

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

FORM 10-K

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

For the fiscal year ended January 2, 2021

Commission File number 1-7283

Regal Beloit Corporation

(Exact Name of Registrant as Specified in Its Charter)

Wisconsin

(State of Incorporation)

39-0875718

(IRS Employer Identification No.)

200 State Street, Beloit, Wisconsin 53511

(Address of principal executive offices)

(608) 364-8800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (\$0.01 Par Value) Securities registered pursuant to Section 12 (g) of the Act	New York Stock Exchange None (Title of Class)

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 27, 2020 was approximately \$3.4 billion.

On February 22, 2021, the registrant had outstanding 40,618,931 shares of common stock, \$0.01 par value, which is registrant's only class of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Shareholders to be held on April 27, 2021 (the “2021 Proxy Statement”) is incorporated by reference into Part III hereof.

**REGAL BELOIT CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR YEAR ENDED JANUARY 2, 2021**

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CAUTIONARY STATEMENT

This report contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which reflect the Company's current estimates, expectations and projections about the Company's future results, performance, prospects and opportunities. Such forward-looking statements may include, among other things, statements about the Company's future operations, anticipated business levels, future earnings, planned activities, anticipated growth, market opportunities, strategies, competition and other expectations and estimates for future periods. Forward-looking statements may also include statements relating to the proposed acquisition of Rexnord Corporation ("Rexnord")'s Process & Motion Control business (the "PMC Business") (the "Rexnord Transaction"), the benefits and synergies of the Rexnord Transaction, future opportunities for the Company, the PMC Business and the combined company, and any other statements regarding the Rexnord Transaction or the combined company. Forward-looking statements include statements that are not historical facts and can be identified by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "plan," "may," "should," "will," "would," "project," "forecast," and similar expressions. These forward-looking statements are based upon information currently available to the Company and are subject to a number of risks, uncertainties, and other factors that could cause the performance, prospects, or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Important factors that could cause actual results to differ materially from the results referred to in the forward-looking statements the Company makes in this report include:

- the continued financial and operational impacts of and uncertainties relating to the COVID-19 pandemic on customers and suppliers and the geographies in which they operate;
- uncertainties regarding the ability to execute restructuring plans within expected costs and timing;
- our ability to develop new products based on technological innovation, such as the Internet of Things ("IoT"), and marketplace acceptance of new and existing products, including products related to technology not yet adopted or utilized in certain geographic locations in which we do business;
- fluctuations in commodity prices and raw material costs;
- our dependence on significant customers;
- effects on earnings of any significant impairment of goodwill or intangible assets;
- prolonged declines or disruption in one or more markets we serve, such as heating, ventilation, air conditioning ("HVAC"), refrigeration, power generation, oil and gas, unit material handling or water heating;
- product liability and other litigation, or claims by end users, government agencies or others that our products or our customers' applications failed to perform as anticipated, particularly in high volume applications or where such failures are alleged to be the cause of property or casualty claims;
- our overall debt levels and our ability to repay principal and interest on our outstanding debt, including debt assumed or incurred in connection with the Rexnord Transaction;
- our dependence on key suppliers and the potential effects of supply disruptions;
- seasonal impact on sales of our products into HVAC systems and other residential applications;
- actions taken by our competitors and our ability to effectively compete in the increasingly competitive global electric motor and controls, power generation and power transmission industries;
- risks associated with global manufacturing, including risks associated with public health crises;
- economic changes in global markets where we do business, such as reduced demand for the products we sell, currency exchange rates, inflation rates, interest rates, recession, government policies, including policy changes affecting taxation, trade, tariffs, immigration, customs, border actions and the like, and other external factors that we cannot control;
- unanticipated costs or expenses we may incur related to litigation, including product warranty issues;
- infringement of our intellectual property by third parties, challenges to our intellectual property and claims of infringement by us of third party technologies;
- losses from failures, breaches, attacks or disclosures involving our information technology infrastructure and data;
- the possibility that the conditions will not be satisfied or the approvals will not be obtained required to complete the Rexnord Transaction, including shareholder or regulatory approvals, and the IRS ruling to be sought in connection with the Rexnord Transaction;

- changes in the extent and characteristics of the common shareholders of Rexnord and the Company and its effect pursuant to the merger agreement for the Rexnord Transaction on the number of shares of Company common stock issuable pursuant to the transaction, magnitude of the dividend payable to Company shareholders pursuant to the transaction and the extent of indebtedness to be incurred by the Company in connection with the transaction;
- failure to successfully integrate the PMC Business and any other future acquisitions into our business or achieve expected synergies and operating efficiencies, due to factors such as the future financial and operating performance of the acquired business, loss of key executives and employees, and operating costs, customer loss and business disruption being greater than expected;
- costs related to the Rexnord Transaction;
- unanticipated liabilities of acquired businesses, including the PMC Business;
- unanticipated adverse effects or liabilities from business exits or divestitures;
- changes in the method of determining London Interbank Offered Rate ("LIBOR"), or the replacement of LIBOR with an alternative reference rate;
- cyclical downturns affecting the global market for capital goods;

and other risks and uncertainties including, but not limited, to those described in this Annual Report on Form 10-K and from time to time in other filed reports including the Company's Quarterly Reports on Form 10-Q. For a more detailed description of the risk factors associated with the Company, please refer to **Part I - Item 1A - Risk Factors** in this Annual Report on Form 10-K and subsequent SEC filings. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this report are made only as of the date of this report, and the Company undertakes no obligation to update any forward-looking information contained in this report or with respect to the announcements described herein to reflect subsequent events or circumstances.

PART I

Unless the context requires otherwise, references in this Annual Report on Form 10-K to “we,” “us,” “our” or the “Company” refer collectively to Regal Beloit Corporation and its subsidiaries.

References in an Item of this Annual Report on Form 10-K to information contained in the 2021 Proxy Statement, or to information contained in specific sections of the 2021 Proxy Statement, incorporate the information into that Item by reference.

We operate on a 52/53 week fiscal year ending on the Saturday closest to December 31. We refer to the fiscal year ended January 2, 2021 as “fiscal 2020”, the fiscal year ended December 28, 2019 as “fiscal 2019” and the fiscal year ended December 29, 2018 as “fiscal 2018”.

ITEM 1 - BUSINESS

Our Company

Regal Beloit Corporation (NYSE: RBC), based in Beloit, Wisconsin (USA), is a leading manufacturer of electric motors, electrical motion controls, power generation and power transmission products serving markets throughout the world. Our four operating segments are: Commercial Systems, Industrial Systems, Climate Solutions and Power Transmission Solutions.

General

Commercial Systems Segment

Our Commercial Systems segment designs, manufactures and sells primarily:

- AC and DC motors from fractional to approximately 5 horsepower, electronic variable speed controls, fans and blowers for commercial applications. These products are sold directly to original equipment manufacturers (“OEMs”) and end-user customers through our distribution network and our network of direct and independent sales representatives. Typical applications include commercial building ventilation and HVAC, fan, blower and compressor motors, fans, blowers, water pumps for pools, spas, irrigation, and dewatering, and general commercial equipment. Our customers tend to be large and small OEMs and distributors, and their desire for high-quality services and, in many cases, more efficient motor-based solutions is providing us an increasing opportunity to add more value to their applications with energy efficient motor and integrated electronic control solutions.
- Precision stator and rotor kits from 5 to 2,900 horsepower for air conditioning, heat pump and refrigeration compressor applications, which are sold directly to OEM customers.

Industrial Systems Segment

Our Industrial Systems segment designs, manufactures and sells primarily:

- Integral and large AC motors from approximately 1 to 12,000 horsepower (up to 10,000 volts) for industrial applications, along with aftermarket parts and kits to support such products. These products are sold directly to OEMs and end-user customers through our distribution network and our network of direct and independent sales representatives. Our manufacturing and selling capabilities extend across the globe, serving four strategic verticals: distribution, pump and compressors, HVAC and air moving, and general industries and large motors. Within these verticals are several end-market applications, including agriculture, marine, mining, oil and gas, petrol chem, pulp and paper, and food and beverage, as well as other process applications.
- Electric alternators for prime and standby power applications from 5 kilowatts through 4 megawatts (in 50 and 60Hz) sold directly to OEMs or through our network of sales representatives. These products can be standard, custom, or engineered solutions that are used in a variety of markets, including data centers, distributed energy, microgrid, rental marine, agriculture, healthcare, mobile, and defense.
- Low and medium voltage paralleling switchgear, switchboards and control systems for power generation systems. These products are primarily custom engineered designs developed in close collaboration with the customer to develop critical solutions for data centers, healthcare, government and waste water applications.

- A complete lineup of transfer switches, with standard designs in stock for quick shipment and customized engineered options for specialized requirements. We offer these transfer switch power solutions for residential, commercial, industrial and critical applications from 100 amperes to 4,000 amperes. Aftermarket services are provided for preventative system maintenance and upgrades.

Climate Solutions Segment

Our Climate Solutions segment designs, manufactures and sells primarily:

- Fractional horsepower motors, electronic variable speed controls and blowers used in a variety of residential and light commercial air moving applications including HVAC systems and commercial refrigeration. These motors and blowers are vital components of an HVAC system and are used to move air into and away from furnaces, heat pumps, air conditioners, ventilators, fan filter boxes and water heaters. A majority of our HVAC motors and blowers, are installed as part of a new HVAC system that replaces an existing HVAC system, or are used in an HVAC system for new home construction. The business enjoys a large installed base of equipment and long-term relationships with its major customers. We also manufacture and supply replacement motors and blowers for these systems once installed. Customers include major HVAC distributors.
- Fractional horsepower motors and blowers are also used across a wide range of other applications including white goods, water heating equipment, small pumps, compressors, and fans, and other small appliances. Demand for these products is driven primarily by consumer and light commercial market segments.

Power Transmission Solutions Segment

Our Power Transmission Solutions segment designs, manufactures and sells primarily:

- Mounted and unmounted bearings. Unmounted bearings are offered in a variety of types and styles. These include cam followers, radial bearings, and thrust bearings. Mounted bearings include industry specific designs that aim to solve customer problems. They are all available with a variety of options and sizes and include aerospace and specialty bearings, mounted bearings, unmounted bearings, and corrosion resistant bearings.
- High-quality conveyor products including chains, belts, sprockets, components, guide rails and wear strips. Conveying components enhance the efficiency, noise reduction, wash-down maintenance, lubrication reduction and energy conservation of conveying systems. Our products are highly engineered with input from industry experts.
- High-performance disc, diaphragm and gear couplings for applications including turbines, compressors, generators and pumps in many industries including petrochemical, refinery, power generation, gas pipeline and liquid natural gas. We also produce flexible couplings and transmission elements. Products include universal joints and gear, grid, jaw, elastomer, and disc couplings.
- Mechanical power transmission drives and components including: belt drives, bushings, chain and sprockets, drive tighteners and idlers, mechanical clutches, and torque overload devices. Our products serve a wide range of industries and applications, such as the following: aggregate, forestry and wood products, grain and biofuels, power generation, food and beverage, commercial HVAC, and refrigeration.
- Gearboxes for motion control within complex equipment and systems used for a variety of applications. We provide a wide array of gear types, shaft configurations, ratios, housing materials and mounting methods. Right angle worm gear and bevel units can be specified for less than 100 inch lbs. of torque to over 132,000 inch lbs. of torque. Helical gear units are offered from 100 inch lbs. to over 500,000 inch lbs. of torque. Our products include worm gearing, helical offset, concentric, and right angle, bevel and miter gearing, and spur gearing. This gearing reduces the speed and increases the torque from an electric motor or other prime mover to meet the requirements of equipment.

Many of our products are originally sold and installed into OEM equipment within various industries. Our reputation and long history of providing highly reliable products creates an end user specification for replacement through the distribution channel. We also provide application and design assistance based on our deep knowledge of our products and their applications.

OEMs and end users of a variety of motion control and other industrial applications typically combine the types of motors, controls and power transmission products we offer. We seek to take advantage of this practice and to enhance our product penetration by leveraging cross-marketing and product line combination opportunities between our Commercial Systems,

Industrial Systems, Climate Solutions and Power Transmission Solutions products. Our growth strategy also includes (i) driving organic sales growth through the introduction of innovative new products, (ii) establishing and maintaining new customers, as well as developing new opportunities with existing customers, (iii) participating in higher growth geographic markets, and (iv) identifying and consummating strategic, value creating acquisitions.

Pending Transaction

On February 15, 2021, we entered into definitive agreements with Rexnord, Land Newco, Inc., a wholly owned indirect subsidiary of Rexnord (“Land”), and Phoenix 2021, Inc., our wholly owned subsidiary (“Merger Sub”), with respect to a Reverse Morris Trust transaction pursuant to which, immediately after Rexnord undergoes an internal reorganization and spin-off of its PMC Business to Land, Merger Sub will merge with and into Land and all shares of Land common stock (other than those held by Rexnord, Land, the Company, Merger Sub or their respective subsidiaries) will be converted into the right to receive shares of our common stock, \$0.01 par value per share, as calculated and subject to adjustment as set forth in the merger agreement for the Rexnord Transaction. When the merger is completed, Land (which at that time will hold the PMC business) will be our wholly owned subsidiary.

Closing of the Rexnord Transaction is subject to various closing conditions, including the receipt of the approval of our and Rexnord's shareholders, the receipt of regulatory approvals and other customary closing conditions.

The Rexnord Transaction is described more fully below under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview” and our Current Report on Form 8-K filed with the SEC on February 19, 2021 (the “Rexnord 8-K”). This description is qualified in its entirety by the description set forth in the Rexnord 8-K.

Acquisitions

In fiscal 2018, we completed one acquisition in the Commercial Systems segment.

- On April 10, 2018, we acquired Nicotra Gebhardt S.p.A. (“NG”) for \$161.5 million in cash, net of \$8.5 million of cash acquired. NG is a leader in critical, energy-efficient systems for ventilation and air quality. NG manufactures, sells and services fans and blowers under the industry leading brands of Nicotra and Gebhardt. The financial results of NG have been included in our Commercial Systems segment from the date of acquisition.

Divestitures

In fiscal 2019, we completed two divestitures in the Commercial Systems segment.

- On January 7, 2019, we sold our Regal Drive Technologies business and received proceeds of \$119.9 million. We recognized a gain on sale of \$41.0 million in the Consolidated Statements of Income.
- On July 1, 2019, we sold our Vapor Recovery business and received proceeds of \$19.2 million. We recognized a loss on sale of \$1.9 million in the Consolidated Statements of Income.

In fiscal 2019, we completed one divestiture in the Climate Solutions segment.

- On April 1, 2019, we sold our CapCom business and received proceeds of \$9.9 million. We recognized a gain on sale of \$6.0 million in the Consolidated Statements of Income.

In fiscal 2019, we completed one divestiture in the Power Transmission Solutions segment.

- On April 1, 2019, we sold our Velvet Drive business and received proceeds of \$8.9 million. We recognized a loss on sale of \$0.5 million in the Consolidated Statements of Income.

Sales, Marketing and Distribution

We sell our products directly to OEMs, distributors and end-users. We have multiple business units that promote our brands across their respective sales organizations. 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 operate large distribution facilities in Plainfield, Indiana; El Paso and McAllen, Texas; LaVergne, Tennessee; Florence, Kentucky; and Monterrey, Mexico which serve as hubs for our North American distribution and logistics operations. Products are shipped from these facilities to our customers utilizing common carriers. We also operate numerous warehouse and distribution facilities in our global markets to service the needs of our customers. In addition, we have many manufacturer representatives' warehouses located in specific geographic areas to serve local customers.

We derive a significant portion of revenue from our OEM customers. In our HVAC business, a large portion of our sales are to key OEM customers which makes our relationship with each of these customers important to our business. We have long standing relationships with these customers and we expect these customer relationships will continue for the foreseeable future. Despite this relative concentration, we had no customer that accounted for more than 10% of our consolidated net sales in fiscal 2020, fiscal 2019 or fiscal 2018.

Many of our motors are incorporated into residential applications that OEMs sell to end users. The number of installations of new and replacement HVAC systems, pool pumps and related components is higher during the spring and summer seasons due to the increased use of air conditioning and swimming pools during warmer months. As a result, our revenues tend to be higher in the second and third quarters.

Competition

Commercial Systems Segment

Electric motor manufacturing is a highly competitive global industry in which there is emphasis on quality, reliability, and technological capabilities such as energy efficiency, delivery performance, price and service. We compete with a large number of domestic and international competitors due in part to the nature of the products we manufacture and the wide variety of applications and customers we serve. Many manufacturers of electric motors operate production facilities in many different countries, producing products for both the domestic and export markets. Global electric motor manufacturers, particularly those located in Europe, Brazil, China, India and elsewhere in Asia, compete with us as they attempt to expand their market penetration around the world, especially in North America.

Our major competitors in the Commercial Systems segment include Broad-Ocean Motor Co., Lafert, ABB Ltd., Siemens AG, Nidec Corporation, Ziehl-Abegg, Weg S.A., and ebm-papst Mulfingen GmbH & Co.KG.

Industrial Systems Segment

Our major competitors in the Industrial Systems segment include Wolong Electric Group Ltd., Kirloskar Brothers Limited, Crompton Greaves Limited, Lafert, ABB Ltd., Siemens AG, Toshiba Corporation, Cummins, Inc., Nidec Corporation, TECHTOP Electric Motors, Weg S.A., Hyundai, and Teco-Westinghouse Motor Company.

Climate Solutions Segment

Our major competitors in the Climate Solutions segment include Nidec Corporation, Broad-Ocean Motor Co., ebm-papst Mulfingen GmbH & Co.KG, Welling Holding Ltd., McMillan Motors, and Panasonic Corporation.

Power Transmission Solutions Segment

The power transmission products market is fragmented. Many competitors in the market offer limited product lines or serve specific applications, industries or geographic markets. Other larger competitors offer broader product lines that serve multiple end uses in multiple geographies. Competition in the Power Transmission Solutions segment is based on several factors including quality, lead times, custom engineering capability, pricing, reliability, and customer and engineering support.

Our major competitors in the Power Transmission Solutions segment include Altra Industrial Motion, Inc., ABB Ltd., Rexnord Corporation, SKF and Timken Company.

Engineering, Research and Development

We believe that innovation is critical to our future growth and success and are committed to investing in new products, technologies and processes that deliver real value to our customers. Our research and development expenses consist primarily of costs for (i) salaries and related personnel expenses; (ii) the design and development of new energy efficiency products and enhancements; (iii) quality assurance and testing; and (iv) other related overhead. Our research and development efforts tend to be targeted toward developing new products that would allow us to gain additional market share, whether in new or existing segments.

We believe the key driver of our innovation strategy is the development of products that include energy efficiency, embedded intelligence and variable speed technology solutions. With our emphasis on product development and innovation, our businesses filed 21 Non-Provisional United States ("US") patents, 6 Provisional US patents and an additional 30 Non-Provisional foreign patents in fiscal 2020.

Each of our business units has its own, as well as shared, product development and design teams that continuously work to enhance our existing products and develop new products for our growing base of customers that require custom and standard solutions. We believe we have state of the art product development and testing laboratories. We believe these capabilities provide a significant competitive advantage in the development of high quality motors, electric generators, and mechanical products incorporating leading design characteristics such as low vibration, low noise, improved safety, reliability, sustainability and enhanced energy efficiency. Increasingly, our research and development and other engineering efforts have focused on smart products that communicate and allow for monitoring, diagnostics and predictive maintenance.

Manufacturing and Operations

We have developed and acquired global operations in locations such as China, Europe, India, Mexico and Thailand so that we can sell our products in these markets, follow our multinational customers, take advantage of global talent and complement our flexible, rapid response operations in the US, Canada and Europe. Our vertically integrated manufacturing operations, including our own aluminum die casting and steel stamping operations, are an important element of our rapid response capabilities. In addition, we have an extensive internal logistics operation and a network of distribution facilities with the capability to modify stock products to quickly meet specific customer requirements. This gives us the ability to efficiently and promptly deliver a customer's unique product to the desired location.

We manufacture a majority of the products that we sell, but also strategically source components and finished goods from an established global network of suppliers. We aggressively pursue global sourcing to reduce our overall costs and lead-time. We generally maintain a dual sourcing capability to ensure a reliable supply source for our customers, although we do depend on a limited number of single source suppliers for certain materials and components. We regularly invest in machinery and equipment to improve and maintain our facilities. Additionally, we have typically obtained significant amounts of quality capital equipment as part of our acquisitions, often increasing overall capacity and capability. Base materials for our products consist primarily of steel, copper and aluminum. Additionally, significant components of our product costs consist of bearings, electronic assemblies, permanent magnets and ferrous and non-ferrous castings.

The Regal Business System is our enterprise-wide framework for continuous improvement. With our corporate values as its foundation, the Regal Business System enables effective goal alignment, collaborative problem solving and sharing of best practices, tools, skills and expertise to achieve our objectives. Through the relentless commitment to continuous improvement, we strive to elevate safety, quality, delivery, cost and growth performance of the business with the goal of exceeding the expectations of our customers, our associates and our shareholders.

Facilities

We have manufacturing, sales and service facilities in the US, Mexico, China, Europe, India, Thailand, and Australia, as well as a number of other locations throughout the world. Our Commercial Systems segment currently includes 46 manufacturing, service, office and distribution facilities of which 14 are principal manufacturing facilities and 3 are principal warehouse facilities. The Commercial Systems segment's present operating facilities contain a total of approximately 4 million square feet of space, of which approximately 31% are leased. Our Industrial Systems segment currently includes 25 manufacturing, service, office and distribution facilities of which 11 are principal manufacturing facilities and 1 is a principal warehouse facility. The Industrial Systems segment's present operating facilities contain a total of approximately 2.8 million square feet of space, of which approximately 26% are leased. Our Climate Solutions segment includes 29 manufacturing, service, office and distribution facilities, of which 9 are principal manufacturing facilities and 3 are principal warehouse facilities. The Climate Solutions segment's present operating facilities contain a total of approximately 2.5 million square feet of space, of which approximately 54% are leased. Our Power Transmission Solutions segment currently includes 25 manufacturing, service, office and distribution facilities of which 13 are principal manufacturing facilities and 1 is a principal warehouse facility. The Power Transmission Solutions segment's present operating facilities contain a total of approximately 2.5 million square feet of space, of which approximately 24% are leased. Our corporate offices are located in Beloit, Wisconsin in an approximately 50,000 square foot owned office building and in Rosemont, Illinois in an approximately 12,100 square foot rented office building. We believe our equipment and facilities are well maintained and adequate for our present needs.

Backlog

Our business units have historically shipped the majority of their products within a month from when the order was received. As of January 2, 2021, our backlog was \$444.8 million, as compared to \$415.9 million on December 28, 2019. We believe that virtually all of our backlog will be shipped in fiscal 2021.

Patents, Trademarks and Licenses

We own a number of US patents and foreign patents relating to our businesses. While we believe that our patents provide certain competitive advantages, we do not consider any one patent or group of patents essential to our business as a whole. We also use various registered and unregistered trademarks, and we believe these trademarks are significant in the marketing of most of our products. However, we believe the successful manufacture and sale of our products generally depends more upon our technological, manufacturing and marketing skills.

Human Capital Management

At the end of fiscal 2020, we employed approximately 23,000 full-time associates worldwide. Of those associates, approximately 11,000 were located in Mexico; approximately 3,700 in the US; approximately 3,000 in China; approximately 2,200 in India; and approximately 3,100 in the rest of the world.

We feel that our associates are our most valuable assets, and consider our associate relations to be very good. Our objective is to create a high-performing organization by attracting and retaining high-quality, diverse talent and creating an environment in which all associates have the opportunity to reach their full potential.

The core goal of our performance management process is to develop and maintain a high-performing organization that is positioned to meet our business objectives. Creating a high-performing organization requires associates and managers to exhibit transparency in their day-to-day interactions, and use data to drive decision-making and accountability. Our performance management process focuses on enabling associates and managers to gain alignment through:

- a structured annual goal-setting process where managers and associates work collaboratively to develop specific, measurable, achievable, relevant and time bound (SMART) goals that align with our overarching business objectives and our company values;
- clear, organization-wide expectations that managers and associates monitor progress toward completion of their SMART goals with regular coaching sessions and periodic evaluations; and
- an annual performance assessment that provides a direct link between the associate's pay and performance.

In addition to our focus on performance, we also have a strong commitment to our company values of integrity, responsibility, diversity and inclusion, customer success, innovation with purpose, continuous improvement, performance, and a passion to win, all with a sense of urgency. We regularly promote these values from the top down. In 2020, both our executive leadership team and some of our associates participated in a series of videos that communicated the importance our values to our global workforce. In addition to instilling our corporate values as a key part of associate life, we promote a commitment to ethics and compliance among our workforce through our Code of Business Conduct and Ethics. In 2020, 98.6% of our global workforce completed training on the Code of Business Conduct and Ethics.

As mentioned above, diversity and inclusion are rooted in our company values. We believe that we are at our best when we bring to bear the unique perspectives, experiences, backgrounds and ideas of our associates. We seek a workforce that reflects the communities in which we operate, and strive to create diverse, equal and inclusive workplaces where all of our associates have the opportunity to achieve their full potential.

