecting our ability to pass increased costs on to our customers;

cyclical downturns affecting the markets for capital goods;

substantial increases in interest rates that impact the cost of our outstanding debt;

the success of our management in increasing sales and maintaining or improving the operating margins of our businesses;

actions taken by our competitors;

difficulties in staffing and managing foreign operations;

our ability to satisfy various covenant requirements under our credit facility; and

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other risks and uncertainties described from time to time in our reports filed with the U.S. Securities and Exchange Commission, which are incorporated by reference.

You should also consider carefully the statements set forth in the section entitled **Risk Factors** of this prospectus, which addresses these and additional factors that could cause results or events to differ from those set forth in the forward-looking statements. 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 prospectus are made only as of the date of this prospectus, and we undertake no obligation to update these statements to reflect subsequent events or circumstances.

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USE OF PROCEEDS

We will not receive any proceeds from the sale by any selling securityholders of the notes or shares of common stock issuable upon conversion of the notes.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our historical ratio of earnings to fixed charges for the periods indicated:

Year Ended December 31,					Nine Months Ended September 28, 2004
1999	2000	2001	2002	2003	
6.81	4.27	2.33	4.03	5.23	5.82

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the New York Stock Exchange under the symbol **RBC**. Prior to January 21, 2005, our common stock was traded on the American Stock Exchange. The following table sets forth the high and low sale prices of our common stock as reported by the New York Stock Exchange after January 21, 2005 and by the American Stock Exchange prior to January 21, 2005 and for each of the previous calendar quarters.

	Price of Common Stock	
	High	Low
Calendar 2003		
First Quarter	\$ 21.75	\$ 14.96
Second Quarter	21.64	15.05
Third Quarter	24.45	18.48
Fourth Quarter	23.07	19.20
Calendar 2004		
First Quarter	\$ 23.20	\$ 19.41
Second Quarter	22.22	19.14
Third Quarter	24.33	20.40
Fourth Quarter	29.38	23.13
Calendar 2005		
First Quarter (through March 8, 2005)	\$ 32.08	\$ 27.74

On March 8, 2005, the last reported sale price for our common stock on the New York Stock Exchange was \$31.35.

DIVIDEND POLICY

In 2003 and 2004, we paid quarterly cash dividends of \$0.12 per share on our common stock.

We have paid cash dividends in each of the preceding 178 quarterly periods through January 2005. We currently intend to declare and pay dividends on a regular basis at the current rate. However, the payment and amount of future dividends is at the discretion of our board of directors and will depend upon future earnings, capital requirements, our general financial condition, general business conditions and other factors.

Our board of directors has declared a quarterly cash dividend of \$0.12 per share on our common stock payable on April 15, 2005 to shareholders of record on March 31, 2005.

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DESCRIPTION OF THE NOTES

We issued \$115,000,000 aggregate principal amount of the notes under an indenture, dated as of April 5, 2004, as amended, between us and U.S. Bank National Association, a national banking association, as trustee. U.S. Bank National Association also is acting as paying agent, conversion agent and calculation agent for the notes. The indenture, as amended, has been filed as an exhibit to the registration statement, of which this prospectus is a part. The following description is only a summary of the material provisions of the notes and the indenture. We urge you to read these documents in their entirety because they, and not this description, define your rights as holders of the notes.

When we refer to REGAL-BELOIT Corporation, REGAL-BELOIT, we, our or us in this section, we refer only to REGAL-BELOIT Corporation, a Wisconsin corporation, and not its subsidiaries.

Brief Description of the Notes

The notes offered hereby are the general unsecured and subordinated obligations of REGAL-BELOIT, ranking junior in right of payment to all of our existing and future Senior Debt. As indebtedness of REGAL-BELOIT, the notes are effectively subordinated to all indebtedness and liabilities of our subsidiaries. The notes are convertible into our common stock initially at a conversion rate of 39.1179 shares per \$1,000 principal amount of notes (equivalent to an initial conversion price of approximately \$25.56 per share), under the conditions and subject to such adjustments as are described under Conversion Rights.

The notes are due on March 15, 2024, unless earlier converted, redeemed by us at our option or repurchased by us at your option.

The notes bear interest from April 5, 2004 at a rate of 2.75% per annum, payable on each March 15 and September 15, beginning September 15, 2004. In addition, the notes will bear contingent interest which may be payable as set forth below under Contingent Interest.

The notes will be redeemable at our option in whole or in part beginning on March 20, 2009 upon the terms set forth under Optional Redemption by Us and will be subject to repurchase by us for cash at your option on March 15, 2009, 2014 and 2019 or upon a fundamental change, upon the terms and at the repurchase prices set forth below under Repurchase of Notes at the Option of Holders and Repurchase of Notes at the Option of the Holders Upon a Fundamental Change.

The indenture does not contain any financial covenants and does not restrict us from paying dividends, incurring additional indebtedness or issuing or repurchasing our other securities, including our common stock. The indenture also does not protect you in the event of a highly leveraged transaction or a fundamental change of REGAL-BELOIT, except to the extent described under Repurchase of Notes at the Option of the Holders Upon a Fundamental Change below.

No sinking fund is provided for the notes and the notes will not be subject to defeasance. The notes will be issued only in registered form, without coupons, in denominations of \$1,000 principal amount and integral multiples thereof.

You may present definitive notes for conversion and registration of transfer and exchange at our office or agency in New York City, which is currently the principal corporate trust office of the trustee currently located at 100 Wall Street, Suite 1600, New York, New York 10005. For information regarding conversion, registration of transfer and exchange of global notes, see Form, Denomination and Registration. No service

charge will be made for any registration of transfer or exchange of notes, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

We will make all payments on global notes to The Depository Trust Company, or DTC, in immediately available funds.

Subordination

The notes are subordinate in right of payment to all Obligations in respect of our existing and future Senior Debt. The indenture does not restrict the amount of Senior Debt or other Indebtedness that we or any of our subsidiaries may incur. The notes are also senior in right of payment to all of our obligations that may be designated as subordinate to the notes, if any. At September 28, 2004, we had no outstanding debt that would rank junior to the notes. As of September 28, 2004, the notes were subordinated to \$160.6 million of Senior Debt, including \$4.4 million of outstanding debt of our subsidiaries, excluding other liabilities of approximately \$167.1 million and intercompany indebtedness, all of which is structurally senior to the notes. Our obligations under the Credit Agreement are guaranteed by three of our subsidiaries, Leeson Electric Corporation, Hub City, Inc. and Marathon Electric Manufacturing Corporation.

The payment of the principal of, interest on or any other amounts due on the notes is subordinated in right of payment to the prior payment in full of all of our existing and future Senior Debt. No payment on account of principal of, redemption of, interest on or any other amounts due on the notes, including, without limitation, any payments on the fundamental change repurchase right, and no redemption, repurchase or other acquisition of the notes may be made (except in our common stock) if:

a default in the payment of any Designated Senior Debt occurs and is continuing beyond any applicable period of grace (called a "Payment Default"); or

a default other than a Payment Default occurs and is continuing that permits the holders of any Designated Senior Debt to accelerate its maturity, and the trustee receives a notice of such default (called a Payment Blockage Notice) from us or any other person permitted to give such notice under the indenture (called a Non-Payment Default).

We may resume payments and distributions on the notes:

in case of a Payment Default, upon the date on which such default is cured or waived or ceases to exist; and

in the case of a Non-Payment Default, upon the earliest of the date on which such Non-Payment Default is cured or waived or ceases to exist or 179 days from the date the Payment Blockage Notice is received, unless the maturity of any Designated Senior Debt has been accelerated, in which case the immediately preceding bullet point shall become applicable.

Notwithstanding the foregoing, not more than one Payment Blockage Notice may be given in any consecutive 360-day period, irrespective of the number of defaults with respect to Designated Senior Debt during such period. No Non-Payment Default which existed or was continuing on the date a Payment Blockage Notice is received with respect to the Designated Senior Debt whose holders delivered the Payment Blockage Notice may be made the basis of the commencement of a subsequent Payment Blockage Period by the holders of such Senior Debt, whether or not within a period of 360 consecutive days, unless the default has been cured or waived for a period of not less than 90 consecutive days.

Upon any distribution of our assets in connection with any dissolution, winding-up, liquidation or reorganization of us, any bankruptcy, insolvency, receivership or similar proceeding relating to us or our property, or in any assignment for the benefit of our creditors or any marshaling of our assets and liabilities or upon an acceleration of the principal amount due on the notes because of any Event of Default, all Obligations in respect of Senior Debt must be paid in full in cash before the holders of the notes are entitled to any payments whatsoever. Until all Obligations with respect to Senior Debt are paid in full in cash, any distribution to which the holders of the notes would be entitled will be made to the holders of Senior Debt.

As a result of these subordination provisions, in the event of our insolvency, holders of the notes may recover ratably less than the holders of our Senior Debt and our general creditors.

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If the payment of the notes is accelerated because of an Event of Default, we or the trustee shall promptly notify the holders of Senior Debt or the trustee(s) for the Senior Debt of the acceleration. We may not pay the notes until five days after the holders or trustee(s) of Senior Debt receive notice of the acceleration and, after which we may pay the notes only if the subordination provisions of the indenture otherwise permit payment at that time.

If the trustee or any holder of notes receives any payment or distribution of our assets of any kind in contravention of any of the terms of the indenture, whether in cash, property or securities, including, without limitation by way of set-off or otherwise, in respect of the notes before all Obligations in respect of Senior Debt are paid in full, then the payment or distribution will be held by the recipient in trust for the benefit of holders of Senior Debt, and will be immediately paid over or delivered to the holders of Senior Debt or their representative or representatives to the extent necessary to make payment in full of all Senior Debt remaining unpaid, after giving effect to any concurrent payment or distribution, or provision therefor, to or for the holders of Senior Debt.

The notes are our exclusive obligations. The payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to statutory or contractual restrictions, depends upon the earnings of those subsidiaries and are subject to various business considerations.

Our right to receive assets of any of our subsidiaries upon their liquidation or reorganization (and the consequent right of the holders of the notes to participate in those assets) is effectively subordinated to the claims of that subsidiary's creditors (including trade creditors), except to the extent that we are recognized as a creditor of that subsidiary, in which case our claims would still be subordinate to any security interests in the assets of that subsidiary and any indebtedness of that subsidiary senior to that held by us.

The indenture does not limit the amount of additional indebtedness, including Senior Debt, which we can create, incur, assume or guarantee, nor does the indenture limit the amount of indebtedness and other liabilities which any subsidiary can create, incur, assume or guarantee.

Capital Lease Obligation means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized on a balance sheet in accordance with GAAP.

Credit Agreement means the Credit Agreement, dated September 29, 2000, among REGAL-BELOIT Corporation and each of the banks party thereto, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, restated, renewed, supplemented, extended or otherwise modified from time to time (including to increase the amount of available credit), and all direct and indirect refundings, refinancings and replacements of all or any part thereof.

Designated Senior Debt means (i) any Indebtedness from time to time outstanding under the Credit Agreement and (ii) any other Senior Debt the principal amount of which is \$25 million or more and that has been designated by us as Designated Senior Debt.