We are also committed to improving the health and well-being of our associates. Regal's US wellness program was established in 2008 and is continuously evolving to better educate, motivate and reward our associates for maintaining and achieving healthy measures. During our wellness plan year running from October 1, 2019 through September 30, 2020, 35% of our US associates participated in on-site biometric screening that provides them with key metrics such as BMI, blood pressure, and triglyceride, cholesterol and blood glucose levels.

As a company, we believe that our value of responsibility requires community engagement, and we encourage our associates to share in our commitment to the communities where we operate. We have an established charitable foundation, which is governed by an advisory board comprised of our associates. The Regal Charitable Foundation focuses on supporting the United Way and other 501(c)(3) nonprofit organizations in the areas of health and human services, education and the arts, and civic and disaster relief, and prioritizes requests that are submitted by our associates. In fiscal 2020, the Regal Charitable Foundation provided \$570,481 of support to organizations in the communities where our associates live and work.

Information About Our Executive Officers

The names, ages, and positions of our executive officers as of March 2, 2021 are listed below along with their business experience during the past five years. Officers are elected annually by the Board of Directors. There are no family relationships among these officers, nor any arrangements or understanding between any officer and any other persons pursuant to which the officer was elected.

Executive Officer	Age	Position	Business Experience and Principal Occupation
Louis V. Pinkham	49	Chief Executive Officer	Joined the Company in April 2019, as Chief Executive Officer. Prior to joining the Company, Mr. Pinkham was Senior Vice President of Crane Co. from 2016-2019; prior thereto he served in other leadership roles at Crane Co. from 2012-2016. Prior to joining Crane Co., Mr. Pinkham was Senior Vice President at Eaton Corporation. From 2000-2012, he held successive and increasing roles of global responsibility at Eaton. Prior to joining Eaton, Mr. Pinkham held an Engineering and Quality Manager position at ITT Sherotec and a Process Design Engineer position with Molecular Biosystems, Inc.
Robert J. Rehard	52	Vice President, Chief Financial Officer	Joined the Company in January 2015, as Vice President, Corporate Controller and Principal Accounting Officer and became Vice President, Chief Financial Officer in April 2018. Prior to joining the Company, Mr. Rehard was a Division Controller for Eaton Corporation and held several other financial leadership positions throughout his career with Baxter, Emerson, Masco and Cooper. Mr. Rehard started his career with Deloitte & Touche in Costa Mesa, California.

Thomas E. Valentyn	61	Vice President, General Counsel and Secretary	Joined the Company in December 2013, as Associate General Counsel and became Vice President, General Counsel and Secretary in May 2016. Prior to joining the Company, Mr. Valentyn was General Counsel with Twin Disc, Inc. from 2007-2013. From 2000-2007, he served as Vice President and General Counsel with Norlight Telecommunications; prior thereto he served as in-house counsel with Johnson Controls, Inc. from 1991-2000. He began his legal career with Borgelt, Powell, Peterson and Frauen in Milwaukee, Wisconsin.
John M. Avampato	60	Vice President, Chief Information Officer	Joined the Company in April 2006 and became Vice President, Chief Information Officer in April 2010. Prior to joining the Company, Mr. Avampato was Vice President, Chief Information Officer for Newell Rubbermaid from 1999-2006. Mr. Avampato served in several positions for Newell Rubbermaid from 1984-1999.
Cheryl A. Lewis	52	Vice President, Chief Human Resources Officer	Joined the Company in March 2020, as Vice President, Chief Human Resources Officer. Prior to joining the Company, Ms. Lewis served as Segment Director, Human Resources for Illinois Tool Works Inc. from 2010-2020. Prior to joining Illinois Tool Works Inc., Ms. Lewis was Vice President, Human Resources with Alcan Packaging from 2008-2010. From 1991-2008 she held successive and increasing roles of responsibility, including Vice President, Human Resources at Panduit Corporation.
Scott D. Brown	61	President, Commercial Systems Segment	Joined the Company in August 2005 and became President, Commercial Systems Segment in June 2019. Prior to being promoted to his current position, Mr. Brown, in successive roles, served as Vice President, Business Leader of Commercial Motors, Vice President, Business Leader of Control Solutions, and Vice President, Manufacturing. Prior to joining the Company, Mr. Brown spent 17 years with General Electric in operations and various business leadership roles.
Eric S. McGinnis	50	President, Industrial Systems Segment	Joined the Company in August 2005 and became President, Industrial Systems Segment in June 2019. Prior to being promoted to his current position, Mr. McGinnis served as Vice President, Business Development and Vice President, Industrial Motors. Prior to joining the Company, Mr. McGinnis spent 12 years with General Electric in various business leadership roles.
John C. Kunze	58	President, Climate Solutions Segment	Joined the Company in September 2007 and became President, Climate Solutions Segment in June 2019. Prior to being promoted to his current position, Mr. Kunze served as Vice President, Business Leader of Climate Solutions, and, before that, Vice President, Business Leader of Air Moving. From 2000-2007, Mr. Kunze served as Chief Operating Officer of Jakel, Inc. He began his career with Invensys and Emerson.
Jerrald R. Morton	59	President, Power Transmission Solutions Segment	Joined the Company in February 2015 and became President, Power Transmission Solutions Segment in June 2019. Prior to being promoted to his current position, Mr. Morton served as Vice President, Business Leader of Power Transmission Solutions from 2017-2019, and led the global operations for Regal's power transmission business from 2015-2017. Prior to joining the Company, Mr. Morton spent 28 years with Emerson in a variety of roles in Quality, Technology, and Operations and was Vice President, Global Operations of Emerson's power transmission business at the time Regal Beloit Corporation acquired that business.

As previously reported, Mr. Jonathan J. Schlemmer retired as Chief Operating Officer effective January 31, 2020, consistent with a reorganization of the Company's leadership that resulted in the elimination of the Chief Operating Officer position.

Website Disclosure

Our Internet address is www.regalbeloit.com. We make available free of charge (other than an investor's own Internet access charges) through our Internet website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. In addition, we have adopted a Code of Business Conduct and Ethics that applies to our officers, directors and associates which satisfies the requirements of the New York Stock Exchange regarding a "code of business conduct." We have also adopted Corporate Governance Guidelines addressing the subjects required by the New York Stock Exchange. In September 2020, we produced our updated Sustainability Report. We make copies of the foregoing, as well as the charters of our Board committees, available free of charge on our website. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to, or waivers from, our Code of Business Conduct and Ethics by posting such information on our web site at the address stated above. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

ITEM 1A - RISK FACTORS

You should carefully consider each of the risks described below, together with all of the other information contained in this Annual Report on Form 10-K, before making an investment decision with respect to our securities. If any of the following risks develop into actual events, our business, financial condition, results of operations, or cash flow could be materially and adversely affected and you may lose all or part of your investment.

Risks Relating to Our Operations and Strategy

The COVID-19 pandemic has adversely impacted our business and could continue to have a material adverse impact on our business, results of operation, financial condition, liquidity, customers, suppliers, and the geographies in which we operate.

The COVID-19 pandemic has significantly increased economic, demand and operational uncertainty. We have global operations, customers and suppliers, including in countries most impacted by COVID-19. Authorities around the world have taken a variety of measures to slow the spread of COVID-19, including travel bans or restrictions, increased border controls or closures, quarantines, shelter-in-place orders and business shutdowns and such authorities may impose additional restrictions. We have also taken actions to protect our employees and to mitigate the spread of COVID-19, including embracing guidelines set by the World Health Organization and the U.S. Centers for Disease Control and Prevention on social distancing, good hygiene, restrictions on employee travel and in-person meetings, and changes to employee work arrangements including remote work arrangements where feasible. The actions taken around the world to slow the spread of COVID-19 have also impacted our customers and suppliers, and future developments could cause further disruptions to us due to the interconnected nature of our business relationships.

The impact of COVID-19 on the global economy and our customers, as well as recent volatility in commodity markets, has negatively impacted demand for our products and could continue to do so in the future. Its effects could also result in further disruptions to our manufacturing operations, including higher rates of employee absenteeism, and supply chain, which could continue to negatively impact our ability to meet customer demand. Additionally, the potential deterioration and volatility of credit and financial markets could limit our ability to obtain external financing. The extent to which COVID-19 will impact our business, results of operations, financial condition or liquidity is highly uncertain and will depend on future developments, including the spread and duration of the virus, potential actions taken by governmental authorities, and how quickly economic conditions stabilize and recover.

We expect to incur costs and charges as a result of restructuring activities such as facilities and operations consolidations and workforce reductions that we expect will reduce on-going costs, and those restructuring activities also may be disruptive to our business and may not result in anticipated cost savings.

We have been consolidating facilities and operations in an effort to make our business more efficient and expect to continue to review our overall manufacturing footprint. We have incurred, and expect in the future to incur, additional costs and restructuring charges in connection with such consolidations, workforce reductions and other cost reduction measures that have adversely affected and, to the extent incurred in the future would adversely affect, our future earnings and cash flows. Furthermore, such actions may be disruptive to our business. This may result in production inefficiencies, product quality issues, late product deliveries or lost orders as we begin production at consolidated facilities, which would adversely impact our sales levels, operating results and operating margins. In addition, we may not realize the cost savings that we expect to realize as a result of such actions.

Our ability to establish, grow and maintain customer relationships depends in part on our ability to develop new products and product enhancements based on technological innovation, such as IoT, and marketplace acceptance of new and existing products, including products related to technology not yet adopted or utilized in certain geographic locations in which we do business.

The electric motor and power transmission industries in recent years have seen significant evolution and innovation, particularly with respect to increasing energy efficiency and control enhancements. Our ability to effectively compete in these industries depends in part on our ability to continue to develop new technologies and innovative products and product enhancements, including enhancements based on technological innovation such as IoT. Further, many large customers in these industries generally desire to purchase from companies that can offer a broad product range, which means we must continue to develop our expertise in order to design, manufacture and sell these products successfully. This requires that we make significant investments in engineering, manufacturing, customer service and support, research and development and intellectual property protection, and there can be no assurance that in the future we will have sufficient resources to continue to make such investments. If we are unable to meet the needs of our customers for innovative products or product variety, or if our products

become technologically obsolete over time due to the development by our competitors of technological breakthroughs or otherwise, our revenues and results of operations may be adversely affected. In addition, we may incur significant costs and devote significant resources to the development of products that ultimately are not accepted in the marketplace, do not provide anticipated enhancements, or do not lead to significant revenue, which may adversely impact our results of operations.

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

Many of the products we produce contain key materials such as steel, copper, aluminum and electronics. Market prices for those materials can be volatile due to changes in supply and demand, manufacturing and other costs, regulations and tariffs, economic conditions and other circumstances. We may not be able to offset any increase in commodity costs through pricing actions, productivity enhancements or other means, and increasing commodity costs may have an adverse impact on our gross margins, which could adversely affect our results of operations and financial condition.

In each of our Climate Solutions and Commercial Systems segments, we depend on revenues from several significant customers, and any loss, cancellation or reduction of, or delay in, purchases by these customers may have a material adverse effect on our business.

We derive a significant portion of the revenues of our motor businesses from several key OEM customers. Our success will depend on our continued ability to develop and manage relationships with these customers. We have long standing relationships with these customers and we expect these customer relationships will continue for the foreseeable future. Our reliance on sales from customers makes our relationship with each of these customers important to our business. We cannot assure you that we will be able to retain these key 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 large 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 have a material adverse effect on our results of operations and financial condition.

Goodwill and an indefinite-lived trade name intangible comprise a significant portion of our total assets, and if we determine that goodwill and the indefinite-lived trade name intangible have become impaired in the future, our results of operations and financial condition in such years may be materially and adversely affected.

As of January 2, 2021, we had goodwill of \$1,518.2 million and an indefinite-lived trade name of \$122.8 million. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. The indefinite-lived trade name intangible represents a long-standing brand acquired in a business combination and is assumed to have indefinite life. We review goodwill and the indefinite-lived trade name intangible at least annually for impairment and any excess in carrying value over the estimated fair value is charged to the results of operations. Our estimates of fair value are based on assumptions about the future operating cash flows, growth rates, discount rates applied to these cash flows and current market estimates of value. A reduction in net income resulting from the write down or impairment of goodwill or the indefinite-lived trade name intangible would affect financial results. If we are required to record a significant charge to earnings in our consolidated financial statements because an impairment of goodwill or the indefinite-lived trade name intangible is determined, our results of operations and financial condition could be materially and adversely affected.

Portions of our total sales come directly from customers in key markets and industries. A significant or prolonged decline or disruption in one of those markets or industries could result in lower capital expenditures by such customers, which could have a material adverse effect on our results of operations and financial condition.

Portions of our total sales are dependent directly upon the level of capital expenditures by customers in key markets and industries, such as HVAC, refrigeration, power generation, oil and gas, and unit material handling or water heating. A significant or prolonged decline or disruption in one of those markets or industries may result in some of such customers delaying, canceling or modifying projects, or may result in nonpayment of amounts that are owed to us. These effects could have a material adverse effect on our results of operations and financial condition.

We sell certain products for high volume applications, and any failure of those products to perform as anticipated could result in significant liability and expenses that may adversely affect our business and results of operations.

We manufacture and sell a number of products for high volume applications, including electric motors used in pools and spas, residential and commercial heating, ventilation and air conditioning and refrigeration equipment. Any failure of those products to perform as anticipated could result in significant product liability, product recall or rework, or other costs. The costs of product recalls and reworks are not generally covered by insurance. If we were to experience a product recall or rework in connection with products of high volume applications, our financial condition or results of operations could be materially adversely affected.

One of our subsidiaries that we acquired in 2007 is subject to numerous claims filed in various jurisdictions relating to certain sub-fractional motors that were primarily manufactured through 2004 and that were included as components of residential and commercial ventilation units manufactured and sold in high volumes by a third party. These ventilation units are subject to regulation by government agencies such as the US Consumer Product Safety Commission (“CPSC”). The claims generally allege that the ventilation units were the cause of fires. Based on the current facts, we cannot assure you that these claims, individually or in the aggregate, will not have a material adverse effect on our subsidiary's results of operations, financial condition or cash flows. We cannot reasonably predict the outcome of these claims, the nature or extent of any CPSC or other remedial actions, if any, that our subsidiary or we on their behalf may need to undertake with respect to motors that remain in the field, or the costs that may be incurred, some of which could be significant.

Our business may not generate cash flow from operations in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs, we could become increasingly vulnerable to general adverse economic and industry conditions and interest rate trends, and our ability to obtain future financing may be limited.

As of January 2, 2021, we had \$1.1 billion in aggregate debt outstanding under our various financing arrangements, \$611.3 million in cash and cash equivalents and \$499.8 million in available borrowings under our current revolving credit facility. Our ability to make required payments of principal and interest on our debt levels will depend on our future performance, which, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations or that future borrowings will be available under our current credit facilities in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs. In addition, our credit facilities contain financial and restrictive covenants that could limit our ability to, among other things, borrow additional funds or take advantage of business opportunities. Our failure to comply with such covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all our indebtedness or otherwise have a material adverse effect on our business, financial condition, results of operations and debt service capability. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.” Our indebtedness may have important consequences. For example, it could:

- 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;
- 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, manufacturing capacity expansion, business integration, 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/or
- place us at a competitive disadvantage relative to our competitors that have less debt.

In addition, our credit facilities require 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 strategies. If an event of default under our credit facility or senior notes were to occur, the lenders could elect to declare all amounts outstanding under the applicable agreement, together with accrued interest, to be immediately due and payable.

We depend on certain key suppliers, and any loss of those suppliers or their failure to meet commitments may adversely affect our business and results of operations.

We are dependent on a single or limited number of suppliers for some materials or components required in the manufacture of our products. If any of those suppliers fail to meet their commitments to us in terms of delivery or quality, we may experience supply shortages that could result in our inability to meet our customers' requirements, or could otherwise experience an interruption in our operations that could negatively impact our business and results of operations.

Sales of products incorporated into HVAC systems and other residential applications are seasonal and 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 and other residential applications that OEMs sell to end users. The number of installations of new and replacement HVAC systems or components and other residential applications 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 season 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 season 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.

Our success is highly dependent on qualified and sufficient staffing. Our failure to attract or retain qualified personnel, including our senior management team, could lead to a loss of revenue or profitability.

Our success depends, in part, on the efforts and abilities of our senior management team and key associates and the contributions of talented associates in various operations and functions, such as engineering, finance, sales, marketing, manufacturing, etc. The skills, experience and industry contacts of our senior management team significantly benefit our operations and administration. The failure to attract or retain members of our senior management team and key talent could have a negative effect on our operating results.

Risks Relating to Our Global Footprint

We operate in the highly competitive global electric motors and controls, power generation and power transmission industries.

The global electric motors and controls, power generation and power transmission industries are highly competitive. We encounter a wide variety of domestic and international competitors due in part to the nature of the products we manufacture and the wide variety of applications and customers we serve. In order to compete effectively, we must retain relationships with major customers and establish relationships with new customers, including those in developing countries. Moreover, in certain applications, customers exercise significant power over business terms. It may be difficult in the short-term for us to obtain new sales to replace any decline in the sale of existing products that may be lost to competitors. Our failure to compete effectively may reduce our revenues, profitability and cash flow, and pricing pressures resulting from competition may adversely impact our profitability.

We have continued to see a trend with certain customers who are attempting to reduce the number of vendors from which they purchase product in order to reduce their costs and diversify their risk. As a result, we may lose market share to our competitors in some of the markets in which we compete.

In addition, 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.

We may also choose to exit certain businesses, markets, or channels based on a variety of factors including our 80/20 initiatives.

We manufacture a significant portion of our products outside the US, and political, societal or economic instability or public health crises may present additional risks to our business.

Approximately 19,300 of our approximate 23,000 total associates and 35 of our principal manufacturing and warehouse facilities are located outside the US. International operations generally are subject to various risks, including political, societal and economic instability, local labor market conditions, public health crises, breakdowns in trade relations, the imposition of tariffs and other trade restrictions, lack of reliable legal systems, ownership restrictions, the impact of government regulations, the effects of income and withholding taxes, governmental expropriation or nationalization, 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 climates in countries where we have operations could have a material adverse effect on our financial condition, results of operations and cash flows, including, for example, the uncertainty surrounding the effect of the United Kingdom's exit from the European Union, commonly referred to as "Brexit," trade relations between the US and China, the implementation of the United States-Mexico-Canada Agreement (the "USMCA"), or the change in labor rates in Mexico.

In addition, as described in more detail above, the continued global spread of COVID-19 could have a material adverse effect on our financial condition, results of operations and cash flows.

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

The net assets, net earnings and cash flows from our foreign subsidiaries are based on the US 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 US dollar. Any increase in the value of the US dollar in relation to the value of the local currency, whether by means of market conditions or governmental actions such as currency devaluations, will adversely affect our revenues from our foreign operations when translated into US dollars. Similarly, any decrease in the value of the US dollar in relation to the value of the local currency will increase our operating costs in foreign operations, to the extent such costs are payable in foreign currency, when translated into US dollars.

Commodity, currency and interest rate hedging activities may adversely impact our financial performance as a result of changes in global commodity prices, interest rates and currency rates.

We use derivative financial instruments in order to reduce the substantial effects of currency and commodity fluctuations and interest rate exposure on our cash flow and financial condition. These instruments may include foreign currency and commodity forward contracts, currency swap agreements and currency option contracts, as well as interest rate swap agreements. We have entered into, and expect to continue to enter into, such hedging arrangements. By utilizing hedging instruments, we may forgo benefits that might result from fluctuations in currency exchange, commodity and interest rates. We also are exposed to the risk that counterparties to hedging contracts will default on their obligations. Any default by such counterparties might have an adverse effect on us.

Worldwide economic conditions may adversely affect our industry, business and results of operations.

General economic conditions and conditions in the global financial markets can affect our results of operations. Deterioration in the global economy could lead to higher unemployment, lower consumer spending and reduced investment by businesses, and could lead our customers to slow spending on our products or make it difficult for our customers, our vendors and us to accurately forecast and plan future business activities. Worsening economic conditions could also affect the financial viability of our suppliers, some of which we may consider key suppliers. If the commercial, industrial, residential HVAC, power generation and power transmission markets significantly deteriorate, our business, financial condition and results of operations will likely be materially and adversely affected. Additionally, our stock price could decrease if investors have concerns that our business, financial condition and results of operations will be negatively impacted by a worldwide economic downturn.

We are subject to tax laws and regulations in many jurisdictions and the inability to successfully defend claims from taxing authorities related to our current and/or acquired businesses could adversely affect our operating results and financial position.

A significant amount of our revenue is generated from customers located outside of the US, and an increasingly greater portion of our assets and associates are located outside of the US which requires us to interpret the income tax laws and rulings in each of those taxing jurisdictions. Due to the subjectivity of tax laws between those jurisdictions as well as the subjectivity of factual interpretations, our estimates of income tax liabilities may differ from actual payments or assessments. Claims from taxing authorities related to these differences could have an adverse impact on our operating results and financial position.

Risks Relating to the Legal and Regulatory Environment

We are subject to litigation, including product liability and warranty claims that may adversely affect our financial condition and results of operations.

We are, from time to time, a party to litigation that arises in the normal course of our business operations, including product warranty and liability claims, contract disputes and environmental, asbestos, employment and other litigation matters. We face an inherent business risk of exposure to product liability and warranty claims in the event that the use of our products is alleged to have resulted in injury or other damage. While we currently maintain general liability and product liability insurance coverage in amounts that we believe are adequate, we cannot assure you that we will be able to maintain this insurance on acceptable terms or that this insurance will provide sufficient coverage against potential liabilities that may arise. Any product liability claim may also include the imposition of punitive damages, the award of which, pursuant to certain state laws, may not be covered by insurance. Any claims brought against us, with or without merit, may have an adverse effect on our business and results of operations as a result of potential adverse outcomes, the expenses associated with defending such claims, the diversion of our management's resources and time and the potential adverse effect to our business reputation.

Infringement of our intellectual property by third parties may harm our competitive position, and we may incur significant costs associated with the protection and preservation of our intellectual property.

We own or otherwise have rights in a number of patents and trademarks relating to the products we manufacture, which have been obtained over a period of years, and we continue to actively pursue patents in connection with new product development and to acquire additional patents and trademarks through the acquisitions of other businesses. These patents and trademarks have been of value in the growth of our business and may continue to be of value in the future. Our inability to protect this intellectual property generally, or the illegal breach of some or a large group of our intellectual property rights, would have an adverse effect on our business. In addition, there can be no assurance that our intellectual property will not be challenged, invalidated, circumvented or designed-around, particularly in countries where intellectual property rights are not highly developed or protected. We have incurred in the past and may incur in the future significant costs associated with defending challenges to our intellectual property or enforcing our intellectual property rights, which could adversely impact our cash flow and results of operations.

Third parties may claim that we are infringing their intellectual property rights and we could incur significant costs and expenses or be prevented from selling certain products.

We may be subject to claims from third parties that our products or technologies infringe on their intellectual property rights or that we have misappropriated intellectual property rights. If we are involved in a dispute or litigation relating to infringement of third party intellectual property rights, we could incur significant costs in defending against those claims. Our intellectual property portfolio may not be useful in asserting a counterclaim, or negotiating a license, in response to a claim of infringement or misappropriation. In addition, as a result of such claims of infringement or misappropriation, we could lose our rights to technology that are important to our business, or be required to pay damages or license fees with respect to the infringed rights or be required to redesign our products at substantial cost, any of which could adversely impact our cash flows and results of operations.

We may incur costs or suffer reputational damage due to improper conduct of our associates, agents or business partners.

We are subject to a variety of domestic and foreign laws, rules and regulations relating to improper payments to government officials, bribery, anti-kickback and false claims rules, competition, export and import compliance, money laundering and data privacy. If our associates, agents or business partners engage in activities in violation of these laws, rules or regulations, we may be subject to civil or criminal fines or penalties or other sanctions, may incur costs associated with government investigations, or may suffer damage to our reputation.

Our operations are highly dependent on information technology infrastructure, and failures, attacks or breaches could significantly affect our business.

We depend heavily on our information technology infrastructure in order to achieve our business objectives. If we experience a problem that impairs this infrastructure, such as a computer virus, a problem with the functioning of an important IT application, or an intentional disruption of our IT systems by a third party, the resulting disruptions could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on our business in the ordinary course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to eliminate these problems and address related security concerns, including costs relating to investigation and remediation actions.

IT security threats via computer malware and other “cyber-attacks,” which are increasing in both frequency and sophistication, could also result in unauthorized disclosures of information, such as customer data, personally identifiable information or other confidential or proprietary material, and create financial liability, subject us to legal or regulatory sanctions, or damage our reputation. Moreover, because the techniques used to gain access to or sabotage systems often are not recognized until launched against a target, we may be unable to anticipate the methods necessary to defend against these types of attacks, and we cannot predict the extent, frequency or impact these attacks may have on us. While we continuously seek to maintain robust information security mechanisms and controls, the impact of a material IT event could have a material adverse effect on our competitive position, results of operations, financial condition and cash flow.

We have substantially completed the implementation of a global Enterprise Resource Planning (the “ERP”) system that redesigned and deployed a common information system. We will continue to implement the ERP system throughout the business. The process of implementation can be costly and can divert the attention of management from the day-to-day operations of the business. As we implement the ERP system, some elements may not perform as expected. This could have an adverse effect on our business.

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, including more stringent environmental laws that may be imposed in the future, could subject us to future liabilities, fines or penalties or the suspension of production. In addition, if environmental and human health and safety laws and regulations are repealed, made less burdensome or implemented at a later date, demand for our products designed to comply with such regulations may be unfavorably impacted.

We are subject to changes in legislative, regulatory and legal developments involving income and other taxes.

We are subject to US federal, state, and international income, payroll, property, sales and use, fuel, and other types of taxes. Changes in tax rates, enactment of new tax laws, revisions of tax regulations, and claims or litigation with taxing authorities, including claims or litigation related to our interpretation and application of tax laws and regulations, could result in substantially higher taxes, could have a negative impact on our ability to compete in the global marketplace, and could have a significant adverse effect on our results or operations, financial conditions and liquidity.

Risks Relating to Our Merger, Acquisition and Divestiture Activity

We and Rexnord may be unable to satisfy the conditions or obtain the approvals required to complete the Rexnord Transaction.

The consummation of the Rexnord Transaction is subject to numerous conditions, including consummation of certain transactions contemplated by the Agreement and Plan of Merger, by and among Rexnord, Land, Merger Sub and us (the “Merger Agreement”) and the Separation and Distribution Agreement by and among Rexnord, Land and us, the receipt of the approval of Rexnord's and our shareholders, the receipt of regulatory approvals, and other closing conditions. Neither Rexnord nor we can make any assurances that the Rexnord Transaction will be consummated on the terms or timeline currently contemplated, or at all. Both Rexnord and we have and will continue to expend time and resources and incur expenses related to the proposed Rexnord Transaction.

Governmental agencies may not approve the Rexnord Transaction or may impose conditions to the approval of the Rexnord Transaction or require changes to the terms of the Rexnord Transaction. Any such conditions or changes could have the effect of delaying completion of the Rexnord Transaction, imposing costs on or limiting the revenues of the combined company following the completion of the Rexnord Transaction or otherwise reducing the anticipated benefits of the Rexnord Transaction. Any condition or change which results in a “Burdensome Condition,” as such term is defined in the Merger Agreement might cause Rexnord and/or us to restructure or terminate the Rexnord Transaction.

Both we and Land will need to obtain debt financing to complete the Rexnord Transaction. Although commitment letters have been obtained from various lenders, the obligations of the lenders under the commitment letters are subject to the satisfaction or waiver of customary conditions, including, among others, the absence of any material adverse effect. Accordingly, there can be no assurance that these conditions will be satisfied or, if not satisfied, waived by the lenders. If we are not able to obtain alternative financing on commercially reasonable terms, it could prevent the consummation of the Rexnord Transaction or materially and adversely affect our business, liquidity, financial condition and results of operations if the Rexnord Transaction is ultimately consummated.

The extent of the dividend, if any, that we may pay, and the number of shares of our common stock that we may issue, in the Rexnord Transaction are uncertain.

The Merger Agreement provides that, in order to preserve the tax-free nature of the Rexnord Transaction, the number of shares of our common stock that may be issued in the Rexnord Transaction is subject to increase at closing such that former shareholders of Land (together with certain “overlapping shareholders” of ours and former shareholders of Land), own at least 50.8% of our outstanding common stock immediately following consummation of the transaction for tax purposes (or, in certain other circumstances in which overlapping shareholders are not being counted for this purpose, 50.1% of such shares).

In addition, in connection with the Rexnord Transaction, the parties have agreed that Rexnord will seek a U.S. Internal Revenue Service (“IRS”) private letter ruling with respect to certain tax aspects of the Rexnord Transaction, including matters relating to the nature and extent of shareholders who may be counted as overlapping shareholders for purposes of determining the exchange ratio in the merger of Merger Sub with and into Land (the “Merger”). The extent of the overlapping shareholders that may be counted in determining the exchange ratio for the Merger will depend on whether an IRS ruling is received and the contents of such IRS ruling.

In the event that the number of shares that we issue at the closing of the Rexnord Transaction is increased in the manner described above, including as a result of our failure to be able to count our and Rexnord's overlapping shareholders, the Merger Agreement also provides that we will declare a special dividend to our shareholders in an amount that will depend on the number of shares being issued, but which may range in amount between zero and approximately \$2.0 billion.

The extent of our and Rexnord's overlapping shareholders of is outside of our and Rexnord's control of and will not be known until the closing occurs. In addition, the grant of the IRS ruling is within the discretion of the IRS. We can offer no assurance concerning the extent of our and Rexnord's overlapping shareholdings at any closing of the Rexnord Transaction or assurance that the IRS ruling will be received.

The amount of debt that we may incur in connection with the Rexnord Transaction is uncertain and may be substantial.

In connection with the Rexnord Transaction, we have agreed that the entity we would acquire in the transaction, which we refer to as Land, will prior to its spin-off by Rexnord incur approximately \$487.0 million of indebtedness in order to fund a cash payment to a subsidiary of Rexnord. Following the closing, this indebtedness would be indebtedness of our wholly owned subsidiary. In addition, as part of the Rexnord Transaction, we have agreed to assume approximately \$92.0 million of unfunded pension liabilities of the PMC business. Further, as part of the Rexnord Transaction, we may be required pay a cash dividend to our shareholders in an amount between zero and approximately \$2.0 billion, depending on the number of additional shares of Company common stock that may be issued in connection with the Rexnord Transaction in order to satisfy tax requirements applicable to a Reverse Morris Trust transaction. If a special dividend is paid, we expect to fund it with new indebtedness, and we have entered into a debt commitment letter to fund that amount, which is described in more detail under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources”. The size of the dividend that will ultimately be declared is uncertain and will remain so until the closing. We have also entered into other financing arrangements in connection with the Rexnord Transaction and expect to pay substantial fees and expenses in connection with them.

In the event that our debt levels and debt service obligations increase substantially in connection with the Rexnord Transaction, we will have less cash flow available for our business operations, we could become increasingly vulnerable to general adverse economic and industry conditions and interest rate trends, and our ability to obtain future financing may be limited.

Our ability to make required payments of principal and interest on our increased debt levels, and our ability to comply with financial and restrictive covenants with our lenders will be subject to the risks described above under “Risk Factors - Risks Relating to Our Operations and Strategy - Our business may not generate cash flow from operations in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs, we could become increasingly vulnerable to general adverse economic and industry conditions and interest rate trends, and our ability to obtain future financing may be limited”.

Our failure to successfully integrate the PMC Business and any future acquisitions into its business within its expected timetable could adversely affect the combined company’s future results and the market price of our common stock following the completion of the Rexnord Transaction.

The success of the Rexnord Transaction will depend, in large part, on our ability, as a combined company following the completion of the Rexnord Transaction, to realize the anticipated benefits of the Rexnord Transaction and on the sales and profitability of the combined company. To realize these anticipated benefits, the combined company must successfully integrate its businesses. This integration will be complex and time-consuming. The failure to successfully integrate and manage the challenges presented by the integration process may result in our failure to achieve some or all of the anticipated benefits of the Rexnord Transaction.

Potential difficulties that may be encountered in the integration process include, among others:

- the failure to implement our business plan for the combined company;
- lost sales and customers as a result of our customers or customers of the PMC Business deciding not to do business with the combined company;
- risks associated with managing the larger and more complex combined company;
- integrating our personnel and the personnel of the PMC Business while maintaining focus on providing consistent, high-quality products and service to customers;
- the loss of key employees;
- unanticipated issues in integrating manufacturing, logistics, information, communications and other systems;
- unexpected liabilities of the PMC Business;
- possible inconsistencies in standards, controls, procedures, policies and compensation structures; and
- the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002;
- and potential unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the Rexnord Transaction.

If any of these events were to occur, our ability to maintain relationships with customers, suppliers and employees or our ability to achieve the anticipated benefits of the Rexnord Transaction could be adversely affected, or could reduce our sales or earnings or otherwise adversely affect our business and financial results after the Rexnord Transaction and, as a result, adversely affect the market price of our common stock.

Apart from the Rexnord Transaction, as part of our growth strategy, we have made and expect to continue to make, acquisitions. Our company's continued growth may depend on our ability to identify and acquire companies that complement or enhance our business on acceptable terms, but we may not be able to identify or complete future acquisitions. We may not be able to integrate successfully its recent acquisitions, or any future acquisitions, operate these acquired companies profitably, or realize the potential benefits from these acquisitions.

The Company will incur significant costs related to the Rexnord Transaction that could have an adverse effect on its liquidity, cash flows and operating results.

The Company expects to incur significant one-time costs in connection with the Rexnord Transaction, including the cost of financing and other transaction costs, integration costs, and other costs that Company management believes are necessary to realize the anticipated synergies from the Rexnord Transaction. The incurrence of these costs may have a material adverse effect on the Company's liquidity, cash flows and operating results in the periods in which they are incurred.

Businesses that we have acquired or that we may acquire in the future, including the PMC Business, may have liabilities which are not known to us.

We have assumed liabilities of acquired businesses and may assume liabilities of businesses that we acquire in the future, including the PMC Business. There may be liabilities or risks that we fail, or are unable, to discover, or that we underestimate, in the course of performing our due diligence investigations of acquired businesses. Additionally, businesses that we have acquired or may acquire in the future may have made previous acquisitions, and we will be subject to certain liabilities and risks relating to these prior acquisitions as well. We cannot assure you that our rights to indemnification contained in definitive acquisition agreements that we have entered or may enter into will be sufficient in amount, scope or duration to fully offset the possible liabilities associated with the business or property acquired. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations. As we begin to operate acquired businesses, we may learn additional information about them that adversely affects us, such as unknown or contingent liabilities, issues relating to compliance with applicable laws or issues related to ongoing customer relationships or order demand.

Divestitures of some of our businesses or product lines may have a material adverse effect on our results of operations, financial position and cash flows.

We continually evaluate the strategic fit of our businesses and products, which may result in divestitures. Any divestiture may result in write-offs, including those related to goodwill and other intangible assets, which could have a material adverse effect on our financial position. In addition, divestitures may result in asset impairment charges, including those related to goodwill and other intangible assets, which could have a material adverse effect on our financial condition and results of operations. Divestitures could involve additional risks, including difficulties in the separation of operations, products and personnel, the diversion of management's attention, the disruption of our business and the potential loss of key associates. There can be no assurance that we will be successful in addressing these or any other significant risks associated with divestitures.

General Risks

Changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, may adversely affect interest expense related to our outstanding debt.

Amounts drawn under our credit facility may bear interest rates in relation to LIBOR, depending on our selection of repayment options. On July 27, 2017, the Financial Conduct Authority in the United Kingdom announced that it would phase out LIBOR as a benchmark by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The overall financing market may be disrupted as a result of the phase-out or replacement of LIBOR. Disruption in the financing market could have a material adverse effect on our business, financial position, operating results, and interest expense related to our outstanding debt.

Our operations can be negatively impacted by natural disasters, terrorism, acts of war, international conflict, political and governmental actions which could harm our business.

Natural disasters, acts or threats of war or terrorism, international conflicts, and the actions taken by the US and other governments in response to such events could cause damage or disrupt our business operations, our suppliers, or our customers, and could create political or economic instability, any of which could have an adverse effect on our business. Although it is not possible to predict such events or their consequences, these events could decrease demand for our products, could make it difficult or impossible for us to deliver products, or could disrupt our supply chain. We may also be negatively impacted by actions by the US or foreign governments which could disrupt manufacturing and commercial operations, including policy changes affecting taxation, trade, immigration, currency devaluation, tariffs, customs, border actions and the like, including, for example, the effect of the United Kingdom's exit from the European Union, commonly referred to as "Brexit," trade relations between the US and China, the implementation of the USMCA, or the change in labor rates in Mexico.

Our stock 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 "Risk Factors" as well as:

- domestic and international economic and political factors unrelated to our performance;
- 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, intermediate components or materials, or labor; and
- changes in revenue or earnings estimates or publication of research reports by analysts.

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

ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

Our corporate offices are located in Beloit, Wisconsin in an approximately 50,000 square foot owned office building and in Rosemont, Illinois in an approximately 12,100 square foot rented office building. We have manufacturing, sales and service facilities throughout the US and in Mexico, China, Europe, India and Thailand.

Our Commercial Systems segment currently includes 46 facilities, of which 14 are principal manufacturing facilities and 3 are principal warehouse facilities. The Commercial Systems segment's present operating facilities contain a total of approximately 4.0 million square feet of space, of which approximately 31% are leased.

The following represents our principal manufacturing and warehouse facilities in the Commercial Systems segment (square footage in millions):

Location	Facilities	Square Footage		
		Total	Owned	Leased
US	5	1.1	0.6	0.5
Mexico	4	0.8	0.6	0.2
China	4	0.9	0.8	0.1
Europe	1	0.1	0.1	—
Other	3	0.4	0.2	0.2
Total	17	3.3	2.3	1.0

Our Industrial Systems segment currently includes 25 facilities, of which 11 are principal manufacturing facilities and 1 are principal warehouse facilities. The Industrial Systems segment's present operating facilities contain a total of approximately 2.8 million square feet of space, of which approximately 26% are leased.

The following represents our principal manufacturing and warehouse facilities in the Industrial Systems segment (square footage in millions):

Location	Facilities	Square Footage		
		Total	Owned	Leased
US	2	0.7	0.7	—
Mexico	2	0.3	—	0.3
China	2	0.6	0.6	—
India	2	0.3	0.2	0.1
Europe	1	0.2	0.2	—
Other	3	0.3	0.1	0.2
Total	12	2.4	1.8	0.6

Our Climate Solutions segment currently includes 29 facilities, of which 9 are principal manufacturing facilities and 3 are principal warehouse facilities. The Climate Solutions segment's present operating facilities contain a total of approximately 2.5 million square feet of space, of which approximately 54% are leased.

The following represents our principal manufacturing and warehouse facilities in the Climate Solutions segment (square footage in millions):

Location	Facilities	Square Footage		
		Total	Owned	Leased
US	4	0.8	0.4	0.4
Mexico	4	0.7	0.3	0.4
China	2	0.3	—	0.3
India	1	0.4	0.4	—
Other	1	0.1	—	0.1
Total	12	2.3	1.1	1.2

Our Power Transmission Solutions segment currently includes 25 facilities, of which 13 are principal manufacturing facilities and 1 is a principal warehouse facility. The Power Transmission Solutions segment's present operating facilities contain a total of approximately 2.5 million square feet of space, of which approximately 24% are leased.

The following represents our principal manufacturing and warehouse facilities in the Power Transmission Solutions segment (square footage in millions):

Location	Facilities	Square Footage		
		Total	Owned	Leased
US	9	1.0	0.7	0.3
Mexico	2	0.3	0.3	—
China	1	0.2	—	0.2
Europe	2	0.3	0.3	—
Total	14	1.8	1.3	0.5

ITEM 3 - LEGAL PROCEEDINGS

A subsidiary that we acquired in 2007 is subject to numerous claims filed in various jurisdictions relating to certain sub-fractional motors that were primarily manufactured through 2004 and that were included as components of residential and commercial ventilation units manufactured and sold in high volumes by a third party. These ventilation units are subject to product safety requirements and other potential regulation of their performance by government agencies such as the US Consumer Product Safety Commission (“CPSC”). The claims generally allege that the ventilation units were the cause of fires. We have recorded an estimated liability for incurred claims. Based on the current facts, we cannot assure that these claims, individually or in the aggregate, will not have a material adverse effect on our subsidiary's financial condition. Our subsidiary cannot reasonably predict the outcome of these claims, the nature or extent of any CPSC or other remedial actions, if any, that our subsidiary may need to undertake with respect to motors that remain in the field, or the costs that may be incurred, some of which could be significant.

We are from time to time, party to litigation and other legal or regulatory proceedings that arise in the normal course of our business operations and the outcomes of which are subject to significant uncertainty, including product warranty and liability claims, contract disputes and environmental, asbestos, intellectual property, employment and other litigation matters. Our products are used in a variety of industrial, commercial and residential applications that subject us to claims that the use of our products is alleged to have resulted in injury or other damage. Many of these matters will only be resolved when one or more future events occur or fail to occur. Our management conducts regular reviews, including updates from legal counsel, to assess the need for accounting recognition or disclosure of these contingencies, and such assessment inherently involves an exercise in judgment. We accrue for exposures in amounts that we believe are adequate, and we do not believe that the outcome of any such lawsuit individually or collectively will have a material effect on our financial position, results of operations or cash flows.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General

Our common stock, \$0.01 par value per share, is traded on the New York Stock Exchange under the symbol "RBC." The number of registered holders of common stock as of January 22, 2021 was 309.

There were no repurchases of our common stock during the current quarter.

Under our equity incentive plans, participants may pay the exercise price or satisfy all or a portion of the federal, state and local withholding tax obligations arising in connection with plan awards by electing to (a) have the Company withhold shares of common stock otherwise issuable under the award, (b) tender back shares received in connection with such award or (c) deliver other previously owned shares of common stock, in each case having a value equal to the exercise price or the amount to be withheld. During the quarter ended January 2, 2021, we did not acquire any shares in connection with transactions pursuant to equity incentive plans.

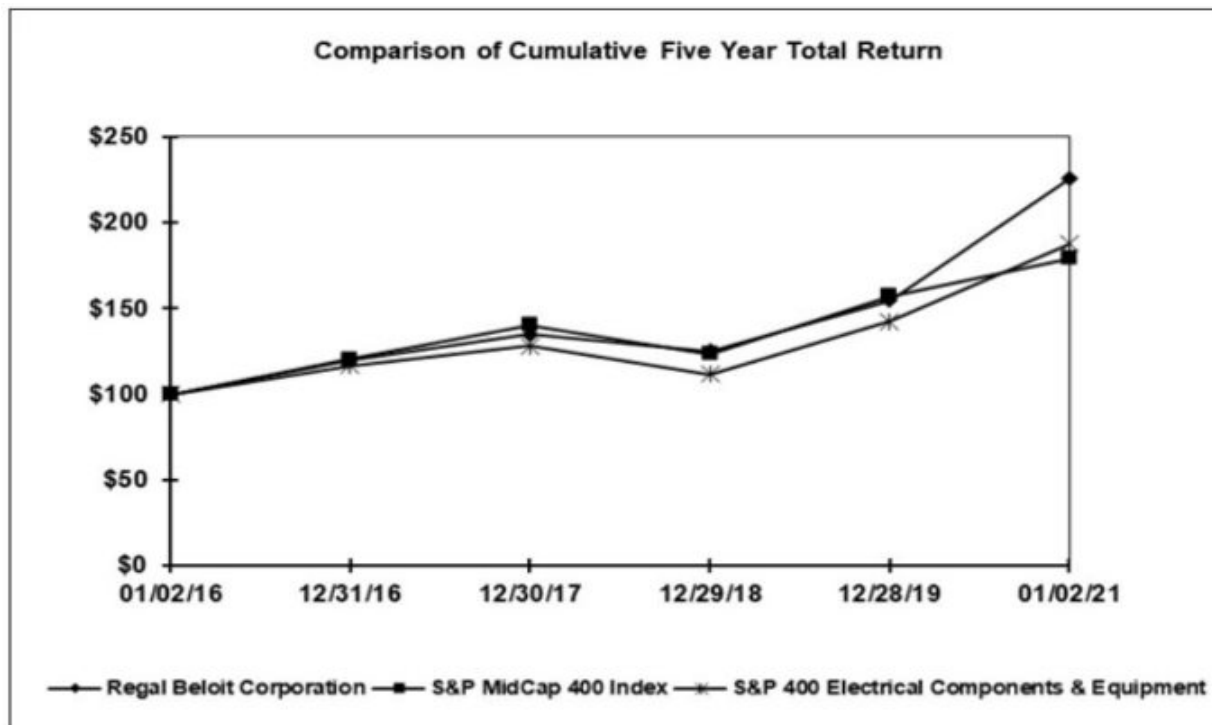
At a meeting of the Board of Directors on July 24, 2018, the Company's Board of Directors approved the extinguishment of the existing \$3.0 million share repurchase program that was approved in November 2013 and replaced it with an authorization to repurchase up to \$250.0 million of shares. At a meeting of the Board of Directors on October 25, 2019, the July 2018 repurchase authorization was extinguished and replaced with an authorization to purchase up to \$250.0 million of shares. The new authorization has no expiration date. Management is authorized to effect purchases from time to time in the open market or through privately negotiated transactions. From time to time, we enter into a Rule 10b5-1 trading plan for the purpose of repurchasing shares. For fiscal 2020, we purchased 315,072 shares or \$25.0 million in shares pursuant to the October 25, 2019 repurchase authorization. For fiscal 2019, we purchased 180,763 shares or \$15.0 million in shares pursuant to the October 25, 2019 repurchase authorization and 2,013,782 shares or \$150.1 million in shares pursuant to the July 2018 repurchase authorization. The maximum value of shares of our common stock available to be purchased as of January 2, 2021 is \$210.0 million.

Item 12 of this Annual Report on Form 10-K contains certain information relating to our equity compensation plans.

Stock Performance

The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 (the “Exchange Act”) or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act.

The following graph compares the hypothetical total shareholder return (including reinvestment of dividends) on an investment in (1) our common stock, (2) the Standard & Poor's Mid Cap 400 Index, and (3) the Standard & Poor's 400 Electrical Components and Equipment Index, for the period January 3, 2016 through January 2, 2021. In each case, the graph assumes the investment of \$100.00 on January 2, 2016.



INDEXED RETURNS

Company / Index	Years Ended				
	2016	2017	2018	2019	2020
Regal Beloit Corporation	\$ 120.22	\$ 134.74	\$ 125.01	\$ 154.74	\$ 225.68
S&P MidCap 400 Index	120.74	140.35	123.53	157.40	179.00
S&P 400 Electrical Components & Equipment	116.94	128.12	111.28	142.28	187.71

ITEM 6 - SELECTED FINANCIAL DATA

The selected statements of income data for fiscal years 2020, 2019 and 2018, and the selected balance sheet data as of January 2, 2021 and December 28, 2019 is derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected statement of income data for fiscal years 2017 and 2016 and the selected balance sheet data as of December 29, 2018, December 30, 2017 and December 31, 2016 is derived from audited consolidated financial statements not included herein.

	Fiscal 2020	Fiscal 2019	Fiscal 2018	Fiscal 2017	Fiscal 2016
	(In Millions, Except per Share Data)				
Net Sales	\$ 2,907.0	\$ 3,238.0	\$ 3,645.6	\$ 3,360.3	\$ 3,224.5
Cost of Sales	2,098.3	2,377.3	2,681.0	2,476.7	2,359.5
Gross Profit	808.7	860.7	964.6	883.6	865.0
Operating Expenses	512.9	544.3	599.4	552.6	542.5
Goodwill Impairment	10.5	—	9.5	—	—
Asset Impairments	5.3	10.0	8.7	—	—
Gain on Sale of Businesses	(0.1)	(44.7)	—	(0.1)	—
Total Operating Expenses	528.6	509.6	617.6	552.5	542.5
Income from Operations	280.1	351.1	347.0	331.1	322.5
Net Income	193.8	242.6	235.8	218.1	209.3
Net Income Attributable to Regal Beloit Corporation	189.3	238.9	231.2	213.0	203.4
Total Assets	4,589.0	4,430.7	4,623.8	4,388.2	4,358.5
Total Debt	1,071.4	1,137.5	1,307.1	1,141.1	1,411.5
Long-Term Debt	840.4	1,136.9	1,306.6	1,039.9	1,310.9
Regal Beloit Shareholders' Equity	2,544.4	2,351.1	2,310.5	2,325.5	2,038.8
Per Share Data:					
Earnings - Basic	\$ 4.66	\$ 5.69	\$ 5.30	\$ 4.78	\$ 4.55
Earnings - Assuming Dilution	4.64	5.66	5.26	4.74	4.52
Cash Dividends Declared	1.20	1.18	1.10	1.02	0.95
Shareholders' Equity	62.67	54.59	53.62	52.83	46.46
Weighted Average Shares Outstanding:					
Basic	40.6	42.0	43.6	44.6	44.7
Assuming Dilution	40.8	42.2	43.9	44.9	45.0

We have completed various acquisitions and divestitures that affect the comparability of the selected financial data shown above. The results of operations for acquisitions are included in our consolidated financial results for the period subsequent to their acquisition date. The results of operations for divestitures are included in our consolidated financial results for the period prior to their divestiture date.

During fiscal 2019, we divested several businesses which resulted in a gain on sale for the fiscal year of \$44.7 million. See Note 4 of Notes to the Consolidated Financial Statements for the details of each business that was divested.

On April 10, 2018, we acquired NG for \$161.5 million in cash, net of \$8.5 million of cash acquired. NG is a leader in critical, energy-efficient systems for ventilation and air quality. NG manufactures, sells and services fans and blowers under the industry leading brands of Nicotra and Gebhardt. The financial results of NG have been included in our Commercial Systems segment from the date of acquisition.

In addition to those acquisitions and divestitures, on July 31, 2018, we received notification from a customer of our hermetic climate business that it would wind down operations. As a result of this notification, we accelerated our plans to exit this business. We recognized exit and exit related charges of \$34.9 million during the 2018 fiscal year. The charges included goodwill impairment of \$9.5 million, customer relationship intangible asset impairment of \$5.5 million, technology intangible asset impairment of \$2.1 million and fixed asset impairment of \$1.1 million. In addition to the impairments, we took charges on accounts receivable and inventory along with recognizing other expenses related to exiting the business.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We operate on a 52/53 week fiscal year ending on the Saturday closest to December 31. We refer to the fiscal year ended January 2, 2021 as "fiscal 2020", the fiscal year ended December 28, 2019 as "fiscal 2019" and the fiscal year ended December 29, 2018 as "fiscal 2018".