Exchange Rate Contract means, with respect to any person, any currency swap agreements, forward exchange rate agreements, foreign currency futures or options, exchange rate collar agreements, exchange rate insurance and other agreements or arrangements, or combination thereof, the principal purpose of which is to provide protection against fluctuations in currency exchange rates. An Exchange Rate Contract may also include an Interest Rate Agreement.

GAAP means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession, which are applied on a consistent basis.

Guarantee means a guarantee, other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner, including, without limitation, letters of credit and reimbursement agreements in respect thereof, of all or any part of any Indebtedness.

Indebtedness means, with respect to any person, any indebtedness of such person, whether or not contingent, in respect of borrowed money or evidenced by bonds, notes, debentures or similar instruments or letters of credit, or reimbursement agreements in respect thereof, or representing Capital Lease Obligations or the balance deferred and unpaid of the purchase price of any property, including pursuant to sale-and-leaseback transactions, or representing any hedging obligations under an Exchange Rate Contract or an Interest Rate Agreement, except any such balance that constitutes an accrued expense or trade payable, if and to the extent any of the foregoing indebtedness, other than obligations under an Exchange Rate Contract or an Interest Rate Agreement, would appear as a liability upon a balance sheet of such person prepared in accordance with GAAP, and also includes, to the extent not otherwise included, the Guarantee of items which would be included within this definition. The amount of any Indebtedness outstanding as of any date shall be the accreted value thereof, in the case of any

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Indebtedness issued with original issue discount. Indebtedness shall not include liabilities for taxes of any kind.

Interest Rate Agreement means, with respect to any person, any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement the principal purpose of which is to protect the party indicated therein against fluctuations in interest rates.

Obligations means any principal, interest (including interest accruing after the commencement of any bankruptcy, reorganization, insolvency or similar proceeding related to us or any of our subsidiaries, whether or not allowed or allowable as a claim in such proceeding), penalties, fees, indemnifications, reimbursements, damages and other monetary obligations payable under or in respect of the documentation governing any Indebtedness.

Senior Debt with respect to us means Indebtedness of ours arising under the Credit Agreement or any other Indebtedness of ours, whether outstanding on the date of the indenture or thereafter created, incurred, assumed or guaranteed by us.

Notwithstanding anything to the contrary in the foregoing, Senior Debt shall not include: (a) Indebtedness for amounts owed by us for compensation to employees, or for goods or materials purchased or for services obtained in the ordinary course of business; (b) our Indebtedness to any of our subsidiaries or (c) our Indebtedness that expressly provides that it shall not be senior in right of payment to the notes or expressly provides that it is on the same basis or junior to the notes.

Interest

The notes bear interest at a rate of 2.75% per annum from April 5, 2004 on the principal amount outstanding. We will also pay contingent interest on the notes in the circumstances described under **Contingent Interest**. We will pay interest semiannually on March 15 and September 15 of each year, beginning September 15, 2004, to the holders of record at the close of business on the preceding February 28 (or February 29 in such year as there is a February 29) and August 31, respectively. There is one exception to the preceding sentence:

In general, we will not pay accrued and unpaid interest, including contingent interest, if any, on any notes that are converted into our common stock. Instead, accrued interest, including contingent interest, if any, will be deemed paid by the delivery of common stock received by holders on conversion. If you surrender notes for conversion after a record date for an interest payment but before the corresponding interest payment date, you will receive on that interest payment date accrued and unpaid interest, including contingent interest, if any, on those notes, notwithstanding your conversion of those notes prior to that interest payment date, because you will have been the holder of record on the applicable record date. However, in such case, at the time you surrender notes for conversion, you must pay to us an amount equal to the interest that has accrued, including contingent interest, if any, and that will be paid on the related interest payment date. The preceding sentence does not apply, however, if (1) we have specified a redemption date that is after a record date for an interest payment but on or before the corresponding interest payment date, (2) we have specified a repurchase date following a fundamental change that is during such period or (3) any overdue interest exists at the time of conversion with respect to the notes converted. Accordingly, under these circumstances you will not be required to pay us, at the time that you surrender those notes for conversion, the amount of interest, including contingent interest, if any, you will receive on the interest payment date.

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Except as provided below, we will pay interest, including contingent interest, if any, on:

global notes to DTC in immediately available funds;

any definitive notes having an aggregate principal amount of \$5,000,000 or less by check mailed to the holders of those notes; and

any definitive notes having an aggregate principal amount of more than \$5,000,000 by wire transfer in immediately available funds if requested by the holders of those notes.

At maturity we will pay interest on the definitive notes at our office or agency in New York City, which currently is the principal corporate trust office of the trustee.

Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

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If any interest payment date (other than an interest payment date coinciding with the stated maturity date or earlier redemption date, repurchase date or fundamental change repurchase date) of a note falls on a day that is not a business day, such interest payment date will be postponed to the next succeeding business day. If the stated maturity date, redemption date, repurchase date or fundamental change repurchase date of a note would fall on a day that is not a business day, the required payment of interest, if any, and principal will be made on the next succeeding business day and no interest on such payment will accrue for the period from and after the stated maturity date, redemption date, repurchase date or fundamental change repurchase date to such next succeeding business day. The term business day means, with respect to any note, any day other than a Saturday, a Sunday or a day on which banking institutions in The City of New York are authorized or required by law, regulation or executive order to close.