Overview

General

Regal Beloit Corporation (NYSE: RBC) ("we," "us," "our" or the "Company"), based in Beloit, Wisconsin (USA), is a leading manufacturer of electric motors, electrical motion controls, power generation and power transmission products serving markets throughout the world. As of the end of fiscal 2020, the Company, including its subsidiaries, employed approximately 23,000 people in its manufacturing, sales, and service facilities and corporate offices throughout the US, Canada, Mexico, Europe and Asia. In fiscal 2020, we reported annual net sales of \$2.9 billion compared to \$3.2 billion in fiscal 2019.

Our company is comprised of four operating segments: Commercial Systems, Industrial Systems, Climate Solutions and Power Transmission Solutions.

A description of the four operating segments is as follows:

- Commercial Systems segment produces fractional to approximately 5 horsepower AC and DC motors, electronic variable speed controls, fans, and blowers for commercial applications. These products serve markets including commercial building ventilation and HVAC, pool and spa, irrigation, dewatering, agriculture, and general commercial equipment.
- Industrial Systems segment produces integral motors, generators, alternators and switchgear for industrial applications, along with aftermarket parts and kits to support such products. These products serve markets including agriculture, marine, mining, oil and gas, food and beverage, data centers, healthcare, prime and standby power, and general industrial equipment.
- Climate Solutions segment produces small motors, electronic variable speed controls and air moving solutions serving markets including residential and light commercial HVAC, water heaters and commercial refrigeration.
- Power Transmission Solutions segment produces, sells and services belt and chain drives, helical and worm gearing, mounted and unmounted bearings, couplings, modular plastic belts, conveying chains and components, hydraulic pump drives, large open gearing and specialty mechanical products serving markets including e-commerce, alternative energy, beverage, bulk handling, metals, special machinery, energy, aerospace and general industrial.

Components of Profit and Loss

Net Sales. We sell our products to a variety of manufacturers, distributors and end users. Our customers consist of a large cross-section of businesses, ranging from Fortune 100 companies to small businesses. A number of our products are sold to OEMs, who incorporate our products, such as electric motors, into products they manufacture, and many of our products are built to the requirements of our customers. The majority of our sales are derived from direct sales to customers by sales personnel employed by the Company, however, a significant portion of our sales are derived from sales made by manufacturer's representatives, who are paid exclusively on commission. Our product sales are made via purchase order, long-term contract, and, in some instances, one-time purchases. Many of our products have broad customer bases, with the levels of concentration of revenues varying from business unit to business unit.

Our level of net sales for any given period is dependent upon a number of factors, including (i) the demand for our products; (ii) the strength of the economy generally and the end markets in which we compete; (iii) our customers' perceptions of our product quality at any given time; (iv) our ability to timely meet customer demands; (v) the selling price of our products; and (vi) the weather. As a result, our total revenue has tended to experience quarterly variations and our total revenue for any particular quarter may not be indicative of future results.

We use the term “organic sales” to refer to sales from existing operations excluding (i) sales from acquired businesses recorded prior to the first anniversary of the acquisition (“Acquisition Sales”), (ii) less the amount of sales attributable to any businesses divested/to be exited (“Business To Be Exited”), and (iii) the impact of foreign currency translation. The impact of foreign currency translation is determined by translating the respective period’s organic sales using the same currency exchange rates that were in effect during the prior year periods. We use the term “organic sales growth” to refer to the increase in our sales between periods that is attributable to organic sales. We use the term “acquisition growth” to refer to the increase in our sales between periods that is attributable to Acquisition Sales.

Gross Profit. Our gross profit is impacted by our levels of net sales and cost of sales. Our cost of sales consists of costs for, among other things (i) raw materials, including copper, steel and aluminum; (ii) components such as castings, bars, tools, bearings and electronics; (iii) wages and related personnel expenses for fabrication, assembly and logistics personnel; (iv) manufacturing facilities, including depreciation on our manufacturing facilities and equipment, insurance and utilities; and (v) shipping. The majority of our cost of sales consists of raw materials and components. The price we pay for commodities and components can be subject to commodity price fluctuations. We attempt to mitigate portions of the commodity price fluctuations through fixed-price agreements with suppliers and our hedging strategies. When we experience commodity price increases, we have tended to announce price increases to our customers who purchase via purchase order, with such increases generally taking effect a period of time after the public announcements. For those sales we make under long-term arrangements, we tend to include material price formulas that specify quarterly or semi-annual price adjustments based on a variety of factors, including commodity prices.

Outside of general economic cyclicality, our business units experience different levels of variation in sales from quarter to quarter based on factors specific to each business. For example, a portion of our Climate Solutions segment manufactures products that are used in air conditioning applications. As a result, our sales for that business tend to be lower in the first and fourth quarters and higher in the second and third quarters. In contrast, our Commercial Systems segment, Industrial Systems segment and Power Transmission Solutions segment have a broad customer base and a variety of applications, thereby helping to mitigate large quarter-to-quarter fluctuations outside of general economic conditions.

Operating Expenses. Our operating expenses consist primarily of (i) general and administrative expenses; (ii) sales and marketing expenses; (iii) general engineering and research and development expenses; and (iv) handling costs incurred in conjunction with distribution activities. Personnel related costs are our largest operating expense.

Our general and administrative expenses consist primarily of costs for (i) salaries, benefits and other personnel expenses related to our executive, finance, human resource, information technology, legal and operations functions; (ii) occupancy expenses; (iii) technology related costs; (iv) depreciation and amortization; and (v) corporate-related travel. The majority of our general and administrative costs are for salaries and related personnel expenses. These costs can vary by business given the location of our different manufacturing operations.

Our sales and marketing expenses consist primarily of costs for (i) salaries, benefits and other personnel expenses related to our sales and marketing function; (ii) internal and external sales commissions and bonuses; (iii) travel, lodging and other out-of-pocket expenses associated with our selling efforts; and (iv) other related overhead.

Our general engineering and research and development expenses consist primarily of costs for (i) salaries, benefits and other personnel expenses; (ii) the design and development of new energy efficiency products and enhancements; (iii) quality assurance and testing; and (iv) other related overhead. Our research and development efforts tend to be targeted toward developing new products that would allow us to maintain or gain additional market share, whether in new or existing applications. While these costs make up an insignificant portion of our operating expenses in the Power Transmission Solutions segment, they are more substantial in our Commercial Systems, Industrial Systems and Climate Solutions segments. In particular, a large driver of our research and development efforts in those three segments is energy efficiency, which generally means using less electrical power to produce more mechanical power.

Goodwill & Other Asset Impairments. In the fourth quarter of 2020, we recorded goodwill impairment of \$10.5 million in our global industrial motors reporting unit. During fiscal 2020, we recognized \$5.3 million of asset impairments related to the transfer of assets to held for sale.

In the first quarter of 2019, we transferred assets to held for sale which resulted in the recognition of \$5.1 million of fixed asset impairments and \$4.9 million of customer relationships intangible asset impairments.

On July 31, 2018, we received notification from a customer of our hermetic climate business that it would wind down operations. As a result of this notification, we accelerated our plans to exit the hermetic climate business. We recognized exit and exit related charges of \$34.9 million during fiscal 2019. The charges included goodwill impairment of \$9.5 million, customer relationship intangible asset impairment of \$5.5 million, technology intangible asset impairment of \$2.1 million and fixed asset impairment of \$1.1 million. In addition to the asset impairments, the Company took charges on accounts receivable and inventory along with recognizing other expenses related to exiting the business.

The following table presents impairments by segment as of January 2, 2021, December 28, 2019 and December 29, 2018 (in millions):

	Commercial Systems	Industrial Systems	Climate Solutions	Power Transmission Solutions	Total
Fiscal 2020					
Goodwill Impairments	\$ —	\$ 10.5	\$ —	\$ —	\$ 10.5
Impairment of Other Long-Lived Assets	2.8	0.2	1.3	1.0	5.3
Total Impairments	<u>\$ 2.8</u>	<u>\$ 10.7</u>	<u>\$ 1.3</u>	<u>\$ 1.0</u>	<u>\$ 15.8</u>
Fiscal 2019					
Impairment of Intangible Assets	\$ 4.9	\$ —	\$ —	\$ —	\$ 4.9
Impairment of Other Long-Lived Assets	1.8	0.9	1.3	1.1	5.1
Total Impairments	<u>\$ 6.7</u>	<u>\$ 0.9</u>	<u>\$ 1.3</u>	<u>\$ 1.1</u>	<u>\$ 10.0</u>
Fiscal 2018					
Goodwill Impairments	\$ —	\$ —	\$ 9.5	\$ —	\$ 9.5
Impairment of Intangible Assets	—	—	7.6	—	7.6
Impairment of Other Long-Lived Assets	—	—	1.1	—	1.1
Total Impairments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 18.2</u>	<u>\$ —</u>	<u>\$ 18.2</u>

Operating Profit. Our operating profit consists of the segment gross profit less the segment operating expenses. In addition, there are shared operating costs that cover corporate, engineering and IT expenses that are consistently allocated to the operating segments and are included in the segment operating expenses. Operating profit is a key metric used to measure year over year improvement of the segments.

COVID-19 Pandemic

COVID-19 evolved during the first quarter of 2020 into a global pandemic, resulting in a severe global health crisis that drove a dramatic slowdown in global economic and social activity. Impacts from COVID-19 on our business became more severe during the first half of the second quarter in terms of weakening demand in many of our end markets, which are weighted to North America, and its impact on our manufacturing operations, particularly in Mexico and India. As the second quarter progressed, pressure on our order rates started to abate, and previously disrupted manufacturing operations improved. Our order rates started to push back into positive territory in the third quarter. This trend continued throughout the fourth quarter of the year. Currently, our manufacturing operations are, on average, running closer to full capacity.

We believe that we are an essential business, and as such have worked to ensure that our global facilities have remained operational. Our products are essential components in a range of applications used in the food & beverage, pharmaceutical, medical, transportation, and data communications industries, among many others. Certain global manufacturing operations have been impacted with plant closures or plants running at reduced rates at various points during the fiscal year.

In the face of this global crisis, our first priority has been the health and safety of our associates. In response, we implemented a host of measures to help our associates stay safe, measures that have been enhanced and refined as impacts from COVID-19 grew, and as our knowledge about how to enhance their effectiveness improved.

Factors deriving from the COVID-19 response that have or may negatively impact sales and operating profit in the future include, but are not limited to: limitations on the ability of our suppliers to manufacture, or procure from manufacturers, components and raw materials used in our products, or to meet delivery requirements and commitments; limitations on the ability of our employees to perform their work due to illness caused by the pandemic or local, state, or federal orders requiring employees to remain at home; inconsistent criteria in certain international jurisdictions for establishing the essentiality of our business; limitations on the ability of carriers to deliver our products to customers; limitations on the ability of our customers to conduct their business and purchase our products and services; reductions in demands of our customers; and limitations on the ability of our customers to pay us on a timely basis.

We have taken actions to manage costs including an organization wide reduction in force and voluntary early retirement program. We will continue to assess the actual and expected impacts of COVID-19 and consider making further changes to our cost structure as the implications of COVID-19 continue to evolve.

Rexnord Transaction

On February 15, 2021, we entered into definitive agreements with Rexnord Corporation (“Rexnord”), Land Newco, Inc., a wholly owned indirect subsidiary of Rexnord (“Land”), and Phoenix 2021, Inc., our wholly owned subsidiary (“Merger Sub”), with respect to a Reverse Morris Trust transaction (the “Rexnord Transaction”) pursuant to which, and subject to the terms and conditions of those definitive agreements discussed below, (1) Rexnord will transfer (or cause to be transferred) to Land substantially all of the assets, and Land will assume substantially all of the liabilities, of Rexnord’s Process & Motion Control business (“PMC Business”) (the “Reorganization”), (2) after which, all of the issued and outstanding shares of common stock, \$0.01 par value per share, of Land (“Land common stock”) held by a subsidiary of Rexnord will be distributed in a series of distributions to Rexnord’s stockholders (the “Distributions”, and the final distribution of Land common stock from Rexnord to Rexnord’s stockholders, which is to be made pro rata for no consideration, the “Spin-Off”) and (3) immediately after the Spin-Off, Merger Sub will merge with and into Land (the “Merger”) and all shares of Land common stock (other than those held by Rexnord, Land, the Company, Merger Sub or their respective subsidiaries) will be converted into the right to receive shares of our common stock, \$0.01 par value per share (“Company common stock”), as calculated and subject to adjustment as set forth in the Merger Agreement (as defined below). When the Merger is completed, Land (which at that time will hold the PMC business) will be our wholly owned subsidiary.

The definitive agreements we entered into in connection with the Rexnord Transaction include an Agreement and Plan of Merger, by and among Rexnord, Land, Merger Sub and us (the “Merger Agreement”), a Separation and Distribution Agreement, by and among Rexnord, Land and us and certain ancillary agreements.

In connection with the Rexnord Transaction, the Merger Agreement provides that we shall, to the extent required by the Merger Agreement, in certain circumstances in which additional shares of Company common stock are issued at closing to holders of Land common stock, declare a special dividend to our stockholders immediately prior to the consummation of the Merger (the “Company Special Dividend”). The existence and magnitude of the dividend will depend on whether and to what extent we are able to count certain overlapping shareholders of us and Rexnord in satisfying the tax requirements applicable to a Reverse Morris Trust transaction. In the event that the Company Special Dividend is required to be paid, it could range in amount between zero and approximately \$2.0 billion.

In connection with the Rexnord Transaction, we have entered into certain financing arrangements, which are described below under “Liquidity and Capital Resources”.

Closing of the Rexnord Transaction is subject to various closing conditions, including the receipt of the approval of our and Rexnord’s shareholders, the receipt of regulatory approvals and other customary closing conditions.

The Rexnord Transaction is described more fully in our Current Report on Form 8-K filed with the SEC on February 19, 2021 and this description is qualified in its entirety by the description set forth therein.

Outlook. In the first quarter of fiscal 2021, we are forecasting a mid-single digit sales growth. We expect to see positive impact from our new products. In the first quarter of 2021, we expect diluted earnings per share to be \$1.32 to \$1.52. Our fiscal 2021 diluted earnings per share guidance is based on an effective tax rate of 21%.

Results of Operations

The following table sets forth selected information for the years indicated:

(Dollars in Millions)	2020	2019	2018
Net Sales:			
Commercial Systems	\$ 820.2	\$ 905.3	\$ 1,110.9
Industrial Systems	528.8	575.4	671.1
Climate Solutions	846.8	968.5	1,024.8
Power Transmission Solutions	711.2	788.8	838.8
Consolidated	\$ 2,907.0	\$ 3,238.0	\$ 3,645.6
Gross Profit as a Percent of Net Sales:			
Commercial Systems	26.1 %	26.1 %	25.8 %
Industrial Systems	18.3 %	16.6 %	20.3 %
Climate Solutions	29.1 %	27.9 %	25.6 %
Power Transmission Solutions	35.3 %	32.8 %	33.2 %
Consolidated	27.8 %	26.6 %	26.5 %
Operating Expenses as a Percent of Net Sales:			
Commercial Systems	17.7 %	17.9 %	16.6 %
Industrial Systems	17.3 %	18.7 %	16.6 %
Climate Solutions	13.6 %	11.4 %	12.6 %
Power Transmission Solutions	22.6 %	20.8 %	20.8 %
Consolidated	17.6 %	16.8 %	16.4 %
Income (Loss) from Operations as a Percent of Net Sales:			
Commercial Systems	8.1 %	11.8 %	9.2 %
Industrial Systems	(1.1)%	(2.3)%	3.7 %
Climate Solutions	15.4 %	16.9 %	11.3 %
Power Transmission Solutions	12.6 %	11.8 %	12.4 %
Consolidated	9.6 %	10.8 %	9.5 %
Income from Operations	\$ 280.1	\$ 351.1	\$ 347.0
Other (Income) Expenses, net	(4.4)	(0.1)	1.5
Interest Expense	39.8	53.0	55.2
Interest Income	5.9	5.6	1.9
Income before Taxes	250.6	303.8	292.2
Provision for Income Taxes	56.8	61.2	56.4
Net Income	193.8	242.6	235.8
Net Income Attributable to Noncontrolling Interests	4.5	3.7	4.6
Net Income Attributable to Regal Beloit Corporation	\$ 189.3	\$ 238.9	\$ 231.2

Fiscal Year 2020 Compared to Fiscal Year 2019

Net sales for fiscal 2020 were \$2.9 billion, a 10.2% decrease as compared to fiscal 2019 net sales of \$3.2 billion. The decrease consisted of negative organic sales of 8.4%, negative foreign currency translation of 0.4% and a negative 1.4% impact from the businesses divested/to be exited. Gross profit decreased \$52.0 million or 6.0% as compared to the prior year. The decrease from the prior year was driven primarily due to lower sales volumes, partially offset by productivity improvements and simplification programs. Operating expenses were \$512.9 million which was a \$31.4 million decrease from fiscal 2019. The decrease was primarily driven by lower variable selling costs and lower employee related wage and benefit costs. The Company recognized goodwill and other asset impairments of \$15.8 million, a \$5.8 million increase from the prior year.

Net sales for the Commercial Systems segment for fiscal 2020 were \$820.2 million, a 9.4% decrease compared to fiscal 2019 net sales of \$905.3 million. The decrease consisted of negative organic sales of 6.9% and a negative 2.6% impact from the businesses divested/to be exited partially offset by a positive 0.1% foreign currency translation. The organic sales decrease was primarily driven by decline in market demand as well as COVID related pressures on production along with ongoing intentional account pruning actions. Gross profit decreased \$22.8 million or 9.6% primarily due to lower sales volumes partially offset by simplification programs and selective pricing on lower margin accounts. Operating expenses for fiscal 2020 decreased \$17.5 million as compared to fiscal 2019. The decrease was primarily due to lower variable selling costs on lower sales, lower employee related wage and benefit costs and lower facility costs.

Net sales for the Industrial Systems segment for fiscal 2020 were \$528.8 million, a 8.1% decrease compared to fiscal 2019 net sales of \$575.4 million. The decrease consisted of negative organic sales of 7.1% and negative foreign currency translation of 1.0%. The organic sales decrease was driven by COVID related pressures on production, the oil & gas downturn and the impact of 80/20 account pruning. Gross profit increased \$1.1 million or 1.2% primarily due to sales mix with higher sales volumes related to power generation projects, simplification programs and selective pricing on lower margin accounts. Operating expenses for fiscal 2020 decreased \$16.0 million as compared to fiscal 2019. The decrease was primarily due to lower employee related wage and benefit costs and lower variable selling costs on lower sales.

Net sales for the Climate Solutions segment for fiscal 2020 were \$846.8 million, a 12.6% decrease compared to fiscal 2019 net sales of \$968.5 million. The decrease consisted of negative organic sales of 9.9%, negative foreign currency translation of 0.6% and a negative 2.1% impact from the businesses divested/to be exited. The organic sales decrease was driven by COVID related pressure in North America and Europe and 80/20 account pruning efforts. Gross profit decreased \$23.0 million or 8.5% primarily due to sales mix and productivity gains. Operating expenses for fiscal 2020 increased \$4.9 million as compared to the prior year primarily due to professional fees.

Net sales for the Power Transmission Solutions segment for fiscal 2020 were \$711.2 million, a 9.8% decrease compared to fiscal 2019 net sales of \$788.8 million. The decrease consisted of negative organic sales of 9.1%, negative foreign currency translation of 0.1% and a negative 0.6% impact from the businesses divested/to be exited. The organic sales decrease was driven by COVID related pressures on general industrial, upstream oil & gas end markets and 80/20 account pruning efforts. Gross profit for fiscal 2020 decreased \$7.3 million or 2.8% primarily due to lower sales volumes partially offset by the change in sales mix and productivity gains. Operating expenses for fiscal 2020 decreased \$2.8 million due to lower employee related wage and benefit costs and lower variable selling costs on the lower sales.

The effective tax rate for fiscal 2020 was 22.7% compared to 20.1% for fiscal 2019. The increase in the effective rate was due to the mix of earnings during the year.

Fiscal Year 2019 Compared to Fiscal Year 2018

Net sales for fiscal 2019 were \$3.2 billion, a decrease of 11.2% compared to fiscal 2018 net sales of \$3.6 billion. The decrease consisted of negative organic sales of 5.7%, negative foreign currency translation of 1.1% and a negative 5.3% impact from the businesses divested/to be exited partially offset by a positive 0.9% sales growth related to the acquisition of Nicotra Gebhardt S.p.A ("NG"). Gross profit decreased \$103.9 million or 10.8% as compared to the prior year. The decrease from the prior year was driven primarily due to lower sales volumes, partially offset by productivity improvements and simplification programs. Operating expenses were \$544.3 million which was a \$55.1 million decrease from fiscal 2018 due primarily to businesses divested/to be exited.

Net sales for the Commercial Systems segment for fiscal 2019 were \$905.3 million, a 18.5% decrease compared to fiscal 2018 net sales of \$1.1 billion. The decrease consisted of negative organic sales of 8.1%, negative foreign currency translation of 1.2% and a negative 12.6% impact from businesses divested/to be exited partially offset by a positive 3.4% sales growth related to the acquisition of NG. The organic sales decrease was primarily driven by the continued inventory destocking in the North American pool pump market, weakness in North American general industry and the impact of 80/20 account pruning. Gross profit decreased \$50.4 million or 17.6% primarily due to lower sales volumes partially offset by simplification programs and selective pricing on lower margin accounts. Operating expenses for fiscal 2019 decreased \$22.4 million as compared to fiscal 2018. The decrease was primarily due to lower variable selling costs on lower sales and the removal of costs related to businesses divested/to be exited.

Net sales for the Industrial Systems segment for fiscal 2019 were \$575.4 million, a 14.3% decrease compared to fiscal 2018 net sales of \$671.1 million. The decrease consisted of negative organic sales of 11.4%, negative foreign currency translation of 2.1% and a negative 0.8% impact from the businesses divested/to be exited. The organic sales decrease was driven by delays in power generation projects due to end market overcapacity and the oil & gas downturn, weak North American and China industrial demand due to trade uncertainty and the impact of 80/20 account pruning. Gross profit decreased \$40.8 million or 29.9% primarily due to lower sales volumes related to power generation projects, partially offset by simplification programs and selective pricing on lower margin accounts. Operating expenses for fiscal 2019 decreased \$4.0 million as compared to fiscal 2018. The decrease was primarily due to lower variable selling costs on lower sales.

Net sales for the Climate Solutions segment for fiscal 2019 were \$968.5 million, a 5.5% decrease compared to fiscal 2018 net sales of \$1,024.8 million. The decrease consisted of negative organic sales of 1.2%, negative foreign currency translation of 0.6% and a negative 3.7% impact from the businesses divested/to be exited. The organic sales decrease was driven by inventory destocking by HVAC OEM customers and 80/20 account pruning efforts. Gross profit increased \$7.1 million or 2.7% primarily due to sales mix and productivity gains. Operating expenses for fiscal 2019 decreased \$18.3 million as compared to the prior year primarily due to the removal of costs related to businesses divested/to be exited.

Net sales for the Power Transmission Solutions segment for fiscal 2019 were \$788.8 million, a 6.0% decrease compared to fiscal 2018 net sales of \$838.8 million. The decrease consisted of negative organic sales of 3.5%, negative foreign currency translation of 0.9% and a negative 1.6% impact from the businesses divested/to be exited. The organic sales decrease was driven by continued weakness in the industrial distribution channel and 80/20 account pruning efforts. Gross profit for fiscal 2019 decreased \$19.8 million or 7.1% primarily due to the change in sales mix and productivity gains partially offset by the lower sales volume. Operating expenses for fiscal 2019 decreased \$10.4 million due to lower variable selling costs on the lower sales and the removal of costs related to the businesses divested/to be exited.

The effective tax rate for fiscal 2019 was 20.1% compared to 19.3% for fiscal 2018. The increase in the effective rate was due to the mix of earnings during the year. The lower effective tax rate in fiscal 2019 as compared to the 21% statutory US federal income tax rate is driven by the mix of earnings and lower foreign tax rates.

Liquidity and Capital Resources

General

Our principal source of liquidity is cash flow provided by operating activities. In addition to operating income, other significant factors affecting our cash flows include working capital levels, capital expenditures, dividends, share repurchases, acquisitions, and divestitures, availability of debt financing, and the ability to attract long-term capital at acceptable terms.

Cash flow provided by operating activities was \$435.4 million for fiscal 2020, a \$26.9 million increase from fiscal 2019. The increase was primarily the result of a reduction in working capital.

Cash flow provided by operating activities was \$408.5 million for fiscal 2019, a \$45.8 million increase from fiscal 2018. The increase was primarily the result of a reduction in working capital and the higher net income year over year.

Our working capital was \$1,029.3 million and \$1,047.2 million as of January 2, 2021 and December 28, 2019, respectively. As of January 2, 2021 and December 28, 2019, our current ratio (which is the ratio of our current assets to current liabilities) was 2.3:1 and 2.9:1, respectively. We intend to use operating cash flow to meet our current debt repayment obligations.

Cash flow used in investing activities was \$37.0 million for fiscal 2020, compared to cash flows provided by \$74.3 million in fiscal 2019. The change was driven primarily by the divestiture proceeds received in fiscal 2019 partially offset by lower capital expenditures. Capital expenditures were \$47.5 million in fiscal 2020, compared to \$92.4 million in fiscal 2019.

Cash flow provided by investing activities was \$74.3 million for fiscal 2019, compared to \$227.9 million used in fiscal 2018. The change was driven primarily by the divestiture proceeds received in fiscal 2019 versus the acquisition of NG in fiscal 2018. Capital expenditures were \$92.4 million in fiscal 2019, compared to \$77.6 million in fiscal 2018.

In fiscal 2021, we anticipate capital spending for property, plant and equipment to be approximately \$57.0 million. We believe that our present manufacturing facilities will be sufficient to provide adequate capacity for our operations in fiscal 2021. We anticipate funding fiscal 2021 capital spending with operating cash flows.

Cash flow used in financing activities was \$147.6 million for fiscal 2020, compared to \$397.4 million in fiscal 2019. Net debt repayments totaled \$67.7 million in fiscal 2020, compared to net debt repayments of \$171.0 million in fiscal 2019. We also repurchased \$25.0 million of our common stock during fiscal 2020 compared to \$165.1 million in fiscal 2019. We paid \$48.7 million in dividends to shareholders in fiscal 2020 compared to \$48.9 million in fiscal 2019. In fiscal 2020, we paid distributions of \$2.8 million to noncontrolling interests compared to \$1.8 million in fiscal 2019.

Cash flow used in financing activities was \$397.4 million for fiscal 2019, compared to \$17.7 million for fiscal 2018. Net debt repayments totaled \$171.0 million in fiscal 2019, compared to net debt borrowings of \$166.7 million in fiscal 2018. We also repurchased \$165.1 million of our common stock during fiscal 2019 compared to \$127.8 million in fiscal 2018. We paid \$48.9 million in dividends to shareholders in fiscal 2019 compared to \$47.2 million in fiscal 2018. In fiscal 2019, we paid distributions of \$1.8 million to noncontrolling interests compared to \$1.6 million in fiscal 2018.

The following table presents selected financial information and statistics as of January 2, 2021 and December 28, 2019 (in millions):

	January 2, 2021	December 28, 2019
Cash and Cash Equivalents	\$ 611.3	\$ 331.4
Trade Receivables, Net	432.0	461.4
Inventories	690.3	678.4
Working Capital	1,029.3	1,047.2
Current Ratio	2.3:1	2.9:1

As of January 2, 2021, \$603.5 million of our cash was held by foreign subsidiaries and could be used in our domestic operations if necessary. We anticipate being able to support our short-term liquidity and operating needs largely through cash generated from operations. We regularly assess our cash needs and the available sources to fund these needs which includes repatriation of foreign earnings which may be subject to withholding taxes. Under current law, we do not expect restrictions or taxes on repatriation of cash held outside of the United States to have a material effect on our overall liquidity, financial condition or the results of operations for the foreseeable future.

We will, from time to time, maintain excess cash balances which may be used to (i) fund operations, (ii) repay outstanding debt, (iii) fund acquisitions, (iv) pay dividends, (v) make investments in new product development programs, (vi) repurchase our common stock, or (vii) fund other corporate objectives.

Pension Liabilities and Other Post Retirement Benefits

Accrued pension and other post retirement benefits of \$74.1 million and \$85.3 million as of January 2, 2021 and December 28, 2019, respectively.

Credit Agreement

On August 27, 2018, we entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as Administrative Agent and the lenders named therein, providing for a (i) 5-year unsecured term loan facility in the principal amount of \$900.0 million (the "Term Facility") and (ii) a 5-year unsecured multicurrency revolving facility in the principal amount of \$500.0 million (the "Multicurrency Revolving Facility"), including a \$50.0 million letter of credit sub facility, available for general corporate purposes. Borrowings under the Credit Agreement bear interest at floating rates based upon indices determined by the currency of the borrowing, plus an applicable margin determined by reference to our consolidated funded debt to consolidated EBITDA ratio or at an alternative base rate.

The Term Facility was drawn in full on August 27, 2018 with the proceeds settling the amounts owed under the Prior Term Facility and Prior Multicurrency Revolving Facility. The Term Facility requires quarterly amortization at a rate starting at 5.0% per annum, increasing to 7.5% per annum after three years and further increasing to 10.0% per annum for the last years of the Term Facility, unless previously prepaid. The weighted average interest rate on the Term Facility was 2.0% and 3.6% for the fiscal years ended January 2, 2021 and December 28, 2019, respectively. The Credit Agreement requires us to prepay the loans under the Term Facility with 100% of the net cash proceeds received from specified asset sales and borrowed money indebtedness, subject to certain exceptions. We repaid \$50.0 million and \$90.0 million under the Term Facility in fiscal 2020 and 2019, respectively. The amount outstanding for fiscal years ended January 2, 2021 and December 28, 2019 was \$670.0 million and \$720.0 million, respectively.

As of January 2, 2021 we had no borrowings under the Multicurrency Revolving Facility, \$0.2 million of standby letters of credit and \$499.8 million of available borrowing capacity. The average daily balance in borrowings under the Multicurrency Revolving Facility was \$150.4 million and \$91.7 million, and the weighted average interest rate on the Multicurrency Revolving Facility was 1.9% and 3.6% for the fiscal years ended January 2, 2021 and December 28, 2019, respectively. We pay a non-use fee on the aggregate unused amount of the Multicurrency Revolving Facility at a rate determined by reference to its consolidated funded debt to consolidated EBITDA ratio.

Senior Notes

As of January 2, 2021, we had \$400.0 million of unsecured senior notes (the “Notes”) outstanding. The Notes consist of \$400.0 million in senior notes in a private placement which were issued in five tranches with maturities from ten to twelve years and carry fixed interest rates. As of January 2, 2021, \$230.0 million and \$170.0 million of the Notes are included in Current Maturities of Long-Term Debt and Long-Term Debt, respectively, on the Consolidated Balance Sheets. The Notes maturing in 2021 will be paid using capacity on our Multicurrency Revolving Facility and/or cash from operations.

Details on the Notes as of January 2, 2021 were (in millions):

	Principal	Interest Rate	Maturity
Fixed Rate Series 2011A	\$ 230.0	4.8 to 5.0%	July 14, 2021
Fixed Rate Series 2011A	170.0	4.9 to 5.1%	July 14, 2023
Total	\$ 400.0		

Compliance with Financial Covenants

The Credit Agreement and the Notes contain covenants under which we agree to maintain a minimum EBITDA-to-interest coverage ratio and maximum Debt-to-EBITDA ratio. We were in compliance with all financial covenants contained in the Notes and the Credit Agreement as of January 2, 2021.

Other Notes Payable

As of January 2, 2021, other notes payable of \$4.6 million were outstanding with a weighted average interest rate of 4.9%. As of December 28, 2019, other notes payable of \$4.5 million were outstanding with a weighted average rate of 5.0%.

Financing Arrangements Related to Rexnord Transaction

In connection with the Rexnord Transaction, on February 15, 2021, we entered into a debt commitment letter (the “Bridge Commitment Letter”) and related fee letters with Barclays Bank PLC (“Barclays”), pursuant to which, and subject to the terms and conditions set forth therein, Barclays committed to provide approximately \$2.1 billion in an aggregate principal amount of senior bridge loans under a 364-day senior bridge loan credit facility (“Bridge Facility”). The proceeds of the loans under the Bridge Facility may be used by us to (i) pay the Company Special Dividend, (ii) redeem the Notes due in 2023 and (iii) to pay fees and expenses in connection with the Rexnord Transaction.

Further, we entered into an additional debt commitment letter (the “Backstop Commitment Letter”) and related fee letters with Barclays, pursuant to which, and subject to the terms and conditions set forth therein. In the event, we do not obtain certain required consents from the lenders under the Credit Agreement, we may enter into a 364-day senior bridge loan credit facility in an aggregate principal amount of up to approximately \$1.1 billion to prepay in full the aggregate principal amount of loans outstanding under the Credit Agreement and accrued and unpaid interest thereon.

In connection with the Rexnord Transaction, Land also entered into a debt commitment letter (the “Land Commitment Letter”) and related fee letters with Barclays, pursuant to which, and subject to the terms and conditions set forth therein, Barclays committed to provide approximately \$487.0 million of bridge loans under a 364-day senior bridge loan facility to be used to pay a dividend to a subsidiary of Rexnord required prior to the Reorganization. If the Rexnord Transaction is consummated, the indebtedness contemplated by the Land Commitment Letter will become indebtedness of a wholly-owned subsidiary of the Company.

We anticipate incurring significant fees and expenses in connection with the Rexnord Transaction, the amount of which is uncertain. In addition, the amount of the Company Special Dividend depends on the number of additional shares of our common stock that must be issued in connection with the Rexnord Transaction in order to satisfy tax requirements applicable to a Reverse Morris Trust transaction. The size of the dividend that will ultimately be declared is uncertain and will remain so until the closing.

Other Disclosures

Based on rates for instruments with comparable maturities and credit quality, the approximate fair value of our total debt was \$1,085.8 million and \$1,162.1 million as of January 2, 2021 and December 28, 2019, respectively.

Litigation

See Part 1 - Item 3 - Legal Proceedings for additional details.

Off-Balance Sheet Arrangements, Contractual Obligations and Commercial Commitments

The following is a summary of our contractual obligations and payments due by period as of January 2, 2021 (in millions):

Payments Due by Period (1)	Debt Including Estimated Interest Payments (2)	Operating Leases	Pension Obligations	Purchase and Other Obligations	Total Contractual Obligations
Less than one year	\$ 244.5	\$ 26.7	\$ 4.5	\$ 309.9	\$ 585.6
1 - 3 years	862.5	32.9	7.5	—	902.9
3 - 5 years	1.2	16.0	7.4	—	24.6
More than 5 years	1.3	18.4	14.6	—	34.3
Total	\$ 1,109.5	\$ 94.0	\$ 34.0	\$ 309.9	\$ 1,547.4

(1) The timing and future spot prices affect the settlement values of our hedge obligations related to commodities and currency exchange rates. Accordingly, these obligations are not included above in the table of contractual obligations (See also Item 7A and Note 9 of Notes to the Consolidated Financial Statements). The timing of settlement of our tax contingent liabilities cannot be reasonably determined and they are not included above in the table of contractual obligations. Future pension obligation payments after fiscal 2020 are subject to revaluation based on changes in the benefit population and/or changes in the value of pension assets based on market conditions that are not determinable as of January 2, 2021.

(2) Variable rate debt based on January 2, 2021 rates. See also Note 7 of Notes to the Consolidated Financial Statements.

We utilize blanket purchase orders (“Blankets”) to communicate expected annual requirements to many of our suppliers. Requirements under Blankets generally do not become “firm” until a varying number of weeks before our scheduled production. The purchase obligations shown in the above table represent the value we consider “firm.”

As of January 2, 2021, we had outstanding standby letters of credit totaling approximately \$0.2 million. We had no other material commercial commitments.

We did not have any material variable interest entities as of January 2, 2021 or December 28, 2019. Other than disclosed in the table above and the previous paragraph, we had no other material off-balance sheet arrangements.

Critical Accounting Policies

The preparation of our consolidated financial statements in accordance with accounting principles generally accepted in the United States ("US") requires us to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. We believe the following critical accounting policies could have the most significant effect on our reported results.

Purchase Accounting and Business Combinations

Assets acquired and the liabilities assumed as part of a business combination are recognized separately from goodwill at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. We, with the assistance of outside specialists as necessary, use estimates and assumptions to value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable. We may refine these estimates during the measurement period which may be up to one year from the acquisition date. As a result, during the measurement period, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Income.

Goodwill

We evaluate the carrying amount of goodwill annually, or more frequently if events or circumstances indicate that an asset might be impaired. When applying the accounting guidance, we use estimates to determine when it might be necessary to take an impairment charge. Factors that could trigger an impairment review include significant underperformance relative to historical or forecasted operating results, a significant decrease in the market value of an asset or significant negative industry or economic trends. For goodwill, we may perform a qualitative test to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. We perform our required annual goodwill impairment test as of the end of the October fiscal month.

We use a weighting of the market approach and the income approach (discounted cash flow method) in testing goodwill for impairment. In the market approach, we apply performance multiples from comparable public companies, adjusted for relative risk, profitability, and growth considerations, to the reporting units to estimate fair value. The key assumptions used in the discounted cash flow method used to estimate fair value include discount rates, revenue and EBITDA margin projections and terminal value rates because such assumptions are the most sensitive and susceptible to change as they require significant management judgment. Discount rates are determined by using market and industry data as well as Company-specific risk factors for each reporting unit. The discount rate utilized for each reporting unit is indicative of the return an investor would expect to receive for investing in such a business. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant discount rate and long-term growth rates.

In the fourth quarter of fiscal 2020, we recorded goodwill impairment of \$10.5 million in our global industrial motors reporting unit. The global industrial motors reporting unit had goodwill of \$114.9 million as of January 2, 2021 and is included in our Industrial Systems segment. The calculated excess fair value over carrying value for our commercial air moving reporting unit was less than 10% of its carrying value. The commercial air moving reporting unit had goodwill of \$43.8 million as of January 2, 2021 and is included in our Commercial Systems segment. Some of the key considerations used in our impairment testing included (i) market pricing of guideline publicly traded companies (ii) cost of capital, including the risk-free interest rate, and (iii) recent historical and projected operating results of the subject reporting units. There is inherent uncertainty included in the assumptions used in goodwill impairment testing. A change to any of the assumptions could lead to a future impairment that could be material.

We aggregate our business units by segment for reporting purposes (see also Note 6 of Notes to the Consolidated Financial Statements).

Long-Lived Assets

We evaluate the recoverability of the carrying amount of long-lived assets whenever events or changes in circumstance indicate that the carrying amount of an asset may not be fully recoverable through future cash flows. When applying the accounting guidance, we use estimates to determine when an impairment is necessary. Factors that could trigger an impairment review include a significant decrease in the market value of an asset or significant negative or economic trends (see also Note 5 of Notes to the Consolidated Financial Statements). For long-lived assets, the Company uses an estimate of the related undiscounted cash flows over the remaining life of the primary asset to estimate recoverability.

Indefinite-Lived Assets

Indefinite-lived intangible assets consist of a trade name associated with the PTS Acquisition. It was evaluated for impairment in October 2020. We determined the fair value of this asset using a royalty relief methodology similar to the methodology used when the associated asset was acquired, but using updated assumptions and estimates of future sales and profitability. For fiscal 2020 and fiscal 2019, the fair value of the indefinite lived intangible asset exceeded its respective carrying value, however, in fiscal 2019 the fair value of the indefinite lived intangible asset exceeded its respective carrying value by less than 10%. Some of the key considerations used in our impairment testing included (i) cost of capital, including the risk-free interest rate, (ii) royalty rate, and (iii) recent historical and projected operating performance. There is inherent uncertainty included in the assumptions used in indefinite-lived intangible asset testing. A change to any of the assumptions could lead to a future impairment that could be material.

Retirement and Post Retirement Plans

Most of our domestic associates are participants in defined contribution plans and/or defined benefit pension plans. The majority of the defined benefit pension plans covering our domestic associates have been closed to new associates and frozen for existing associates. Certain associates are covered by a post retirement health care plan. Most of our foreign associates are covered by government sponsored plans in the countries in which they are employed. Our obligations under our defined benefit pension plans are determined with the assistance of actuarial firms. The actuaries make certain assumptions regarding such factors as withdrawal rates and mortality rates. The actuaries also provide information and recommendations from which management makes further assumptions on such factors as the long-term expected rate of return on plan assets, the discount rate on benefit obligations and where applicable, the rate of annual compensation increases.

Based upon the assumptions made, the investments made by the plans, overall conditions and movement in financial markets, particularly the stock market and how actual withdrawal rates, life-spans of benefit recipients and other factors differ from assumptions, annual expenses and recorded assets or liabilities of these defined benefit pension plans may change significantly from year to year.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to market risk relating to our operations due to changes in interest rates, foreign currency exchange rates and commodity prices of purchased raw materials. We manage the exposure to these risks through a combination of normal operating and financing activities and derivative financial instruments such as interest rate swaps, commodity cash flow hedges and foreign currency forward exchange contracts. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures, which prohibit the use of financial instruments for speculative purposes.

All qualified hedges are recorded on the balance sheet at fair value and are accounted for as cash flow hedges, with changes in fair value recorded in Accumulated Other Comprehensive Loss ("AOCI") in each accounting period. An ineffective portion of the hedges' change in fair value, if any, is recorded in earnings in the period of change.

Interest Rate Risk

We are exposed to interest rate risk on certain of our short-term and long-term debt obligations used to finance our operations and acquisitions. As of January 2, 2021, we had \$404.1 million of fixed rate debt and \$670.5 million of variable rate debt. As of December 28, 2019, we had \$404.3 million of fixed rate debt and \$737.9 million of variable rate debt. We utilize interest rate swaps to manage fluctuations in cash flows resulting from exposure to interest rate risk on forecasted variable rate interest payments.

We have floating rate borrowings, which expose us to variability in interest payments due to changes in interest rates. A hypothetical 10% change in our weighted average borrowing rate on outstanding variable rate debt as of January 2, 2021 would result in a \$0.7 million change in after-tax annualized earnings. In April 2018, we entered into a spot, non-amortizing interest rate swap to pay fixed/receive floating with a notional amount of \$88.4 million to manage fluctuations in cash flows from interest rate risk related to floating rate interest. The swap expires in April 2021. We also entered into two forward starting pay fixed/receive floating non-amortizing interest rate swaps in June 2020, with a total notional amount of \$250.0 million to manage fluctuations in cash flows from interest rate risk related to floating rate interest. These swaps become effective July 2021 and will expire in July 2025. Upon inception, the swaps were designated as a cash flow hedges against forecasted interest payments under ASU 2017-12, with gains and losses, net of tax, measured on an ongoing basis, recorded in AOCI.

Details regarding the instruments as of January 2, 2021 are as follows (in millions):

<u>Instrument</u>	<u>Notional Amount</u>	<u>Maturity</u>	<u>Rate Paid</u>	<u>Rate Received</u>	<u>Fair Value</u>
Swap	\$88.4	April 2021	2.5%	LIBOR (1 month)	\$(0.7)
Swap	\$250.0	July 2025	0.6%	LIBOR (1 month)	\$(1.4)

As of January 2, 2021, a \$(0.7) million interest rate swap liability was included in Other Accrued Expenses and \$(1.4) million in Other Noncurrent Liabilities. As of December 28, 2019, a \$(1.0) million interest rate swap was included in Other Noncurrent Liabilities. There was an unrealized loss of \$(1.6) million, net of tax, for fiscal 2020 and \$(0.8) million for 2019 that was recorded in AOCI for the effective portion of the hedge.

In July 2017, the United Kingdom Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. We have material exposure to LIBOR through our revolving credit facility, certain lines of credit and interest rate swaps that are indexed to USD-LIBOR. It is expected that LIBOR will be discontinued and, while we believe an acceptable replacement to LIBOR will be available, if LIBOR is discontinued, we cannot reasonably estimate the impact, if any, on such discontinuation.

Foreign Currency Risk

We are exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances of foreign subsidiaries, intercompany loans with foreign subsidiaries and transactions denominated in foreign currencies. Our objective is to minimize our exposure to these risks through a combination of normal operating activities and the utilization of foreign currency exchange contracts to manage our exposure on the forecasted transactions denominated in currencies other than the applicable functional currency. Contracts are executed with credit worthy banks and are denominated in currencies of major industrial countries. We do not hedge our exposure to the translation of reported results of foreign subsidiaries from local currency to United States dollars.

As of January 2, 2021, derivative currency assets (liabilities) of \$16.6 million, \$1.6 million, \$(1.0) million and \$(0.1) million, are recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Other Accrued Expenses and Other Noncurrent Liabilities, respectively. As of December 28, 2019, derivative currency assets (liabilities) of \$8.9 million, \$10.3 million, \$(3.1) million and \$(0.2) million, are recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets, Other Accrued Expenses and Other Noncurrent Liabilities, respectively. The unrealized gains on the effective portions of the hedges of \$12.7 million net of tax and \$5.7 million net of tax, as of January 2, 2021 and December 28, 2019, respectively, was recorded in AOCI. As of January 2, 2021, we had \$1.1 million, net of tax, of currency gains on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. As of December 28, 2019, we had \$2.1 million, net of tax, of currency gains on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings.

The following table quantifies the outstanding foreign exchange contracts intended to hedge non-US dollar denominated receivables and payables and the corresponding impact on the value of these instruments assuming a hypothetical 10% appreciation/depreciation of their counter currency on January 2, 2021 (dollars in millions):

Currency	Notional Amount	Fair Value	Gain (Loss) From:	
			10% Appreciation of Counter Currency	10% Depreciation of Counter Currency
Mexican Peso	\$ 174.6	\$ 12.2	\$ 17.5	\$ (17.5)
Chinese Renminbi	188.5	3.6	18.9	(18.9)
Indian Rupee	37.8	0.7	3.8	(3.8)
Euro	231.7	1.2	23.2	(23.2)
Canadian Dollar	2.0	0.1	0.2	(0.2)
Australian Dollar	21.2	(0.3)	2.1	(2.1)
Thai Baht	15.3	(0.5)	1.5	(1.5)
British Pound	11.7	0.1	1.2	(1.2)

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

Commodity Price Risk

We periodically enter into commodity hedging transactions to reduce the impact of changing prices for certain commodities such as copper and aluminum based upon forecasted purchases of such commodities. Qualified hedge transactions are designated as cash flow hedges and the contract terms of commodity hedge instruments generally mirror those of the hedged item, providing a high degree of risk reduction and correlation.

Derivative commodity assets of \$11.4 million and \$0.1 million are recorded in Prepaid Expenses and Other Current Assets and Other Noncurrent Assets, respectively as of January 2, 2021. Derivative commodity assets (liabilities) of \$2.6 million, \$0.1 million and \$(0.3) million are recorded in Prepaid Expenses and Other Current Assets, Other Noncurrent Assets and Other Accrued Expenses, respectively as of December 28, 2019. The unrealized gain on the effective portion of the hedges of \$8.7 million net of tax and \$1.8 million net of tax, as of January 2, 2021 and December 28, 2019, respectively, was recorded in AOCI. As of January 2, 2021, we had an additional \$2.6 million, net of tax, of derivative commodity gain on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings. As of December 28, 2019, we had an additional \$(0.8) million, net of tax, of derivative commodity losses on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings.

The following table quantifies the outstanding commodity contracts intended to hedge raw material commodity prices and the corresponding impact on the value of these instruments assuming a hypothetical 10% appreciation/depreciation of their prices on January 2, 2021 (dollars in millions):

Commodity	Notional Amount	Fair Value	Gain (Loss) From:	
			10% Appreciation of Commodity Prices	10% Depreciation of Commodity Prices
Copper	\$ 47.0	\$ 11.1	\$ 4.7	\$ (4.7)
Aluminum	3.6	0.4	0.4	(0.4)

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

The net AOCI balance related to hedging activities of \$23.5 million loss as of January 2, 2021 includes \$20.2 million of net current deferred gains expected to be realized in the next twelve months.

Counterparty Risk

We are exposed to credit losses in the event of non-performance by the counterparties to various financial agreements, including our interest rate swap agreements, foreign currency exchange contracts and commodity hedging transactions. We manage exposure to counterparty credit risk by limiting our counterparties to major international banks and financial institutions meeting established credit guidelines and continually monitoring their compliance with the credit guidelines. We do not obtain collateral or other security to support financial instruments subject to credit risk. We do not anticipate non-performance by our counterparties, but cannot provide assurances.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
**Quarterly Financial Information
(Unaudited)**

(Amounts in Millions, Except per Share Data)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2020	2019	2020	2019	2020	2019	2020	2019
Net Sales	\$ 734.2	\$ 853.8	\$ 634.1	\$ 873.7	\$ 758.2	\$ 772.3	\$ 780.5	\$ 738.2
Gross Profit	203.3	234.6	170.3	234.0	221.6	201.9	213.5	190.2
Income from Operations ⁽¹⁾	70.0	120.6	45.9	96.0	90.0	72.8	74.2	61.7
Net Income	46.7	86.8	29.3	67.4	66.3	50.8	51.5	37.6
Net Income Attributable to Regal Beloit Corporation	45.8	85.9	28.1	66.6	65.0	49.7	50.4	36.7
Earnings Per Share Attributable to Regal Beloit Corporation ⁽²⁾								
Basic	1.13	2.01	0.69	1.56	1.60	1.20	1.24	0.90
Assuming Dilution	1.12	1.99	0.69	1.55	1.60	1.19	1.23	0.89
Weighted Average Number of Shares Outstanding								
Basic	40.6	42.8	40.5	42.6	40.6	41.5	40.6	40.9
Assuming Dilution	40.8	43.1	40.7	43.0	40.8	41.7	40.9	41.1
Net Sales								
Commercial Systems	\$ 199.4	\$ 242.2	\$ 175.9	\$ 246.3	\$ 218.5	\$ 214.8	\$ 226.4	\$ 202.0
Industrial Systems	129.6	138.1	120.6	155.5	138.8	143.8	139.8	138.0
Climate Solutions	210.1	263.3	178.2	267.9	234.0	230.9	224.5	206.4
Power Transmission Solutions	195.1	210.2	159.4	204.0	166.9	182.8	189.8	191.8
Income (Loss) from Operations								
Commercial Systems ⁽³⁾	12.1	59.4	6.2	19.6	24.6	16.9	22.2	10.9
Industrial Systems ⁽³⁾	(0.1)	(5.9)	3.2	(0.1)	7.3	(2.6)	(14.9)	(4.4)
Climate Solutions	29.5	38.9	20.0	51.7	39.2	37.6	41.3	35.7
Power Transmission Solutions	28.5	28.2	16.5	24.8	18.9	20.9	25.6	19.5

⁽¹⁾ The first quarter 2019 results included a gain on divestiture of \$41.2 million included in the Commercial Systems segment.