Contingent Interest

We will pay contingent interest to the holders of notes for any six-month period from March 15 to September 14 and from September 15 to March 14, commencing with the period beginning March 20, 2009 and ending September 14, 2009, if the average trading price of a note for the five trading days ending on the third trading day immediately preceding the relevant six-month period equals or exceeds 120% of the principal amount of the note. For any period when contingent interest shall be payable, the contingent interest payable per \$1,000 principal amount of notes will equal 0.25% per annum calculated on the average trading price of \$1,000 principal amount of notes during the five consecutive trading-day period referred to above used to determine whether contingent interest must be paid. Trading price is defined below under Conversion Rights Conversion Upon Satisfaction of Trading Price Condition.

Contingent interest, if any, will accrue and be payable to holders of notes as of the regular interest record date occurring immediately prior to the end of the relevant six-month period. Such payments will be paid on the regular interest payment date occurring one day after the end of the relevant six-month period. Payments of contingent interest shall be made in the same manner, and subject to the same restrictions, including those restrictions in respect of payments of accrued and unpaid interest on any notes that are converted into our common stock, as set forth above under Interest.

Upon determination that holders of notes will be entitled to receive contingent interest for a six-month period, on or prior to the start of such six-month period, we will issue a press release and publish the information on our website on the World Wide Web.

Conversion Rights

General

Subject to the conditions and during the periods described below, you may convert any outstanding notes into shares of our common stock, initially at a conversion rate of 39.1179 shares per \$1,000 principal amount of the notes (equal to an initial conversion price of approximately \$25.56 per share). The conversion rate and the corresponding conversion price in effect at any given time will be subject to adjustment as described below. We will not issue fractional shares of common stock upon conversion of the notes. Instead, we will pay the cash value of such fractional shares based upon the sale price of our common stock on the business day immediately preceding the conversion date. You may convert notes only in denominations of \$1,000 principal amount and integral multiples thereof.

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If you have exercised your right to require us to repurchase your notes in the circumstances described under Repurchase of Notes at the Option of Holders or Repurchase of Notes at the Option of the Holders Upon a Fundamental Change, you may convert your notes into our common stock only if you withdraw your repurchase notice or fundamental change repurchase notice and convert your notes prior to the close of business on the repurchase date or fundamental change repurchase date, as applicable.

You may surrender notes for conversion into our common stock prior to the stated maturity only under the following circumstances:

Conversion Upon Satisfaction of Market Price Condition

You may surrender any of your notes for conversion into our common stock during any fiscal quarter commencing after June 30, 2004 if the sale price of our common stock for at least 20 consecutive trading days in the 30 consecutive trading-day period ending on the last trading day of the immediately preceding fiscal quarter was 130% or more of the conversion price as of that 30th trading day.

The sale price of our common stock on any date means the closing per share sale price (or if no closing sale price is reported, the average of the bid and ask prices or, if there is more than one bid or ask price, the average of the average bid and the average ask prices) as reported in composite transactions for the principal United States securities exchange on which the common stock is traded or, if the common stock is not listed on a United States national or regional securities exchange, as reported by the National Association of Securities Dealers Automated Quotation system or by the National Quotation Bureau Incorporated.

Trading day means a day during which trading in securities generally occurs on the New York Stock Exchange or, if our common stock is not listed on the New York Stock Exchange, on the principal other national or regional securities exchange on which our common stock is then listed or, if our common stock is not listed on a national or regional securities exchange, on the National Association of Securities Dealers Automated Quotation System or, if our common stock is not quoted on the National Association of Securities Dealers Automated Quotation System, on the principal other market on which our common stock is then traded.

Conversion Upon Satisfaction of Trading Price Condition

You may surrender any of your notes for conversion into shares of our common stock during the five business day period immediately following any five consecutive trading day period (the measurement period) in which the average trading price per \$1,000 principal amount of notes for each day of such measurement period was less than 98% of the product of the sale price of our common stock on such day and the number of shares issuable upon conversion of \$1,000 principal amount of the notes; provided, however, if you convert your notes in reliance on this subsection on any trading day during such measurement period the sale price of shares of our common stock was between 100% and 130% of the average conversion price of the notes on such day you will receive, in lieu of common stock based on the conversion rate, cash or common stock or a combination of cash and common stock, at our option, with a value equal to the principal amount of the notes plus accrued and unpaid interest, if any, including contingent interest, if any, and liquidated damages, if any, as of the conversion date (principal value conversion). If you surrender your notes for conversion and it is a principal value conversion, we will notify you before the date that is two business days following the date of conversion whether we will pay you all or a portion of the principal amount of the notes plus accrued and unpaid interest, if any, including contingent interest, if any, and liquidated damages, if any, in cash, common stock or a combination of cash and common stock, and in what percentage. Any common stock delivered upon a principal value conversion will be valued at the average sale price of our common stock for the 20 trading-day period beginning on and including the 5th trading day immediately following the conversion date. We will pay you any portion of the principal amount of the notes plus accrued and unpaid interest, if any, including contingent interest, if any, and liquidated damages, if any, to be paid in cash and deliver common stock with respect to any portion of the principal amount of the notes plus accrued and unpaid interest, if any, including contingent interest, if any, and liquidated damages, if any, to be paid in common stock, no later than the third business day following the determination of the average stock price.

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The trading price of a note on any date of determination means the average of the secondary market bid quotations obtained by the trustee for \$5,000,000 principal amount of the notes at approximately 3:30 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers we select; provided that if three such bids cannot reasonably be obtained by the trustee, but two such bids are obtained, then the average of the two bids shall be used, and if only one such bid can reasonably be obtained by the trustee, that one bid shall be used. If the trustee cannot reasonably obtain at least one bid for \$5,000,000 principal amount of the notes from a nationally recognized securities dealer, then the trading price per \$1,000 principal amount of notes will be deemed to be less than 98% of the product of the sale price of our common stock and the conversion rate.