⁽²⁾ Due to the weighting of both earnings and the weighted average number of shares outstanding, the sum of the quarterly earnings per share may not equal the annual earnings per share.

⁽³⁾ Retrospectively adjusted due to change in accounting principle related to LIFO inventories as discussed in Note 3.

Management's Annual Report on Internal Control Over Financial Reporting

The management of Regal Beloit Corporation (the "Company") is responsible for the accuracy and internal consistency of the preparation of the consolidated financial statements and footnotes contained in this annual report.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting. The Company operates under a system of internal accounting controls designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles. The internal accounting control system is evaluated for effectiveness by management and is tested, monitored and revised as necessary. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of January 2, 2021. In making its assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on the results of its evaluation, the Company's management concluded that, as of January 2, 2021, the Company's internal control over financial reporting is effective at the reasonable assurance level based on those criteria.

Our internal control over financial reporting as of January 2, 2021 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is included herein.

March 2, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Regal Beloit Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Regal Beloit Corporation and subsidiaries (the "Company") as of January 2, 2021 and December 28, 2019, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended January 2, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 2, 2021 and December 28, 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 2, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 2, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 2, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Adoption of a New Accounting Standard

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for leases in the year ended December 28, 2019, due to the adoption of Accounting Standard Update No. 2016-02, *Leases (Topic ASC 842)*, under the modified retrospective approach.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill Valuation – Global Industrial Motors & Commercial Air Moving Reporting Units – Refer to Notes 3 and 5 to the Financial Statements

Critical Audit Matter Description

The Company performed an impairment evaluation of the goodwill for the Global Industrial Motors and Commercial Air Moving reporting units by comparing the estimated fair value of each of these reporting units to its carrying value. In order to estimate the fair value of these reporting units, management is required to make significant estimates and assumptions related to discount rates and forecasts of future revenues and Earnings Before Interest Taxes Depreciation & Amortization ("EBITDA") margins. Changes in these assumptions could have a significant impact on either the fair value, the amount of any goodwill impairment charge, or both. The goodwill balance was \$1,518 million as of January 2, 2021, of which \$114.9 million and \$43.8

million related to the Global Industrial Motors and Commercial Air Moving reporting units, respectively. As of October 31, 2020, the Company's measurement date, the Company determined that the carrying value for the Global Industrial Motors reporting unit was in excess of fair value and recorded a \$10.5 million goodwill impairment. The fair value of the Commercial Air Moving reporting unit exceeded its carrying value and therefore no impairment was recognized.

We identified the impairment evaluation of goodwill for the Global Industrial Motors and Commercial Air Moving reporting units as a critical audit matter because of the inherent subjectivity involved in management's estimates and assumptions related to discount rates and forecasts of future revenues and EBITDA margins. The audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the selection of the discount rates and forecast of future revenues and EBITDA margins required a high degree of auditor judgement and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the selection of discount rates and forecasts of future revenues and EBITDA margins for the Global Industrial Motors and Commercial Air Moving reporting units included the following, among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over the selection of the discount rates and management's development of forecasts of future revenues and EBITDA margins.
- We evaluated the reasonableness of management's forecasts by comparing the forecasts to (1) historical results, (2) internal communications to management and the Board of Directors, and (3) forecasted information included in analyst and industry reports for the Company and certain of its peer companies.
- We evaluated the impact of changes in management's forecasts from the October 31, 2020, annual measurement date to January 2, 2021.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the discount rates by:
 - Tested the source information underlying management's determination of the discount rates.
 - Tested the mathematical accuracy of management's calculations.
 - Developed a range of independent estimates and compared those to the discount rates selected by management.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

March 2, 2021

We have served as the Company's auditor since 2002.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Regal Beloit Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Regal Beloit Corporation and subsidiaries (the “Company”) as of January 2, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2021, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended January 2, 2021, of the Company and our report dated March 2, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin

March 2, 2021

REGAL BELOIT CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Millions, Except Per Share Data)

	For the Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
Net Sales	\$ 2,907.0	\$ 3,238.0	\$ 3,645.6
Cost of Sales	2,098.3	2,377.3	2,681.0
Gross Profit	808.7	860.7	964.6
Operating Expenses	512.9	544.3	599.4
Goodwill Impairment	10.5	—	9.5
Asset Impairments	5.3	10.0	8.7
Gain on Sale of Businesses	(0.1)	(44.7)	—
Total Operating Expenses	528.6	509.6	617.6
Income from Operations	280.1	351.1	347.0
Other (Income) Expenses, net	(4.4)	(0.1)	1.5
Interest Expense	39.8	53.0	55.2
Interest Income	5.9	5.6	1.9
Income before Taxes	250.6	303.8	292.2
Provision for Income Taxes	56.8	61.2	56.4
Net Income	193.8	242.6	235.8
Less: Net Income Attributable to Noncontrolling Interests	4.5	3.7	4.6
Net Income Attributable to Regal Beloit Corporation	\$ 189.3	\$ 238.9	\$ 231.2
Earnings Per Share Attributable to Regal Beloit Corporation:			
Basic	\$ 4.66	\$ 5.69	\$ 5.30
Assuming Dilution	\$ 4.64	\$ 5.66	\$ 5.26
Weighted Average Number of Shares Outstanding:			
Basic	40.6	42.0	43.6
Assuming Dilution	40.8	42.2	43.9

See accompanying Notes to the Consolidated Financial Statements.

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

	For the Year Ended					
	January 2, 2021		December 28, 2019		December 29, 2018	
Net Income	\$ 193.8		\$ 242.6		\$ 235.8	
Other Comprehensive Income (Loss) Net of Tax:						
Translation:						
Foreign Currency Translation Adjustments	60.7		(9.2)		(71.2)	
Reclassification of Foreign Currency Translation Adjustments Included in Net Income, Net of \$— Million Tax Effects in 2020, 2019 and 2018	—		1.6		—	
Hedging Activities:						
Increase (Decrease) in Fair Value of Hedging Activities, Net of Tax Effects of \$2.8 Million in 2020, \$4.6 Million in 2019 and \$(1.2) Million in 2018	\$	8.6	\$	14.7	\$	(4.0)
Reclassification of Losses (Gains) Included in Net Income, Net of Tax Effects of \$2.2 Million in 2020, \$(0.4) Million in 2019 and \$(3.8) Million in 2018	6.9		15.5		(1.3)	
Pension and Post Retirement Plans:						
(Increase) Decrease in Prior Service Cost and Unrecognized Gain (Loss), Net of Tax Effects of \$(0.1) Million in 2020, \$1.8 Million in 2019 and \$(0.6) Million in 2018	(0.6)		5.7		(1.9)	
Amortization of Prior Service Cost and Unrecognized Loss Included in Net Periodic Pension Cost, Net of Tax Effects of \$0.2 Million in 2020, \$0.5 Million in 2019 and \$0.8 Million in 2018	0.5		(0.1)		1.5	
Other Comprehensive Income (Loss)	76.1		13.0		(86.2)	
Comprehensive Income	269.9		255.6		149.6	
Less: Comprehensive Income Attributable to Noncontrolling Interest	6.1		3.1		2.8	
Comprehensive Income Attributable to Regal Beloit Corporation	<u>\$ 263.8</u>		<u>\$ 252.5</u>		<u>\$ 146.8</u>	

See accompanying Notes to the Consolidated Financial Statements.

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

	<u>January 2, 2021</u>	<u>December 28, 2019</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 611.3	\$ 331.4
Trade Receivables, Less Allowances of \$18.3 Million in 2020 and \$9.7 Million in 2019	432.0	461.4
Inventories	690.3	678.4
Prepaid Expenses and Other Current Assets	108.6	133.7
Assets Held for Sale	9.1	2.8
Total Current Assets	1,851.3	1,607.7
Net Property, Plant and Equipment	555.5	605.0
Operating Lease Assets	73.4	71.0
Goodwill	1,518.2	1,501.3
Intangible Assets, Net of Amortization	530.3	567.2
Deferred Income Tax Benefits	43.9	58.4
Other Noncurrent Assets	16.4	20.1
Total Assets	\$ 4,589.0	\$ 4,430.7
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	\$ 360.1	\$ 337.0
Dividends Payable	12.2	12.2
Accrued Compensation and Benefits	76.6	67.3
Other Accrued Expenses	120.5	121.8
Current Operating Lease Liabilities	21.6	21.6
Current Maturities of Long-Term Debt	231.0	0.6
Total Current Liabilities	822.0	560.5
Long-Term Debt	840.4	1,136.9
Deferred Income Taxes	172.0	171.9
Pension and Other Post Retirement Benefits	69.5	80.8
Noncurrent Operating Lease Liabilities	55.1	51.0
Other Noncurrent Liabilities	53.0	49.2
Contingencies (see Note 12)		
Equity:		
Regal Beloit Corporation Shareholders' Equity:		
Common Stock, \$0.01 Par Value, 100.0 Million Shares Authorized, 40.6 Million and 40.8 Million Shares Issued and Outstanding at 2020 and 2019, Respectively	0.4	0.4
Additional Paid-In Capital	696.6	701.8
Retained Earnings	2,010.7	1,886.7
Accumulated Other Comprehensive Loss	(163.3)	(237.8)
Total Regal Beloit Corporation Shareholders' Equity	2,544.4	2,351.1
Noncontrolling Interests	32.6	29.3
Total Equity	2,577.0	2,380.4
Total Liabilities and Equity	\$ 4,589.0	\$ 4,430.7

See accompanying Notes to the Consolidated Financial Statements.

REGAL BELOIT CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Dollars in Millions, Except Per Share Data)

	Common Stock \$0.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
Balance as of December 30, 2017	\$ 0.4	\$ 877.5	\$ 1,611.6	\$ (164.0)	\$ 29.2	\$ 2,354.7
Net Income	—	—	231.2	—	4.6	235.8
Other Comprehensive Loss	—	—	—	(84.4)	(1.8)	(86.2)
Dividends Declared (\$1.10 Per Share)	—	—	(47.7)	—	—	(47.7)
Stock Options Exercised, Including Income Tax Benefit and Share Cancellations	—	(4.8)	—	—	—	(4.8)
Share-Based Compensation	—	16.9	—	—	—	16.9
Stock Repurchase	—	(106.0)	(21.8)	—	—	(127.8)
Adoption of Accounting Pronouncement ASU 2018-02	—	—	4.6	(4.6)	—	—
Purchase of Subsidiary Shares from Noncontrolling Interest	—	—	—	1.6	(2.4)	(0.8)
Dividends Declared to Noncontrolling Interests	—	—	—	—	(1.6)	(1.6)
Balance as of December 29, 2018	\$ 0.4	\$ 783.6	\$ 1,777.9	\$ (251.4)	\$ 28.0	\$ 2,338.5
Net Income	—	—	238.9	—	3.7	242.6
Other Comprehensive Income (Loss)	—	—	—	13.6	(0.6)	13.0
Dividends Declared (\$1.18 Per Share)	—	—	(49.1)	—	—	(49.1)
Stock Options Exercised	—	(10.7)	—	—	—	(10.7)
Share-Based Compensation	—	13.0	—	—	—	13.0
Stock Repurchase	—	(84.1)	(81.0)	—	—	(165.1)
Dividends Declared to Noncontrolling Interests	—	—	—	—	(1.8)	(1.8)
Balance as of December 28, 2019	\$ 0.4	\$ 701.8	\$ 1,886.7	\$ (237.8)	\$ 29.3	\$ 2,380.4
Net Income	—	—	189.3	—	4.5	193.8
Other Comprehensive Income	—	—	—	74.5	1.6	76.1
Dividends Declared (\$1.20 Per Share)	—	—	(48.7)	—	—	(48.7)
Stock Options Exercised	—	(3.3)	—	—	—	(3.3)
Share-Based Compensation	—	9.2	—	—	—	9.2
Stock Repurchase	—	(11.1)	(13.9)	—	—	(25.0)
Adoption of ASU 2016-13	—	—	(2.7)	—	—	(2.7)
Dividends Declared to Noncontrolling Interests	—	—	—	—	(2.8)	(2.8)
Balance as of January 2, 2021	\$ 0.4	\$ 696.6	\$ 2,010.7	\$ (163.3)	\$ 32.6	\$ 2,577.0

See accompanying Notes to the Consolidated Financial Statements.

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

	For the Year Ended		
	January 2, 2021	December 28, 2019	December 29, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 193.8	\$ 242.6	\$ 235.8
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Net of Acquisitions and Divestitures):			
Depreciation	84.1	84.2	87.5
Amortization	47.3	50.3	54.9
Goodwill Impairment	10.5	—	9.5
Asset Impairments	5.3	10.0	8.7
Noncash Lease Expense	24.5	30.6	—
Share-Based Compensation Expense	9.2	13.0	16.9
Expense (Benefit) from Deferred Income Taxes	(16.5)	22.4	13.2
Exit Related Costs	—	—	16.7
Loss (Gain) on Disposition of Assets	3.0	(0.7)	1.1
Other Non-Cash Changes	5.8	4.0	3.0
Gain on Sale of Businesses	(0.1)	(44.7)	—
Change in Operating Assets and Liabilities, Net of Acquisitions and Divestitures			
Receivables	29.6	70.3	(56.5)
Inventories	(3.7)	68.6	(42.7)
Accounts Payable	15.2	(80.3)	41.1
Current Liabilities and Other	27.4	(61.8)	(26.5)
Net Cash Provided by Operating Activities	435.4	408.5	362.7
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to Property, Plant and Equipment	(47.5)	(92.4)	(77.6)
Sales of Investment Securities	—	—	0.5
Business Acquisitions, Net of Cash Acquired	—	—	(161.5)
Proceeds from Sale of Businesses	0.3	157.9	0.7
Proceeds from Sale of Assets	10.2	8.8	10.0
Net Cash Provided by (Used in) Investing Activities	(37.0)	74.3	(227.9)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings Under Revolving Credit Facility	1,088.5	1,150.1	1,350.3
Repayments Under Revolving Credit Facility	(1,106.2)	(1,230.8)	(1,271.7)
Proceeds from Short-Term Borrowings	2.6	27.5	19.0
Repayments of Short-Term Borrowings	(2.3)	(27.5)	(19.7)
Proceeds from Long-Term Borrowings	0.1	—	900.2
Repayments of Long-Term Borrowings	(50.4)	(90.3)	(811.4)
Dividends Paid to Shareholders	(48.7)	(48.9)	(47.2)
Proceeds from the Exercise of Stock Options	0.2	0.3	—
Shares Surrendered for Taxes	(3.6)	(10.9)	(3.5)
Purchase of Subsidiary Shares from Noncontrolling Interest	—	—	(0.8)
Financing Fees Paid	—	—	(3.5)
Repurchase of Common Stock	(25.0)	(165.1)	(127.8)
Distributions to Noncontrolling Interests	(2.8)	(1.8)	(1.6)
Net Cash Used in Financing Activities	(147.6)	(397.4)	(17.7)
EFFECT OF EXCHANGE RATES ON CASH and CASH EQUIVALENTS	29.1	(2.6)	(8.1)
Net Increase in Cash and Cash Equivalents	279.9	82.8	109.0
Cash and Cash Equivalents at Beginning of Period	331.4	248.6	139.6
Cash and Cash Equivalents at End of Period	\$ 611.3	\$ 331.4	\$ 248.6
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash Paid During the Year for:			
Interest	\$ 38.6	\$ 51.7	\$ 54.2
Income Taxes	44.3	42.3	81.2

See accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

(1) Nature of Operations

Regal Beloit Corporation (the “Company”) is a United States based multi-national corporation. The Company is comprised of four operating segments: the Commercial Systems segment produces fractional to approximately 5 horsepower AC and DC motors, electronic variable speed controls, fans, and blowers for commercial applications; the Industrial Systems segment produces integral motors, generators, alternators and switchgear for industrial applications, along with aftermarket parts and kits to support such products; the Climate Solutions segment produces small motors, electronic variable speed controls and air moving solutions; and the Power Transmission Solutions segment produces, sells and services belt and chain drives, helical and worm gearing, mounted and unmounted bearings, couplings, modular plastic belts, conveying chains and components, hydraulic pump drives, large open gearing and specialty mechanical products.

(2) Basis of Presentation

The Company operates on a 52/53 week fiscal year ending on the Saturday closest to December 31. The fiscal year ended January 2, 2021 was 53 weeks and the fiscal years ended December 28, 2019 and December 29, 2018 were 52 weeks.

(3) Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. In addition, the Company has joint ventures that are consolidated in accordance with consolidation accounting guidance. All intercompany accounts and transactions are eliminated.

Use of Estimates

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”), which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the periods reported. Actual results could differ from those estimates. The Company uses estimates in accounting for, among other items, allowance for credit losses; excess and obsolete inventory; share-based compensation; acquisitions; product warranty obligations; pension and post-retirement assets and liabilities; derivative fair values; goodwill and other asset impairments; health care reserves; rebates and incentives; litigation claims and contingencies, including environmental matters; and income taxes. The Company accounts for changes to estimates and assumptions when warranted by factually based experience.

Acquisitions

The Company recognizes assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. The operating results of the acquired companies are included in the Company’s consolidated financial statements from the date of acquisition.

Acquisition-related costs are expensed as incurred, restructuring costs are recognized as post-acquisition expense and changes in deferred tax asset valuation allowances and income tax uncertainties after the measurement period are recorded in Provision for Income Taxes.

Revenue Recognition

The Company recognizes revenue from the sale of electric motors, electrical motion controls, power generation and power transmission products. The Company recognizes revenue when control of the product passes to the customer or the service is provided and is recognized at an amount that reflects the consideration expected to be received in exchange for such goods or services.

For a limited number of contracts, the Company recognizes revenue over time in proportion to costs incurred. The pricing of products sold is generally supported by customer purchase orders, and accounts receivable collection is reasonably assured. Estimated discounts and rebates are recorded as a reduction of gross sales in the same period revenue is recognized. Product returns and credits are estimated and recorded at the time of shipment based upon historical experience. Shipping and handling costs are recorded as revenue when billed to the customers. The costs incurred from shipping are recorded in Cost of Sales and handling costs incurred in connection with selling and distribution activities are recorded in Operating Expenses.

The Company derives a significant portion of its revenues from several original equipment manufacturing customers. Despite this relative concentration, there were no customers that accounted for more than 10% of consolidated net sales in fiscal 2020, fiscal 2019 or fiscal 2018.

Nature of Goods and Services

The Company sells products with multiple applications as well as customized products that have a single application such as those manufactured for its OEM customers. The Company reports in four operating segments: Commercial Systems, Industrial Systems, Climate Solutions and Power Transmission Solutions. See Note 6 for a description of the different segments.

Nature of Performance Obligations

The Company's contracts with customers typically consist of purchase orders, invoices and master supply agreements. At contract inception, across all four segments, the Company assesses the goods and services promised in its sales arrangements with customers and identifies a performance obligation for each promise to transfer to the customer a good or service that is distinct. The Company's primary performance obligations consist of product sales and customized systems/solutions.

Product:

The nature of products varies from segment to segment but across all segments, individual products are generally not integrated and represent separate performance obligations.

Customized systems/solutions:

The Company provides customized systems/solutions which consist of multiple products engineered and designed to specific customer specification, combined or integrated into one combined solution for a specific customer application. The goods are transferred to the customer and revenue is typically recognized over time as the performance obligations are satisfied.

When Performance Obligations are Satisfied

For performance obligations related to substantially all of the Company's product sales, the Company determines that the customer obtains control upon shipment and recognizes revenue accordingly. Once a product has shipped, the customer is able to direct the use of, and obtain substantially all of the remaining benefits from the asset. The Company considers control to have transferred upon shipment because the Company has a present right to payment at that time, the customer has legal title to the asset, the Company has transferred physical possession of the asset, and the customer has significant risks and rewards of ownership of the asset.

For a limited number of contracts, the Company transfers control and recognizes revenue over time. The Company satisfies its performance obligations over time and the Company uses a cost-based input method to measure progress. In applying the cost-based method of revenue recognition, the Company uses actual costs incurred to date relative to the total estimated costs for the contract in conjunction with the customer's commitment to perform in determining the amount of revenue and cost to recognize. The Company has determined that the cost-based input method provides a faithful depiction of the transfer of goods to the customer.

Payment Terms

The arrangement with the customer states the final terms of the sale, including the description, quantity, and price of each product or service purchased. Payment terms vary by customer but typically range from due upon delivery to 120 days after delivery. For contracts recognized at a point in time, revenue and billing typically occur simultaneously. The Company generally has payment terms with its customers of one year or less and has elected the practical expedient applicable to such contracts not to consider the time value of money. For contracts recognized using the cost-based input method, revenue recognized in excess of customer billings and billings in excess of revenue recognized are reviewed to determine the net asset or net liability position and classified as such on the Consolidated Balance Sheet.

Returns, Refunds and Warranties

The Company's contracts do not explicitly offer a "general" right of return to its customers (e.g. customers ordered excess products and return unused items). Warranties are classified as either assurance type or service type warranties. A warranty is considered an assurance type warranty if it provides the customer with assurance that the product will function as intended. A warranty that goes above and beyond ensuring basic functionality is considered a service type warranty. The Company generally only offers limited warranties which are considered to be assurance type warranties and are not accounted for as separate performance obligations. Customers generally receive repair or replacement on products that do not function to specification. Estimated product warranties are provided for specific product groups and the Company accrues for estimated future warranty cost in the period in which the sale is recognized. The Company estimates the accrual requirements based on historical warranty loss experience and the cost is included in Cost of Sales.

Volume Rebates

In some cases, the nature of the Company's contract may give rise to variable consideration including volume based sales incentives. If the customer achieves specific sales targets, it is entitled to rebates. The Company estimates the projected amount of the rebates that will be achieved and recognizes the estimated costs as a reduction to Net Sales as revenue is recognized.

Disaggregation of Revenue

The following table presents the Company's revenues disaggregated by geographical region for the fiscal years ended January 2, 2021, December 28, 2019 and December 29, 2018, respectively, (in millions):

January 2, 2021	Commercial Systems	Industrial Systems	Climate Solutions	Power Transmission Solutions	Total
North America	\$ 566.9	\$ 291.4	\$ 752.7	\$ 572.4	\$ 2,183.4
Asia	124.9	150.9	27.7	27.5	331.0
Europe	86.1	44.8	30.3	86.4	247.6
Rest-of-World	42.3	41.7	36.1	24.9	145.0
Total	\$ 820.2	\$ 528.8	\$ 846.8	\$ 711.2	\$ 2,907.0

December 28, 2019	Commercial Systems	Industrial Systems	Climate Solutions	Power Transmission Solutions	Total
North America	\$ 643.0	\$ 313.5	\$ 848.6	\$ 639.9	\$ 2,445.0
Asia	107.2	167.0	37.7	30.4	342.3
Europe	135.5	49.2	40.5	91.5	316.7
Rest-of-World	19.6	45.7	41.7	27.0	134.0
Total	\$ 905.3	\$ 575.4	\$ 968.5	\$ 788.8	\$ 3,238.0

December 29, 2018	Commercial Systems	Industrial Systems	Climate Solutions	Power Transmission Solutions	Total
North America	\$ 813.6	\$ 360.0	\$ 891.9	\$ 686.4	\$ 2,751.9
Asia	142.7	194.8	39.5	24.1	401.1
Europe	122.1	55.1	50.5	96.9	324.6
Rest-of-World	32.5	61.2	42.9	31.4	168.0
Total	\$ 1,110.9	\$ 671.1	\$ 1,024.8	\$ 838.8	\$ 3,645.6

Practical Expedients and Exemptions

The Company typically expenses incremental direct costs of obtaining a contract, primarily sales commissions, as incurred because the amortization period is expected to be 12 months or less. Contract costs are included in Operating Expenses in the accompanying Consolidated Statements of Income. Due to the short nature of the Company's contracts, the Company has adopted a practical expedient to not disclose revenue allocated to remaining performance obligations as substantially all of its contracts have original terms of 12 months or less.

The Company typically does not include in its transaction price any amounts collected from customers for sales taxes.

The Company has elected to account for shipping and handling costs as fulfillment activities and expense the costs as incurred as part of Cost of Sales.