Conversion Upon Notice of Redemption

You may surrender for conversion any of your notes that have been called for redemption at any time prior to the close of business on the business day prior to the redemption date, even if the notes are not otherwise convertible at that time.

Conversion Upon Specified Corporate Transactions

In the event:

we distribute to all holders of our common stock certain rights entitling them to purchase, for a period expiring within 45 days, common stock at less than the sale price of the common stock on the business day immediately preceding the announcement of such distribution, or

we elect to distribute to all holders of our common stock, cash or other assets, debt securities or certain rights to purchase our securities, which distribution has a per share value exceeding 10% of the sale price of the common stock on the business day preceding the declaration date for the distribution, then

at least 20 days prior to the ex-dividend date for the distribution or within 30 days of the occurrence of a fundamental change, as the case may be, we must notify the holders of the notes of the occurrence of such event. Once we have given that notice, holders may surrender their notes for conversion at any time (1) until the earlier of close of business on the business day immediately prior to the ex-dividend date or the date of our announcement that the distribution will not take place, in the case of a distribution, or (2) at any time prior to the fundamental change repurchase date which is 30 days after the date on which we gave the fundamental change notice, in the case of a fundamental change. No

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adjustment to the conversion rate or the ability of a holder of notes to convert will be made if we provide that holders of notes will participate in the distribution without conversion or in certain other cases. The ex-dividend date is the first date upon which a sale of the common stock does not automatically transfer the right to receive the relevant distribution from the seller of the common stock to its buyer. Upon a surrender of your notes for conversion, we will have the right to deliver shares of our common stock or, in lieu of shares of our common stock, cash or a combination of cash and shares of common stock at our option. Effective December 9, 2004, we have exercised our option to irrevocably elect to pay cash for the principal amount of the notes to any holders who convert their notes. We retain the right to elect to deliver cash or common stock, or a combination of cash and common stock, for the conversion obligations in excess of the principal amount of the notes. See Conversion Procedures below.

In addition, if we are party to a consolidation, merger, binding share exchange or sale of all or substantially all of our assets, in each case pursuant to which our common stock would be converted into cash, securities or other property, a holder may surrender notes for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual date of the transaction, or if the transaction also constitutes a fundamental change, until the fundamental change repurchase date. If we are a party to a consolidation, merger, binding share exchange or sale of all or substantially all of our assets, in each case pursuant to which our common stock is converted into cash, securities or other property, then at the effective time of the transaction, the right to convert a note into common stock will be changed into a right to convert the notes into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted such notes immediately prior to the transaction. If the transaction also constitutes a fundamental change, the holder can, subject to certain conditions, require us to repurchase all or a portion of its notes as described under Repurchase of Notes at the Option of the Holders Upon a Fundamental Change.

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Conversion Procedures

By delivering to the holder the number of shares issuable upon conversion or the amount of cash determined as set forth below under Payment Upon Conversion, together with a cash payment in lieu of any fractional shares, we will satisfy our obligation with respect to the notes. That is, accrued and unpaid interest, including contingent interest, if any, will be deemed to be paid in full rather than canceled, extinguished or forfeited.

You will not be required to pay any transfer taxes or duties relating to the issuance or delivery of our common stock if you exercise your conversion rights, but you will be required to pay any tax or duty which may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than your own. Certificates representing shares of common stock will be issued or delivered only after all applicable taxes and duties, if any, payable by you have been paid. We and each holder of a note also agree that delivery to the holder of the full number of shares of common stock into which the note is convertible, or the amount of cash determined as set forth below under Payment Upon Conversion, together with any cash payment of such holder's fractional shares, will be treated as a payment (in an amount equal to the sum of the then fair market value of such shares and such cash payment, if any) on the note for purposes of the regulations governing contingent payment debt instruments. See Certain Material United States Federal Income Tax Considerations.

Upon conversion, we may choose to deliver, in lieu of shares of our common stock, cash or a combination of cash and shares of our common stock. Effective December 9, 2004, we have exercised our option to irrevocably elect to pay cash for the principal amount of the notes to any holders who convert their notes. We retain the right to elect to deliver cash or common stock, or a combination of cash and common stock, for the conversion obligations in excess of the principal amount of the notes. See Payment Upon Conversion below.

To convert one or more definitive notes, you must:

complete the conversion notice on the back of the notes (or a facsimile thereof);

deliver the completed conversion notice and the notes to be converted to the specified office of the conversion agent;

pay all funds required, if any, relating to interest on the notes to be converted to which you are not entitled, as described in "--Interest;"

pay all funds required, if any, relating to contingent interest on the notes to be converted to which you are not entitled, as described in "--Contingent Interest;" and

pay all taxes or duties, if any, as described above.

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To convert interests in a global note, you must comply with the last three bullets above and deliver to DTC the appropriate instruction form for conversion pursuant to DTC's conversion program. The conversion date will be the date on which all of the foregoing requirements have been satisfied. The notes will be deemed to have been converted immediately prior to the close of business on the conversion date. A certificate for the number of shares of common stock into which the notes are converted or the amount of cash determined as set forth below under Payment Upon Conversion, (and cash in lieu of any fractional shares) will be delivered to you as soon as practicable on or after the conversion date.

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Payment Upon Conversion

Conversion on or Prior to the Final Notice Date. In the event that we receive your notice of conversion on or prior to the day that is 20 days prior to stated maturity or, with respect to notes being redeemed, the applicable redemption date (in either case, the final notice date), the following procedures will apply:

If we choose to satisfy all or any portion of our obligation to deliver common stock upon conversion (the conversion obligation) in cash, we will notify you through the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount) at any time on or before the date that is two business days following receipt of your notice of conversion (cash settlement notice period). If we timely elect to pay cash for any portion of the shares otherwise issuable to you, you may retract the conversion notice at any time during the two business day period immediately following the cash settlement notice period (conversion retraction period). If no such election is made, no such retraction can be made (and the conversion notice shall be irrevocable).

Settlement amounts will be computed as follows:

If we elect to satisfy the entire conversion obligation in shares, we will deliver to you a number of shares, for each \$1,000 original principal amount of notes, equal to the then current conversion rate. We will pay cash for all fractional shares of common stock, as described above under General.

If we elect to satisfy the entire conversion obligation in cash, we will deliver to you, for each \$1,000 original principal amount of notes, cash in an amount equal to the product of the then current conversion rate and the average sale price of our common stock for the 20 trading-day period beginning the day after the conversion retraction period (the cash settlement averaging period).

If we elect to satisfy a fixed portion (other than 100%) of the conversion obligation in cash, we will deliver to you, for each \$1,000 original principal amount of notes, such cash amount (cash amount) and a number of shares of our common stock equal to the greater of (i) zero and (ii) the excess, if any, of the number of shares calculated as set forth in the first bullet of this paragraph over the number of shares equal to the sum, for each day of the cash settlement averaging period, of (x) 5% of the cash amount, divided by (y) the sale price of our common stock on such day. We will pay cash for all fractional shares of common stock. The cash payment for fractional shares will be based on the sale price of our common stock on the trading day immediately prior to the conversion date.

If we choose to satisfy all or any portion of the conversion obligation in cash and the conversion notice has not been retracted, then settlement (in cash and/or shares) will occur on the business day following the cash settlement averaging period. If we choose to satisfy the entire conversion obligation in shares of our common stock then settlement will occur on the third business day following the conversion date.

Our Right to Irrevocably Elect Payment. At any time prior to maturity, we may irrevocably elect to satisfy in cash up to 100% of the principal amount of the notes converted after the date of such election, with any remaining amount to be satisfied in shares of our common stock. Such election shall be in our sole discretion without the consent of the holders of the notes, by notice to the trustee and the holders of the notes. If we make such election, we will not have to make any further election prior to the final notice date and the description set forth under Payment Upon Conversion Conversion after the Final Notice Date shall not be applicable. Effective December 9, 2004, we have exercised our option to irrevocably elect to pay cash for the principal amount of the notes to any holders who convert their notes. We retain the right to elect to deliver cash or common stock, or a combination of cash and common stock, for the conversion obligations in excess of the principal amount of the notes.

In the event that we receive your notice of conversion after the date of such election, your notice of conversion will not be retractable and settlement amounts will be computed and settlement dates will be determined in the same manner as set forth above under Payment Upon Conversion Conversion on or Prior to the Final Notice Date, except that the cash settlement averaging period shall be the 20 trading-day period beginning on the day after receipt of your notice of conversion.

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Conversion after the Final Notice Date. In the event that we receive your notice of conversion after the final notice date, we will not send individual notices of our election to satisfy all or any portion of the conversion obligation in cash. Instead, if we choose to satisfy all or any portion of the conversion obligation in cash after the final notice date, we will send, on or prior to the final notice date, a single notice to the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount). Settlement amounts will be computed and settlement dates will be determined in the same manner as set forth above under *Payment Upon Conversion - Conversion on or Prior to the Final Notice Date* except that the cash settlement averaging period shall be the 20 trading-day period beginning on the day after receipt of your notice of conversion. If we do not elect to satisfy all or any portion of the conversion obligation in cash, then settlement will occur on the first business day following the conversion date.

Conversion Rate Adjustments

We will adjust the conversion rate if any of the following events occur:

- (1) We issue our common stock as a dividend or distribution on our common stock.
- (2) We issue to all holders of common stock certain rights or warrants entitling them to purchase, for a period expiring within 45 days after the date of the distribution, shares of our common stock at a price per share of less than the closing price of a share of our common stock on the record date for the distribution.
- (3) We subdivide or combine our common stock.
- (4) We distribute to all holders of our common stock shares of capital stock, evidences of indebtedness or assets, including securities (but excluding rights or warrants listed in (2) above, dividends or distributions listed in (1) above and distributions consisting exclusively of cash), in which event the conversion rate will be increased by multiplying it by a fraction,

the numerator of which will be the current market price of our common stock; and

the denominator of which will be the current market price of our common stock minus the fair market value, as determined by our board of directors, of the portion of those assets, debt securities, shares of capital stock or rights or warrants so distributed applicable to one share of common stock.

If we distribute capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, then the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average closing sales price of those securities (where such closing sale prices are available) for the 20 trading days commencing on and including the fifth trading day after the ex-dividend date for such distribution on the New York Stock Exchange or such other national or regional exchange or market on which the securities are then listed or quoted.

- (5) We distribute cash, excluding any dividend or distribution in connection with our liquidation, dissolution or winding up or any quarterly cash dividend on our common stock to the extent that the aggregate cash dividend per share of common stock in any quarter does not exceed \$0.12 (the dividend threshold amount); the dividend threshold amount is subject to an inversely proportional adjustment whenever the conversion rate is adjusted, provided that no adjustment will be made to the dividend threshold amount for any adjustment made to the conversion rate pursuant to this clause (5), in which event the conversion rate will be increased by multiplying it by a fraction,

the numerator of which will be the current market price of our common stock; and

the denominator of which will be the current market price of our common stock minus the amount per share by which such dividend exceeds the dividend threshold amount or the amount of such distribution.