Research and Development

The Company performs research and development activities relating to new product development and the improvement of current products. The Company's research and development expenses consist primarily of costs for: (i) salaries and related personnel expenses; (ii) the design and development of new energy efficient products and enhancements; (iii) quality assurance and testing; and (iv) other related overhead. The Company's research and development efforts tend to be targeted toward developing new products that would allow it to gain additional market share, whether in new or existing segments. While these costs make up an insignificant portion of operating expenses in the Power Transmission Solutions segment, they are more substantial in the Climate Solutions, Commercial Systems and Industrial Systems segments. In particular, a large driver of research and development efforts in the Climate Solutions, Commercial Systems and Industrial Systems segments is energy efficiency.

Research and development costs are expensed as incurred. The costs are recorded in Operating Expenses in the fiscal year as follows as noted in the table below:

	January 2, 2021		December 28, 2019		December 29, 2018
Research and Development Costs	\$ 34.7	\$	22.5	\$	29.3

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments which are readily convertible to cash, present insignificant risk of changes in value due to interest rate fluctuations and have original or purchased maturities of three months or less.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash equivalents. The Company has material deposits with global financial institutions. The Company performs periodic evaluations of the relative credit standing of its financial institutions and monitors the amount of exposure.

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across many geographic areas. The Company monitors credit risk associated with its trade receivables.

Trade Receivables

The Company's policy for estimating the allowance for credit losses on trade receivables considers several factors including historical write-off experience, overall customer credit quality in relation to general economic and market conditions, and specific customer account analyses to estimate expected credit losses. The specific customer account analysis consider such items as, credit worthiness, payment history, and historical bad debt experience. Trade receivables are written off after exhaustive collection efforts occur and the receivable is deemed uncollectible. Adjustments to the allowance for credit losses are recorded in Operating Expenses.

Inventories

The Company changed its method of calculating last-in, first-out ("LIFO") inventories, which represented approximately 50.0% of the Company's inventory as of January 2, 2021. The Company increased the number of LIFO inventory pools to four to align with the Company's operating and reporting segments. Previously, the Company had three LIFO inventory pools, which aligned with the Company's operating and reporting segments prior to the fiscal year 2020. The Company believes this change in accounting principle is preferable under the circumstances because it combines inventory items with similarities within a segment and better aligns revenue with expenses based on the four segment structure as well as how management manages and assesses the performance of the businesses. The Company determined that it had the data needed to apply this change in accounting principle as of the beginning of its fiscal year 2019, but it was impracticable to apply the change in periods prior to then. The change in accounting principle has been reflected in fiscal years 2019 and 2020. The change did not have a material impact on the consolidated financial statements for the years ended January 2, 2021 and December 28, 2019. See Note 6 for details.

The major classes of inventory at year end are as follows:

	January 2, 2021	December 28, 2019
Raw Material and Work in Process	48.7%	48.0%
Finished Goods and Purchased Parts	51.3%	52.0%

Inventories are stated at cost, which is not in excess of market. Cost for approximately 50.0% of the Company's inventory as of January 2, 2021 and 53.0% as of December 28, 2019 was determined using the last-in, first-out method. If all inventories were valued on the first-in, first-out method, they would have increased by \$60.0 million and \$62.0 million as of January 2, 2021 and December 28, 2019, respectively. Material, labor and factory overhead costs are included in the inventories.

The Company reviews inventories for excess and obsolete products or components. Based on an analysis of historical usage and management's evaluation of estimated future demand, market conditions and alternative uses for possible excess or obsolete parts, the Company records an excess and obsolete reserve.

Property, Plant and Equipment

Property, Plant and Equipment are stated at cost. Depreciation of plant and equipment is provided principally on a straight-line basis over the estimated useful lives (3 to 50 years) of the depreciable assets. Accelerated methods are used for income tax purposes.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures which extend the useful lives of existing equipment are capitalized and depreciated.

Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized. Leasehold improvements are capitalized and amortized over the lesser of the life of the lease or the estimated useful life of the asset.

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

	Useful Life (In Years)	January 2, 2021	December 28, 2019
Land and Improvements		\$ 76.1	\$ 80.3
Buildings and Improvements	3-50	290.7	305.2
Machinery and Equipment	3-15	978.2	988.2
Property, Plant and Equipment		1,345.0	1,373.7
Less: Accumulated Depreciation		(789.5)	(768.7)
Net Property, Plant and Equipment		<u>\$ 555.5</u>	<u>\$ 605.0</u>

During fiscal 2020, the Company recognized \$5.3 million of asset impairments related to the transfer of assets to held for sale. For fiscal 2019, the Company recognized \$5.1 million of asset impairments related to the transfer of assets to held for sale in the first quarter of 2019.

Goodwill

The Company evaluates the carrying amount of goodwill annually or more frequently if events or circumstances indicate that the goodwill might be impaired. Factors that could trigger an impairment review include significant underperformance relative to historical or forecasted operating results, a significant decrease in the market value of an asset or significant negative industry or economic trends. For goodwill, the Company may perform a qualitative test to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. The Company performed quantitative impairment testing for all reporting units in fiscal 2020. The Company performs the required annual goodwill impairment testing as of the end of the October fiscal month.

The Company uses a weighting of the market approach and the income approach (discounted cash flow method) in testing goodwill for impairment. In the market approach, the Company applies performance multiples from comparable public companies, adjusted for relative risk, profitability, and growth considerations, to the reporting units to estimate fair value. The key assumptions used in the discounted cash flow method used to estimate fair value include discount rates, revenue and EBITDA margin projections and terminal value rates because such assumptions are the most sensitive and susceptible to change as they require significant management judgment. Discount rates are determined by using market and industry data as well as Company-specific risk factors for each reporting unit. The discount rate utilized for each reporting unit is indicative of the return an investor would expect to receive for investing in such a business. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant discount rate and long-term growth rates.

In the fourth quarter of 2020, the Company recorded goodwill impairment of \$10.5 million in its global industrial motors reporting unit. The global industrial motors reporting unit had goodwill of \$114.9 million as of January 2, 2021 and is included

in the Company's Industrial Systems segment. The calculated excess fair value over carrying value for our commercial air moving reporting unit was less than 10% of its carrying value. The commercial air moving reporting unit had goodwill of \$43.8 million as of January 2, 2021 and is included in the Company's Commercial Systems segment. Some of the key considerations used in the Company's impairment testing included (i) market pricing of guideline publicly traded companies (ii) cost of capital, including the risk-free interest rate, and (iii) recent historical and projected operating results of the subject reporting unit. There is inherent uncertainty included in the assumptions used in goodwill impairment testing. A change to any of the assumptions could lead to a future impairment that could be material.

Intangible Assets

Intangible assets with finite lives are amortized over their estimated useful lives using the straight line method. The Company evaluates amortizing intangibles whenever events or circumstances have occurred that indicate carrying values may not be recoverable. If an indicator is present, the Company uses an estimate of the related undiscounted cash flows over the remaining life of the primary asset to estimate recoverability of the asset group. If such estimated future cash flows are less than carrying value, an impairment would be recognized. There was no impairment of intangible assets during fiscal 2020. The Company recorded impairments for its customer relationship intangible asset of \$4.9 million in fiscal 2019 as the result of transferring to assets held for sale.

Indefinite-lived intangible assets are not amortized. The Company evaluates the carrying amount of indefinite-lived intangible assets annually or more frequently if events or circumstances indicate that the assets might be impaired. The Company performs the required annual impairment testing as of the end of the October fiscal month.

The indefinite-lived intangible asset consists of a trade name associated with the acquisition of the Power Transmission Solutions business from Emerson Electric Co. It was evaluated for impairment in October 2020. The Company determined the fair value of this asset using a royalty relief methodology similar to the methodology used when the associated asset was acquired, but using updated assumptions and estimates of future sales and profitability. For fiscal 2020 and fiscal 2019, the fair value of the indefinite lived intangible asset exceeded its respective carrying value. Some of the key considerations used in the Company's impairment testing included (i) cost of capital, including the risk-free interest rate, (ii) royalty rate and (iii) recent historical and projected operating performance. There is inherent uncertainty included in the assumptions used in indefinite-lived intangible asset testing. A change to any of the assumptions could lead to a future impairment that could be material.

Long-Lived Assets

The Company evaluates the recoverability of the carrying amount of property, plant and equipment assets (collectively, "long-lived assets") whenever events or changes in circumstance indicate that the carrying amount of an asset may not be fully recoverable through future cash flows. Factors that could trigger an impairment review include a significant decrease in the market value of an asset or significant negative economic trends. For long-lived assets, the Company uses an estimate of the related undiscounted cash flows over the remaining life of the primary asset to estimate recoverability of the asset group. If the asset is not recoverable, the asset is written down to fair value. In fiscal 2020, the Company concluded it had asset impairments related to the transfer of assets to held for sale of \$5.3 million. The Company concluded it had an impairment of \$5.1 million in long-lived assets in fiscal 2019 due to the transfer of assets to held for sale.

Earnings Per Share

Diluted earnings per share is computed based upon earnings applicable to common shares divided by the weighted-average number of common shares outstanding during the period adjusted for the effect of dilutive securities. Share based compensation awards for common shares where the exercise price was above the market price have been excluded from the calculation of the effect of dilutive securities shown below; the amount of these shares were 0.4 million in fiscal 2020, 0.4 million in fiscal 2019 and 0.6 million in fiscal 2018. The following table reconciles the basic and diluted shares used in earnings per share calculations for the fiscal years ended (in millions):

	2020	2019	2018
Denominator for Basic Earnings Per Share	40.6	42.0	43.6
Effect of Dilutive Securities	0.2	0.2	0.3
Denominator for Diluted Earnings Per Share	40.8	42.2	43.9

Retirement and Post-Retirement Plans

The Company's domestic associates are covered by defined contribution plans and approximately half of the Company's domestic associates are covered by defined benefit pension plans. The majority of the defined benefit pension plans covering the Company's domestic associates have been closed to new associates and frozen for existing associates. Certain associates are covered by a post retirement health care plan. Most of the Company's foreign associates are covered by government sponsored plans in the countries in which they are employed. The Company's obligations under its defined benefit pension and other post-retirement plans are determined with the assistance of actuarial firms. The actuaries, under management's direction, make certain assumptions regarding such factors as withdrawal rates and mortality rates. The actuaries also provide information and recommendations from which management makes further assumptions on such factors as the long-term expected rate of return on plan assets, the discount rate on benefit obligations and where applicable, the rate of annual compensation increases and health care cost trend rates.

Based upon the assumptions made, the investments made by the plans, overall conditions and movement in financial markets, life-spans of benefit recipients and other factors, annual expenses and recorded assets or liabilities of these defined benefit plans may change significantly from year to year.

The service cost component of the Company's net periodic benefit cost is included in Cost of Sales and Operating Expenses. All other components of net periodic benefit costs are included in Other (Income) Expenses, net on the Company's Consolidated Statements of Income.

Derivative Financial Instruments

Derivative instruments are recorded on the Consolidated Balance Sheets at fair value. Any fair value changes are recorded in Net Income or Accumulated Other Comprehensive Loss ("AOCI") as determined under accounting guidance that establishes criteria for designation and effectiveness of the hedging relationships.

The Company uses derivative instruments to manage its exposure to fluctuations in certain raw material commodity pricing, fluctuations in the cost of forecasted foreign currency transactions, and variability in interest rate exposure on floating rate borrowings. The majority of derivative instruments have been designated as cash flow hedges (see also Note 13).

Income Taxes

The Company operates in numerous taxing jurisdictions and is subject to regular examinations by various US federal, state and foreign jurisdictions for various tax periods. The Company's income tax positions are based on research and interpretations of the income tax laws and rulings in each of the jurisdictions in which it does business. Due to the subjectivity of interpretations of laws and rulings in each jurisdiction, the differences and interplay in tax laws between those jurisdictions as well as the inherent uncertainty in estimating the final resolution of complex tax audit matters, estimates of income tax liabilities may differ from actual payments or assessments.

Foreign Currency Translation

For those operations using a functional currency other than the US dollar, assets and liabilities are translated into US dollars at year-end exchange rates, and revenues and expenses are translated at weighted-average exchange rates. The resulting translation adjustments are recorded as a separate component of Shareholders' Equity.

Product Warranty Reserves

The Company maintains reserves for product warranty to cover the stated warranty periods for its products. Such reserves are established based on an evaluation of historical warranty experience and specific significant warranty matters when they become known and can reasonably be estimated.

Accumulated Other Comprehensive Loss

Foreign currency translation adjustments, unrealized gains and losses on derivative instruments designated as hedges and pension and post retirement liability adjustments are included in Shareholders' Equity under AOCI.

The components of the ending balances of AOCI are as follows (in millions):

	2020	2019
Foreign Currency Translation Adjustments	\$ (155.7)	\$ (214.8)
Hedging Activities, Net of Tax of \$7.5 in 2020 and \$2.5 in 2019	23.5	8.0
Pension and Post-Retirement Benefits, Net of Tax of \$(9.4) in 2020 and \$(9.5) in 2019	(31.1)	(31.0)
Total	<u>\$ (163.3)</u>	<u>\$ (237.8)</u>

Legal Claims and Contingent Liabilities

The Company is subject to various legal proceedings, claims and regulatory matters, the outcomes of which are subject to significant uncertainty and will only be resolved when one or more future events occur or fail to occur. Management conducts regular reviews, including updates from legal counsel, to assess the need for accounting recognition or disclosure of these contingencies. The Company records expenses and liabilities when the Company believes that an obligation of the Company or a subsidiary on a specific matter is probable and there is a basis to reasonably estimate the value of the obligation, and such assessment inherently involves an exercise in judgment. This methodology is used for legal claims that are filed against the Company or a subsidiary from time to time. The uncertainty that is associated with such matters frequently requires adjustments to the liabilities previously recorded.

Fair Values of Financial Instruments

The fair values of cash equivalents, term deposits, trade receivables and accounts payable approximate their carrying values due to the short period of time to maturity. The fair value of debt is estimated using discounted cash flows based on rates for instruments with comparable maturities and credit ratings as further described in Note 7. The fair value of pension assets and derivative instruments is determined based on the methods disclosed in Notes 8 and 13.

Recent Accounting Pronouncements

Recently Issued Accounting Standards

In December 2019, the FASB issued Accounting Standards Update ("ASU") ASU 2019-12, *Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes*. The ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles of Topic 740, and clarifies and amends existing guidance to improve consistent application. This ASU becomes effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The Company is evaluating the effect of adopting this new accounting guidance.

Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments Credit Losses (Topic 326)*. The focus of this ASU is to require businesses to adjust their allowance for lifetime expected credit losses rather than incurred losses. It is believed that the change will result in more timely recognition of such losses. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods therein. The Company adopted the standard as of December 29, 2019, the beginning of fiscal 2020, under the modified retrospective approach. The Company recorded a \$3.4 million increase in the allowance for credit losses and a \$2.7 million net decrease to retained earnings as of December 29, 2019 for the cumulative effect of adopting ASU 2016-13.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The core principle of ASU 2016-02 is that an entity should recognize right of use ("ROU") assets and lease liabilities arising from an operating lease on its Balance Sheet. In accordance with that principle, ASU 2016-02 requires that a lessee recognize a liability to make lease payments, the lease liability, and a ROU asset representing its right to use the underlying leased asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on the lease classification as a finance or operating lease. In July 2018, the FASB amended its guidance by issuing ASU 2018-11 to provide an additional transition method, allowing a cumulative effect adjustment to the opening balance of retained earnings during the period of adoption. The Company adopted the standard as of December 30, 2018, the beginning of fiscal 2019, under the modified retrospective method. Comparative periods prior to the adoption of the standard have not been adjusted given the effect to the standard.

The Company elected the package of practical expedients permitted under the relief package within the new standard, which allows the Company to carryforward the historical lease accounting of expired or existing leases with respect to lease identification, lease classification and accounting treatment for initial direct costs as of the adoption date. The Company also elected the practical expedient related to lease versus nonlease components, allowing the Company to recognize lease and nonlease components as a single lease.

Adoption of the new standard resulted in the recording of the right-of-use assets and lease liabilities of \$93.0 million as of December 30, 2018. No cumulative effect adjustment to retained earnings was recognized upon adoption of the new standard. The standard did not materially impact the Company's Consolidated Net Income and had no impact on Cash Flows. See Note 9 for additional disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU focuses on updates around disclosures of Level 3 fair value measurements and it presents modifications to current disclosure requirements. The additional requirements under this ASU include disclosure for the changes in unrealized gains and losses included in other comprehensive income ("OCI") held at the end of the reporting period and the range and weighted average used to develop significant unobservable inputs. The ASU is also eliminating the disclosure requirement for the amount and reason for transfers between Level 1 and Level 2 fair value measurement, valuation processes for Level 3 measurements, and policy for timing of transfers between levels of the fair value hierarchy. In addition, the ASU modifies the disclosure requirements for investments that are valued based on net asset value. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods therein. The ASU requires prospective application for only the most recent interim or annual period presented in the year of adoption for changes in unrealized gains and losses included in OCI, the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements, and the narrative description of measurement uncertainty. The Company adopted the standard as of December 29, 2019, the beginning of fiscal 2020, with no material impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)*. The ASU addresses modifications to the disclosure requirements for Defined Benefit Plans. Under ASU 2018-14 the disclosure requirements that can be removed are amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, amount and timing of plan assets expected to be returned to the employer, and the effects of a one-percentage-point change in assumed health care cost trend rates on the aggregate of the service and interest cost components of net periodic benefit costs and benefit obligations for postretirement health care benefits. Additional disclosures are required for the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and an explanation for significant gains and losses related to the changes in the benefit obligation for the period. If a defined benefit pension plan has a projected benefit obligation greater than plan assets the projected benefit obligation and fair value of plan assets should be disclosed. The Company adopted the standard in the fourth quarter of fiscal 2020 on a retrospective basis for all years presented with no material impact to the Company's Consolidated Financial Statement.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU provides optional transition guidance, for a limited time, to companies that have contracts, hedging relationships or other transactions that reference the London Inter-bank Offered Rate ("LIBOR") or another reference rate which is expected to be discontinued because of reference rate reform. The amendments provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions if certain criteria are met. The amendments in this update are effective as of March 12, 2020 through December 31, 2022. In the second quarter of fiscal year 2020, the Company adopted this standard prospectively and is applying those expedients that allow the Company to continue to assert that LIBOR-based interest remains probable, despite the sunset of LIBOR at the end of 2021 with no impact on the Company's Consolidated Financial Statements.

(4) Held For Sale, Divestitures and Acquisitions

Assets Held for Sale

As of January 2, 2021 and December 28, 2019, the Company presented \$9.1 million and \$2.8 million, respectively, of certain assets held for sale as the Company had both the intent and ability to sell these assets.

2019 Divestitures

Regal Drive Technologies

On January 7, 2019, the Company sold its Regal Drive Technologies business and received proceeds of \$0.3 million in the first quarter of 2020 and \$119.9 million in 2019. Regal Drive Technologies was included in the Company's Commercial Systems segment. The Company recognized a gain on sale of \$0.1 million in the first quarter of 2020 and \$41.0 million in 2019 in the Consolidated Statements of Income.

Velvet Drive

On April 1, 2019, the Company sold its Velvet Drive business and received proceeds of \$8.9 million. This business was included in the Company's Power Transmissions Solutions segment. The Company recognized a loss on sale of \$0.5 million in the Consolidated Statements of Income.

CapCom

On April 1, 2019, the Company sold its CapCom business and received proceeds of \$9.9 million. This business was included in the Company's Climate Solutions segment. The Company recognized a gain on sale of \$6.0 million in the Consolidated Statements of Income.

Vapor Recovery

On July 1, 2019, the Company sold its Vapor Recovery business and received proceeds of \$19.2 million. The business was included in the Company's Commercial Systems segment. The Company recognized a loss on sale of \$1.9 million in the Consolidated Statements of Income.

2018 Acquisition

Nicotra Gebhardt

On April 10, 2018, the Company acquired Nicotra Gebhardt S.p.A. ("NG") for \$161.5 million in cash, net of \$8.5 million of cash acquired. NG is a leader in critical, energy-efficient systems for ventilation and air quality. NG manufactures, sells and services fans and blowers under the industry leading brands of Nicotra and Gebhardt. The financial results of NG have been included in the Company's Commercial Systems segment from the date of acquisition.

(5) Goodwill and Intangible Assets

Goodwill

The excess of purchase price over estimated fair value of net assets acquired is assigned to goodwill.

The following information presents changes to goodwill during the periods indicated (in millions):

	<u>Total</u>	<u>Commercial Systems</u>	<u>Industrial Systems</u>	<u>Climate Solutions</u>	<u>Power Transmission Solutions</u>
Balance as of December 29, 2018	\$ 1,509.2	\$ 427.4	\$ 171.5	\$ 330.6	\$ 579.7
Divestiture	(2.8)	—	—	—	(2.8)
Translation and Other	(5.1)	(0.8)	(0.7)	0.6	(4.2)
Balance as of December 28, 2019	\$ 1,501.3	\$ 426.6	\$ 170.8	\$ 331.2	\$ 572.7
Impairment Charge	(10.5)	—	(10.5)	—	—
Translation and Other	27.4	6.7	3.4	(0.4)	17.7
Balance as of January 2, 2021	\$ 1,518.2	\$ 433.3	\$ 163.7	\$ 330.8	\$ 590.4
Cumulative Goodwill Impairment Charges	\$ 295.7	\$ 183.2	\$ 72.1	\$ 17.2	\$ 23.2

Intangible Assets

Intangible assets consist of the following (in millions):

	Weighted Average Amortization Period (Years)	December 28, 2019	Translation Adjustments	January 2, 2021
Customer Relationships	17	\$ 692.1	\$ 16.5	\$ 708.6
Technology	14	144.0	2.3	146.3
Trademarks	14	35.9	1.8	37.7
Patent and Engineering Drawings	5	16.6	—	16.6
		888.6	20.6	909.2
Non-Amortizable Trade Name		121.6	1.2	122.8
Total Gross Intangibles		\$ 1,010.2	\$ 21.8	\$ 1,032.0

Accumulated amortization of intangible assets consists of the following:

	December 28, 2019	Amortization	Translation Adjustments	January 2, 2021
Customer Relationships	\$ 302.4	\$ 38.6	\$ 8.4	\$ 349.4
Technology	99.0	7.1	1.9	108.0
Trademarks	25.0	1.6	1.1	27.7
Patent and Engineering Drawings	16.6	—	—	16.6
Total Accumulated Amortization	\$ 443.0	\$ 47.3	\$ 11.4	\$ 501.7
Intangible Assets, Net of Amortization	\$ 567.2			\$ 530.3

While the Company believes its customer relationships are long-term in nature, the Company's contractual customer relationships are generally short-term. Useful lives are established at acquisition based on historical attrition rates.

Amortization expense was \$47.3 million in fiscal 2020, \$50.3 million in fiscal 2019 and \$54.9 million in fiscal 2018. Amortization expense does not include any impairment recognized during the respective periods. The Company recognized \$4.9 million of customer relationships intangible asset impairment related to the transfer of assets to held for sale during the first quarter of 2019.

The following table presents estimated future amortization expense (in millions):

Year	Estimated Amortization
2021	\$ 43.6
2022	41.8
2023	41.7
2024	41.1
2025	39.0

(6) Segment Information

The Company's four operating segments are: Commercial Systems, Industrial Systems, Climate Solutions and Power Transmission Solutions.

Commercial Systems segment produces fractional to approximately 5 horsepower AC and DC motors, electronic variable speed controls, fans, and blowers for commercial applications. These products serve markets including commercial building ventilation and HVAC, pool and spa, irrigation, dewatering, agriculture, and general commercial equipment.

Industrial Systems segment produces integral motors, generators, alternators and switchgear for industrial applications, along with aftermarket parts and kits to support such products. These products serve markets including agriculture, marine, mining, oil and gas, food and beverage, data centers, healthcare, prime and standby power, and general industrial equipment.

Climate Solutions segment produces small motors, electronic variable speed controls and air moving solutions serving markets including residential and light commercial HVAC, water heaters and commercial refrigeration.

Power Transmission Solutions segment produces, sells and services belt and chain drives, helical and worm gearing, mounted and unmounted bearings, couplings, modular plastic belts, conveying chains and components, hydraulic pump drives, large open gearing and specialty mechanical products serving markets including e-commerce, alternative energy, beverage, bulk handling, metals, special machinery, energy, aerospace and general industrial.