If an adjustment is required to be made under this clause (5) as a result of a distribution that is a quarterly dividend, the adjustment would be based upon the amount by which the distribution exceeds the dividend threshold amount. If an adjustment is required to be made under this clause (5) as a result of a distribution that is not a quarterly dividend, the adjustment would be based upon the full amount of the distribution.

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- (6) We or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock to the extent that the cash and value of any other consideration included in the payment per share of our common stock exceeds the closing price of our common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, in which event the conversion rate will be increased by multiplying it by a fraction,

the numerator of which will be the sum of (i) the fair market value, as determined by our board of directors, of the aggregate consideration payable for all shares of our common stock we purchase in such tender or exchange offer and (ii) the product of the number of shares of our common stock outstanding less any such purchased shares and the closing price of our common stock on the trading day next succeeding the expiration of the tender or exchange offer; and

the denominator of which will be the product of the number of shares of our common stock outstanding, including any such purchased shares, and the closing price of our common stock on the trading day next succeeding the expiration of the tender or exchange offer.

- (7) Someone other than us or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer in which, as of the closing date of the offer, our board of directors is not recommending rejection of the offer, in which event each conversion rate will be increased by multiplying such conversion rate by a fraction,

the numerator of which will be the sum of (i) the fair market value, as determined by our board of directors, of the aggregate consideration payable to our shareholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares validly tendered or exchanged and not withdrawn as of the expiration of the offer and (ii) the product of the number of shares of our common stock outstanding less any such tendered or exchanged shares and the closing price of our common stock on the trading day next succeeding the expiration of the tender or exchange offer; and

the denominator of which will be the product of the number of shares of our common stock outstanding, including any such tendered or exchanged shares, and the closing price of our common stock on the trading day next succeeding the expiration of the tender or exchange offer.

The adjustment referred to in this clause (7) will be made only if:

the tender offer or exchange offer is for an amount that increases the offeror's ownership of common stock to more than 25% of the total shares of common stock outstanding; and

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the cash and value of any other consideration included in the payment per share of common stock exceeds the current market price per share of common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer.

However, the adjustment referred to in this clause (7) will generally not be made if, as of the closing of the offer, the offering documents disclose a plan or an intention to cause us to engage in a consolidation or merger or a sale of all or substantially all of our assets.

No adjustments to the applicable conversion rate will be required unless the adjustment would require an increase or decrease of at least 1% of the applicable conversion rate. However, any adjustments which are not required to be made because they would have required an increase or decrease of less than 1% will be carried forward and taken into account in any subsequent adjustment.

Current market price of our common stock on any day means the average of the sale prices of our common stock (as defined above under Conversion Rights - General - Conversion Upon Satisfaction of Market Price Condition) for each of the 20 consecutive trading days ending on the earlier of the day in question and the day before the ex-dividend date with respect to the issuance or distribution requiring such computation. For purposes of this paragraph, the term ex-dividend date means the first date on which the common stock trades the regular way on the applicable exchange or in the applicable market without the right to receive such issuance or distribution.

To the extent that we have a rights plan in effect upon conversion of the notes into common stock, you will receive, in addition to the common stock, the rights under the rights plan, unless prior to any conversion, the rights have separated from the common stock, in which case

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each conversion rate will be adjusted at the time of separation as described in clause (4) above, as if we distributed to all holders of our common stock, shares of our capital stock, evidences of indebtedness or assets as described above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

In the event of:

- any reclassification of our common stock;
- a consolidation, merger, binding share exchange or combination involving us; or
- a sale or conveyance to another person or entity of all or substantially all of our property or assets;

in which holders of common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, upon conversion of your notes you will be entitled to receive the same type of consideration that you would have been entitled to receive if you had converted the notes into our common stock immediately prior to any of these events.

The conversion rate will not be adjusted:

- upon the issuance of any shares of our common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of our common stock under any plan;
- upon the issuance of any shares of our common stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries;
- upon the issuance of any shares of our common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in the preceding bullet and outstanding as of the date the notes were first issued;

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- upon the issuance of any shares of our common stock as consideration in connection with acquisitions or financing activities by us;
 - for a change in the par value of the common stock; or
 - for accrued and unpaid interest, including contingent interest or liquidated damages, if any.

To the extent permitted by law, we may, from time to time, increase the conversion rate for a period of at least 20 days if our board of directors has made a determination that this increase would be in our best interests. Any such determination by our board will be conclusive. We would give holders at least 15 days notice of any increase in the conversion rate. In addition, we may increase the conversion rate if our board of directors deems it advisable to avoid or diminish any income tax to holders of common stock resulting from any stock distribution.

As a result of an adjustment to the conversion rate, the holders of the notes may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend. In addition, non-U.S. holders of notes in certain circumstances may be deemed to have received a distribution subject to U.S. federal withholding tax requirements. See Certain Material U.S. Federal Income Tax Considerations Tax Consequences to U.S. Holders Constructive Dividends and Tax Consequences to Non-U.S. Holders Constructive Dividends.

Payment at Maturity

Each holder of \$1,000 principal amount of the notes shall be entitled to receive \$1,000 at maturity, plus accrued and unpaid interest, contingent interest and liquidated damages, if any. We will pay principal on:

- global notes to DTC in immediately available funds; and

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any definitive notes at our office or agency in New York City, which currently is the office or agency of the trustee in New York City.

Optional Redemption by Us

Prior to March 20, 2009, the notes will not be redeemable at our option. Beginning on March 20, 2009, we may redeem the notes for cash at any time as a whole, or from time to time in part, at a redemption price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest, contingent interest, if any, and liquidated damages, if any, on the notes to but not including the redemption date. We will give at least 30 days but not more than 60 days notice of redemption by mail to holders of notes. Notes or portions of notes called for redemption will be convertible by the holder until the close of business on the business day prior to the redemption date.

If we do not redeem all of the notes, the trustee will select the notes to be redeemed in principal amounts of \$1,000 or integral multiples thereof, by lot or on a pro rata basis. If any notes are to be redeemed in part only, we will issue a new note or notes with a principal amount equal to the unredeemed principal portion thereof. If a portion of your notes is selected for partial redemption and you convert a portion of your notes, the converted portion will be deemed to be taken from the portion selected for redemption.

Repurchase of Notes at the Option of Holders

On March 15, 2009, March 15, 2014 and March 15, 2019 (each, a repurchase date), holders may require us to repurchase for cash any outstanding notes for which the holder has properly delivered and not withdrawn a written repurchase notice, subject to certain additional conditions, at a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest and contingent interest, if any, and liquidated damages, if any, to but excluding the repurchase date.

Holders may submit their notes for repurchase to the paying agent at any time from the opening of business on the date that is 20 business days prior to the repurchase date until the close of business on the repurchase date.

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We will be required to give notice at least 20 business days prior to each repurchase date to all holders at their addresses shown in the register of the registrar and to beneficial owners as required by applicable law stating, among other things, the procedures that holders must follow to require us to repurchase their notes as described below.

The repurchase notice given by each holder electing to require us to repurchase notes shall be given so as to be received by the paying agent no later than the close of business on the repurchase date and must state:

the certificate numbers of the holders' notes to be delivered for repurchase;

the portion of the principal amount of notes to be repurchased, which must be \$1,000 or an integral multiple thereof; and

that the notes are to be repurchased by us pursuant to the applicable provisions of the notes.

A holder may withdraw any repurchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business on the repurchase date. The notice of withdrawal shall state:

the principal amount of notes being withdrawn;

the certificate numbers of the notes being withdrawn; and

the principal amount of the notes, if any, that remain subject to the repurchase notice.

In connection with any repurchase, we will, to the extent applicable:

comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Securities Exchange Act of 1934, as amended (the Exchange Act) which may then be applicable; and

file Schedule TO or any other required schedule under the Exchange Act.

Our obligation to pay the repurchase price for notes for which a repurchase notice has been delivered and not validly withdrawn is conditioned upon the holder delivering the notes, together with necessary endorsements, to the paying agent at any time after delivery of the repurchase notice. We will cause the repurchase price for the notes to be paid promptly following the later of the repurchase date or the time of delivery of the notes, together with such endorsements.

If the paying agent holds money sufficient to pay the repurchase price of the notes for which a repurchase notice has been given on the business day following the repurchase date in accordance with the terms of the indenture, then, immediately after the repurchase date, the notes will cease to be outstanding and interest and contingent interest, if any, and liquidated damages, if any, on the notes will cease to accrue, whether or not the notes are delivered to the paying agent. Thereafter, all other rights of the holder shall terminate, other than the right to receive the repurchase price upon delivery of the notes.

Our ability to repurchase notes for cash may be limited by restrictions on the ability of REGAL-BELOIT to obtain funds for such repurchase through dividends from its subsidiaries and the terms of our then existing borrowing agreements and the subordination provisions described above in Subordination.

Repurchase of Notes at the Option of the Holders Upon a Fundamental Change

If a fundamental change, as described below, occurs, you will have the right on the fundamental change repurchase date (subject to certain exceptions set forth below) to require us to repurchase for cash all of your notes not previously called for redemption, or any portion of those notes that is equal to \$1,000 in principal amount or integral multiples thereof, at a fundamental change repurchase price equal to 100% of the principal amount of the notes plus any accrued and unpaid interest, contingent interest, if any, and liquidated damages, if any, on the notes to but not including the fundamental change repurchase date. Notwithstanding the foregoing, we may be required to offer to repurchase our Senior Debt on a pro rata basis with the notes, upon a fundamental change, if similar fundamental change offers are or will be required by our other senior debt. Our ability to repurchase notes for cash may be limited by restrictions on the ability of REGAL-BELOIT to obtain funds for such repurchase through dividends from its subsidiaries and the terms of our then existing borrowing agreements and the subordination provisions described above in Subordination.

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Within 30 days after the occurrence of a fundamental change, we are required to give you notice of the occurrence of the fundamental change and of your resulting repurchase right and the procedures that holders must follow to require us to repurchase their notes as described below.

The fundamental change repurchase date specified by us will be 30 days after the date on which we give you this notice.

The fundamental change repurchase notice given by each holder electing to require us to repurchase notes shall be given so as to be received by the paying agent no later than the close of business on the fundamental change repurchase date and must state:

the certificate numbers of the holders' notes to be delivered for repurchase;

the portion of the principal amount of notes to be repurchased, which must be \$1,000 or an integral multiple thereof; and

that the notes are to be repurchased by us pursuant to the applicable provisions of the notes.

A holder may withdraw any fundamental change repurchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business on the fundamental change repurchase date. The notice of withdrawal shall state:

the principal amount at maturity of notes being withdrawn;

the certificate numbers of the notes being withdrawn; and

the principal amount of the notes, if any, that remain subject to the fundamental change repurchase notice.

A fundamental change will be deemed to have occurred at such time after the original issuance of the notes when any of the following has occurred:

- (1) the acquisition by any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchase, merger or other acquisition transactions, of shares of our capital stock entitling that person to exercise 50% or more of the total voting power of all shares of our capital stock entitled to vote generally in elections of directors, other than any acquisition by us, any of our subsidiaries or any of our employee benefit plans (except that any of those persons shall be deemed to have beneficial ownership of all securities it has the right to acquire, whether the right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); or