The effect of the change in accounting policy related to LIFO as discussed in Note 3 for fiscal 2020 and 2019 on a per quarter basis is as follows (in millions):

	Commercial Systems							
	2019 Fiscal Quarter				2019 Total	2020 Fiscal Quarter		
	1st	2nd	3rd	4th		1st	2nd	3rd
Gross Profit As Reported	\$ 65.5	\$ 65.2	\$ 53.6	\$ 48.6	\$ 232.9	\$ 50.7	\$ 42.3	\$ 61.4
Adjustment for Change in Accounting Principle	1.6	(1.2)	0.3	3.0	3.7	(0.4)	—	(0.7)
Gross Profit Adjusted for Change in Accounting Principle	\$ 67.1	\$ 64.0	\$ 53.9	\$ 51.6	\$ 236.6	\$ 50.4	\$ 42.3	\$ 60.7
Income from Operations as Adjusted for Change in Accounting Principle	\$ 59.4	\$ 19.6	\$ 16.9	\$ 10.9	\$ 106.8	\$ 12.1	\$ 6.2	\$ 24.6

	Industrial Systems							
	2019 Fiscal Quarter				2019 Total	2020 Fiscal Quarter		
	1st	2nd	3rd	4th		1st	2nd	3rd
Gross Profit As Reported	\$ 23.9	\$ 27.8	\$ 23.7	\$ 24.0	\$ 99.3	\$ 22.6	\$ 24.9	\$ 31.2
Adjustment for Change in Accounting Principle	(1.6)	1.2	(0.3)	(3.0)	(3.7)	0.4	—	0.7
Gross Profit Adjusted for Change in Accounting Principle	\$ 22.3	\$ 29.0	\$ 23.4	\$ 21.0	\$ 95.6	\$ 23.0	\$ 24.8	\$ 31.9
Income (Loss) from Operations as Adjusted for Change in Accounting Principle	\$ (5.9)	\$ (0.1)	\$ (2.6)	\$ (4.4)	\$ (13.0)	\$ (0.1)	\$ 3.2	\$ 7.3

The Company evaluates performance based on the segment's income from operations. Corporate costs have been allocated to each segment based on the net sales of each segment. The reported external net sales of each segment are from external customers.

The following sets forth certain financial information attributable to the Company's operating segments for fiscal 2020, fiscal 2019 and fiscal 2018, respectively (in millions):

	Commercial Systems	Industrial Systems	Climate Solutions	Power Transmission Solutions	Eliminations	Total
Fiscal 2020						
External Sales	\$ 820.2	\$ 528.8	\$ 846.8	\$ 711.2	\$ —	\$ 2,907.0
Intersegment Sales	62.5	27.7	18.8	2.5	(111.5)	—
Total Sales	882.7	556.5	865.6	713.7	(111.5)	2,907.0
Gross Profit	213.8	96.7	246.8	251.4	—	808.7
Operating Expenses	144.9	91.6	115.5	160.9	—	512.9
Goodwill Impairment	—	10.5	—	—	—	10.5
Gain on Sale of Businesses	(0.1)	—	—	—	—	(0.1)
Asset Impairments	2.8	0.2	1.3	1.0	—	5.3
Income (Loss) from Operations	66.2	(5.6)	130.0	89.5	—	280.1
Depreciation and Amortization	32.6	23.9	19.6	55.3	—	131.4
Capital Expenditures	15.3	8.1	12.1	12.0	—	47.5
Fiscal 2019						
External Sales	\$ 905.3	\$ 575.4	\$ 968.5	\$ 788.8	\$ —	\$ 3,238.0
Intersegment Sales	46.9	35.9	17.4	4.3	(104.5)	—
Total Sales	952.2	611.3	985.9	793.1	(104.5)	3,238.0
Gross Profit	236.6	95.6	269.8	258.7	—	860.7
Operating Expenses	162.4	107.6	110.6	163.7	—	544.3
Asset Impairments	6.7	0.9	1.3	1.1	—	10.0
(Gain) Loss on Sale of Businesses	(39.3)	0.1	(6.0)	0.5	—	(44.7)
Income (Loss) from Operations	106.8	(13.0)	163.9	93.4	—	351.1
Depreciation and Amortization	34.6	24.4	19.8	55.7	—	134.5
Capital Expenditures	29.9	21.0	23.3	18.2	—	92.4
Fiscal 2018						
External Sales	\$ 1,110.9	\$ 671.1	\$ 1,024.8	\$ 838.8	\$ —	\$ 3,645.6
Intersegment Sales	47.3	31.9	22.1	24.1	(125.4)	—
Total Sales	1,158.2	703.0	1,046.9	862.9	(125.4)	3,645.6
Gross Profit	287.0	136.4	262.7	278.5	—	964.6
Operating Expenses	184.8	111.6	128.9	174.1	—	599.4
Goodwill Impairment	—	—	9.5	—	—	9.5
Asset Impairments	—	—	8.7	—	—	8.7
Income from Operations	102.2	24.8	115.6	104.4	—	347.0
Depreciation and Amortization	40.3	26.7	21.0	54.4	—	142.4
Capital Expenditures	24.6	17.2	17.7	18.1	—	77.6

The following table presents identifiable assets information attributable to the Company's operating segments. The identifiable assets as of the December 28, 2019 have been retrospectively adjusted to reflect the change in accounting principle related to LIFO inventories as discussed in Note 3. The changes reflected in assets as of December 28, 2019 are an increase of \$5.4 million for Commercial Systems and a decrease of \$5.4 million for Industrial Systems. The table presents identifiable assets information as of January 2, 2021 and December 28, 2019 (in millions):

	Commercial Systems	Industrial Systems	Climate Solutions	Power Transmission Solutions	Total
Identifiable Assets as of January 2, 2021	\$ 1,319.6	\$ 837.5	\$ 890.4	\$ 1,541.5	\$ 4,589.0
Identifiable Assets as of December 28, 2019	1,203.9	797.4	878.3	1,551.1	4,430.7

The following sets forth net sales by country in which the Company operates for fiscal 2020, fiscal 2019 and fiscal 2018, respectively (in millions):

	Net Sales		
	2020	2019	2018
United States	\$ 1,885.1	\$ 2,071.9	\$ 2,402.9
Rest of the World	1,021.9	1,166.1	1,242.7
Total	\$ 2,907.0	\$ 3,238.0	\$ 3,645.6

U.S. net sales for fiscal 2020, fiscal 2019 and fiscal 2018 represented 64.8%, 64.0% and 65.9% of total net sales, respectively. No individual foreign country represented a material portion of total net sales for any of the years presented.

The following sets forth long-lived assets (net property, plant and equipment) by country in which the Company operates for fiscal 2020 and fiscal 2019, respectively (in millions):

	Long-lived Assets	
	2020	2019
United States	\$ 200.5	\$ 237.6
Mexico	141.2	149.0
China	85.7	84.9
Rest of the World	128.1	133.5
Total	\$ 555.5	\$ 605.0

No other individual foreign country represented a material portion of long-lived assets for any of the years presented.

(7) Debt and Bank Credit Facilities

The Company's indebtedness as of January 2, 2021 and December 28, 2019 was as follows (in millions):

	January 2, 2021	December 28, 2019
Term Facility	\$ 670.0	\$ 720.0
Senior Notes	400.0	400.0
Multicurrency Revolving Facility	—	17.7
Other	4.6	4.5
Less: Debt Issuance Costs	(3.2)	(4.7)
Total	1,071.4	1,137.5
Less: Current Maturities	231.0	0.6
Non-Current Portion	\$ 840.4	\$ 1,136.9

Credit Agreement

On August 27, 2018, the Company replaced the Prior Credit Agreement by entering into an Amended and Restated Credit Agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as Administrative Agent and the lenders named therein, providing for a (i) 5-year unsecured term loan facility in the principal amount of \$900.0 million (the “Term Facility”) and (ii) a 5-year unsecured multicurrency revolving facility in the principal amount of \$500.0 million (the “Multicurrency Revolving Facility”), including a \$50.0 million letter of credit sub facility, available for general corporate purposes. Borrowings under the Credit Agreement bear interest at floating rates based upon indices determined by the currency of the borrowing, plus an applicable margin determined by reference to the Company's consolidated funded debt to consolidated EBITDA ratio or at an alternative base rate.

The Term Facility was drawn in full on August 27, 2018 with the proceeds settling the amounts owed under the Prior Term Facility and Prior Multicurrency Revolving Facility. The Term Facility requires quarterly amortization at a rate starting at 5.0% per annum, increasing to 7.5% per annum after three years and further increasing to 10.0% per annum for the last years of the Term Facility, unless previously prepaid. The weighted average interest rate on the Term Facility was 2.0% and 3.6% for the fiscal years ended January 2, 2021 and December 28, 2019, respectively. The Credit Agreement requires the Company to prepay the loans under the Term Facility with 100% of the net cash proceeds received from specified asset sales and borrowed money indebtedness, subject to certain exceptions. The Company repaid \$50.0 million and \$90.0 million under the Term Facility in fiscal 2020 and 2019, respectively.

As of January 2, 2021 the Company had no borrowings under the Multicurrency Revolving Facility, \$0.2 million of standby letters of credit and \$499.8 million of available borrowing capacity. The average daily balance in borrowings under the Multicurrency Revolving Facility was \$150.4 million and \$91.7 million, and the weighted average interest rate on the Multicurrency Revolving Facility was 1.9% and 3.6% for the fiscal years ended January 2, 2021 and December 28, 2019, respectively. The Company pays a non-use fee on the aggregate unused amount of the Multicurrency Revolving Facility at a rate determined by reference to its consolidated funded debt to consolidated EBITDA ratio.

Senior Notes

As of January 2, 2021, the Company had \$400.0 million of unsecured senior notes (the “Notes”) outstanding. The Notes consist of \$400.0 million in senior notes in a private placement which were issued in five tranches with maturities from ten to twelve years and carry fixed interest rates. As of January 2, 2021, \$230.0 million and \$170.0 million of the Notes are included in Current Maturities of Long-Term Debt and Long-Term Debt, respectively, on the Consolidated Balance Sheets.

Details on the Notes as of January 2, 2021 were (in millions):

	Principal	Interest Rate	Maturity
Fixed Rate Series 2011A	\$ 230.0	4.8 to 5.0%	July 14, 2021
Fixed Rate Series 2011A	170.0	4.9 to 5.1%	July 14, 2023
Total	<u>\$ 400.0</u>		

Compliance with Financial Covenants

The Credit Agreement and the Notes contain covenants under which the Company agrees to maintain a minimum EBITDA-to-interest coverage ratio and maximum Debt-to-EBITDA ratio. The Company was in compliance with all financial covenants contained in the Notes and the Credit Agreement as of January 2, 2021.

Other Notes Payable

As of January 2, 2021, other notes payable of \$4.6 million were outstanding with a weighted average interest rate of 4.9%. As of December 28, 2019, other notes payable of \$4.5 million were outstanding with a weighted average interest rate of 5.0%.

Other Disclosures

Based on rates for instruments with comparable maturities and credit quality, which are classified as Level 2 inputs (see also Note 14), the approximate fair value of the Company's total debt was \$1,085.8 million and \$1,162.1 million as of January 2, 2021 and December 28, 2019, respectively.

Maturities of long-term debt, excluding debt issuance costs, are as follows (in millions):

Year	Amount of Maturity
2021	\$ 231.0
2022	18.0
2023	823.0
2024	0.6
2025	0.6
Thereafter	1.4
Total	\$ 1,074.6

(8) Retirement and Post-Retirement Health Care Plans

Retirement Plans

The Company's domestic associates are participants in defined benefit pension plans and/or defined contribution plans. The majority of the Company's defined benefit pension plans covering the Company's domestic associates have been closed to new associates and frozen for existing associates. Most foreign associates are covered by government sponsored plans in the countries in which they are employed. The defined contribution plans provide for Company contributions based, depending on the plan, upon one or more of participant contributions, service and profits. Company contributions to domestic defined contribution plans totaled \$7.6 million, \$8.9 million and \$10.1 million in fiscal 2020, fiscal 2019 and fiscal 2018, respectively. Company contributions to non-US defined contribution plans were \$5.5 million, \$10.6 million and \$11.8 million in fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

Benefits provided under defined benefit pension plans are based, depending on the plan, on associates' average earnings and years of credited service, or a benefit multiplier times years of service. Funding of these qualified defined benefit pension plans is in accordance with federal laws and regulations. The actuarial valuation measurement date for pension plans is the calendar year end of each year.

The Company's target allocation, target return and actual weighted-average asset allocation by asset category are as follows:

	Target		Actual Allocation	
	Allocation	Return	2020	2019
Equity Investments	70.4%	6.2 - 7.8%	72.4%	70.0%
Fixed Income	24.8%	1.5 - 4.8%	26.8%	25.0%
Other	4.8%	5.6%	0.8%	5.0%
Total	100.0%	6.2%	100.0%	100.0%

The Company's investment strategy for its defined benefit pension plans is to achieve moderately aggressive growth, earning a long-term rate of return sufficient to allow the plans to reach fully funded status. Accordingly, allocation targets have been established to fit this strategy, with a heavier long-term weighting of investments in equity securities. The long-term rate of return assumptions consider historic returns and volatilities adjusted for changes in overall economic conditions that may affect future returns and a weighting of each investment class.

The following table presents a reconciliation of the funded status of the defined benefit pension plans (in millions):

	2020	2019
Change in Projected Benefit Obligation:		
Obligation at Beginning of Period	\$ 282.8	\$ 265.1
Service Cost	2.0	6.2
Interest Cost	8.0	10.6
Actuarial Loss	21.2	34.9
Curtailement Gain ⁽¹⁾	—	(19.4)
Less: Benefits Paid	15.9	14.8
Foreign Currency Translation	0.3	0.2
Obligation at End of Period	\$ 298.4	\$ 282.8
Change in Fair Value of Plan Assets:		
Fair Value of Plan Assets at Beginning of Period	\$ 203.4	\$ 174.0
Actual Return on Plan Assets	33.7	33.1
Employer Contributions	8.5	10.8
Less: Benefits Paid	15.9	14.8
Foreign Currency Translation	0.5	0.3
Fair Value of Plan Assets at End of Period	\$ 230.2	\$ 203.4
Funded Status	\$ (68.2)	\$ (79.4)

⁽¹⁾ The curtailment gain is the result of a plan freeze announced to associates during the fourth quarter of fiscal 2019.

The net actuarial losses for fiscal 2020 are attributable to a decrease in discount rates and census experience resulting in a loss of \$24.1 million offset by \$2.9 million of gains to the mortality assumption update. The net actuarial losses for fiscal 2019 are attributable to a decrease in discount rates and census experience resulting in a loss of \$37.0 million offset by \$2.1 million of gains to the mortality assumption update.

The funded status as of January 2, 2021 included domestic plans of \$(62.6) million and international plans of \$(5.6) million. The funded status as of December 28, 2019 included domestic plans of \$(71.2) million and international plans of \$(8.2) million.

Pension Assets

The Company classifies the pension plan investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets, Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available, and Level 3, which refers to securities valued based on significant unobservable inputs. Common stocks and mutual funds are valued at the unadjusted quoted market prices for the securities. Real estate fund values are determined using model-based techniques that include relative value analysis and discounted cash flow techniques. Certain common collective trust funds and limited partnership interests are valued based on the net asset value ("NAV") as provided by the administrator of the fund as a practical expedient to estimate fair value. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. Investments in units of short-term investment funds, comprised of cash and money market funds, are valued at their respective NAVs as reported by the funds daily.

Pension assets by type and level are as follows (in millions):

	January 2, 2021			
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 1.3	\$ 1.3	\$ —	\$ —
Mutual Funds:				
US Equity Funds	1.6	1.6	—	—
International Equity Funds	3.5	3.5	—	—
Fixed Income Funds	3.0	3.0	—	—
Other	1.8	1.8	—	—
Real Estate Fund	10.0	—	—	10.0
	<u>\$ 21.2</u>	<u>\$ 11.2</u>	<u>\$ —</u>	<u>\$ 10.0</u>
Investments Measured at Net Asset Value	209.0			
Total	<u><u>\$ 230.2</u></u>			
	December 28, 2019			
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 5.1	\$ 5.1	\$ —	\$ —
Common Stocks:				
Domestic Equities	26.4	26.4	—	—
International Equities	19.2	19.2	—	—
Mutual Funds:				
US Equity Funds	30.1	30.1	—	—
International Equity Funds	3.1	3.1	—	—
Balanced Funds	9.5	9.5	—	—
Fixed Income Funds	18.0	18.0	—	—
Other	1.7	1.7	—	—
Limited Liability Company	8.3	—	8.3	—
Real Estate Fund	9.9	—	—	9.9
	<u>\$ 131.3</u>	<u>\$ 113.1</u>	<u>\$ 8.3</u>	<u>\$ 9.9</u>
Investments Measured at Net Asset Value	72.1			
Total	<u><u>\$ 203.4</u></u>			

The following table sets forth additional disclosures for the fair value measurement of the fair value of pension plan assets that calculate fair value based on NAV per share practical expedient as of January 2, 2021 and December 28, 2019 (in millions):

	2020	2019
Common Collective Trust Funds	\$ 209.0	\$ 72.1

The 2020 common collective trust funds are investments in the Mercer US Small/Midcap Equity Portfolio, the Mercer US Core Fixed Income Portfolio, the Mercer Non-US Core Equity Portfolio, the Mercer Global Low Volatility Equity Portfolio, the Mercer US Large Cap Passive Equity Portfolio, the Mercer Long Duration Passive Fixed Income Portfolio, the Mercer Emerging Markets Equity Portfolio, the Mercer Active Long Corporate Fixed Income Portfolio, and the Mercer Opportunistic Fixed Income Portfolio. The Mercer US Small/Midcap Equity Portfolio seeks to provide long term total returns comprised primarily of capital appreciation by investing in equity securities issued by small to medium capitalization US companies. The Mercer US Core Fixed Income Portfolio seeks to provide total return, consisting of both current income and capital appreciation, by investing in fixed income securities. The Mercer Non-US Core Equity Portfolio seeks to provide long term total return, which includes capital appreciation and income, by investing in equity securities of non-US companies. The Mercer Global Low Volatility Equity Portfolio seeks to provide long term total return, which includes capital appreciation and income, by investing in equity securities of US and foreign issuers. The Mercer US Large Cap Passive Equity Portfolio seeks to approximate, as closely as possible, the performance of the S&P 500 Index over the long term by investing in the equity securities comprising the index in approximately the same proportions as they are represented in the index. The Mercer Long Duration Passive Fixed Income Portfolio seeks to approximate as closely as practicable, before expenses, the performance of the Bloomberg Barclays Capital US Long Government Bond Index over the long term by investing in securities that comprise the index in the same proportions as they are represented in the index. The Mercer Emerging Markets Equity Portfolio seeks to provide long term total return, which includes capital appreciation and income, by investing equity securities of companies that are located in emerging markets, other investments that are tied economically to emerging markets, as well as in American, European and Global Depository Receipts. The Mercer Active Long Corporate Fixed Income Portfolio seeks to maximize long term total return by investing on high quality US corporate bonds. The Mercer Opportunistic Fixed Income Portfolio seeks to provide long term total return, which includes capital appreciation and income, by investing in high yield bonds and emerging markets debt. The 2020 common collective trust funds are available for immediate redemption.

The 2019 common collective trust funds were investments in the Northern Trust Collective S&P 500 Index Fund, the Northern Trust Collective Aggregate Bond Index Fund and the American Century Non-US Growth Fund. The Northern Trust Collective S&P 500 Index Fund seeks to provide investment results that approximate the overall performance of the common stocks in that index. The Northern Trust Collective Aggregate Bond Index Fund seeks to provide investment results that approximate the overall performance of the Barclays Capital US Aggregate Index by investing primarily, but not exclusively, in securities that comprise that index. The American Century Non-US Growth Fund is broadly invested in a diversified portfolio of non-US stocks. The 2019 common collective trust funds were available for immediate redemption.

The Level 3 asset noted below represents an investment in a real estate fund. Estimated values provided by fund management approximate the cost of the investments. In determining the reasonableness of the methodology used to value the Level 3 investments, the Company evaluates a variety of factors including reviews of economic conditions, industry and market developments, and overall credit ratings. The real estate fund can be redeemed on a quarterly basis and paid within two weeks of the request for redemption.

The table below sets forth a summary of changes in the Company's Level 3 assets in its pension plan investments as of January 2, 2021 and December 28, 2019 (in millions):

	2020	2019
Beginning Balance	\$ 9.9	\$ 10.3
Net Purchases (Sales)	—	(1.6)
Net Gains	0.1	1.2
Ending Balance	<u>\$ 10.0</u>	<u>\$ 9.9</u>

The following table sets forth a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of the Level 3 real estate fund as of January 2, 2021 (in millions):

Fair Value	Significant Unobservable Inputs		
	Inputs	Range	Weighted Average
\$10.0	Exit Capitalization Rate	4.5% to 7.0%	5.1%
	Discount Rate	5.8% to 8.5%	6.3%

The following table sets forth a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of the Level 3 real estate fund as of December 28, 2019 (in millions):

Fair Value	Significant Unobservable Inputs	
\$9.9	Exit Capitalization Rate	5.0% to 7.0%
	Discount Rate	6.5% to 8.0%

Funded Status and Expense

The Company recognized the funded status of its defined benefit pension plans on the Consolidated Balance Sheets as follows (in millions):

	2020	2019
Accrued Compensation and Benefits	\$ 4.1	\$ 4.0
Pension and Other Post Retirement Benefits	64.1	75.4
Total	\$ 68.2	\$ 79.4

Amounts Recognized in Accumulated Other Comprehensive Loss

Net Actuarial Gain	\$ 43.7	\$ 45.2
Prior Service Cost	0.9	1.1
Total	\$ 44.6	\$ 46.3

The accumulated benefit obligation for all defined benefit pension plans was \$292.8 million and \$276.3 million as of January 2, 2021 and December 28, 2019, respectively.

The accumulated benefit obligation exceeded plan assets for all pension plans as of January 2, 2021 and December 28, 2019.

The following weighted average assumptions were used to determine the projected benefit obligation as of January 2, 2021 and December 28, 2019, respectively:

	2020	2019
Discount Rate	2.6%	3.3%

The objective of the discount rate assumption is to reflect the rate at which the pension benefits could be effectively settled. In making the determination, the Company takes into account the timing and amount of benefits that would be available under the plans. The methodology for selecting the discount rate was to match the plan's cash flows to that of a theoretical bond portfolio yield curve.

Certain of the Company's defined benefit pension plan obligations are based on years of service rather than on projected compensation percentage increases. For those plans that use compensation increases in the calculation of benefit obligations and net periodic pension cost, the Company used an assumed rate of compensation increase of 3.0% for the fiscal years ended January 2, 2021 and December 28, 2019.

Net periodic pension benefit costs and the net actuarial loss and prior service cost recognized in OCI for the defined benefit pension plans were as follows (in millions):

	2020	2019	2018
Service Cost	\$ 2.0	\$ 6.2	\$ 7.3
Interest Cost	8.0	10.6	9.3
Expected Return on Plan Assets	(13.3)	(12.5)	(11.9)
Amortization of Net Actuarial Loss	1.9	2.2	3.5
Amortization of Prior Service Cost	0.3	0.3	0.2
Net Periodic Benefit Cost	<u>\$ (1.1)</u>	<u>\$ 6.8</u>	<u>\$ 8.4</u>
Change in Obligations Recognized in OCI, Net of Tax			
Prior Service Cost	\$ 0.2	\$ 0.2	\$ 0.2
Net Actuarial Loss	1.5	1.7	2.7
Total Recognized in OCI	<u>\$ 1.7</u>	<u>\$ 1.9</u>	<u>\$ 2.9</u>

As permitted under relevant accounting guidance, the amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of associates expected to receive benefits under the plans.

The following weighted average assumptions were used to determine net periodic pension cost for fiscal years 2020, 2019 and 2018, respectively.

	2020	2019	2018
Discount Rate	3.3%	4.4%	3.8%
Expected Long-Term Rate of Return on Assets	7.0%	7.0%	6.9%

The Company made contributions to its defined benefit plan of \$8.5 million and \$10.8 million for the fiscal years ended January 2, 2021 and December 28, 2019, respectively.

The Company estimates that in fiscal 2021 it will make contributions in the amount of \$5.3 million to fund its defined benefit pension plans.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in millions):

Year	Expected Payments
2021	\$ 17.3
2022	16.0
2023	16.4
2024	16.6
2025	17.0
2026-2029	81.5

Post-Retirement Health Care Plan

In connection with the acquisition of the Power Transmission Solutions business from Emerson Electric Co. in 2015, the Company established an unfunded post-retirement health care plan for certain domestic retirees and their dependents.

The following table presents a reconciliation of the accumulated benefit obligation of the post-retirement health care plan (in millions):

Change in Accumulated Post Retirement Benefit Obligation	2020		2019	
Obligation at Beginning of Period	\$	5.9	\$	9.2
Interest Cost		0.2		0.3
Actuarial (Gain) Loss		0.1		(0.7)
Amendments		—		(1.9)
Curtailement Gain		—		(0.5)
Participant Contributions		0.2		0.2
Less: Benefits Paid		0.5		0.7
Obligation at End of Period	\$	5.9	\$	5.9

The Company recognized the funded status of its post-retirement health care plan on the balance sheet as follows (in millions):

	2020		2019	
Accrued Compensation and Benefits	\$	0.5	\$	0.5
Pension and Other Post Retirement Benefits		5.4		5.4
Total	\$	5.9	\$	5.9
Amounts Recognized in Accumulated Other Comprehensive Loss				
Net Actuarial Gain	\$	(3.2)	\$	(4.1)
Prior Service Cost		(0.9)		(1.7)
Total	\$	(4.1)	\$	(5.8)

The following assumptions were used to determine the accumulated post-retirement benefit obligation as of January 2, 2021 and December 28, 2019, respectively.

	2020	2019
Discount Rate	2.5%	3.2%

Net periodic post retirement health care benefit costs for the post-retirement health care plan were as follows (in millions):

	2020	2019	2018	
Service Cost	\$	—	\$	0.1
Interest Cost		0.2		0.3
Amortization of Net Actuarial Gain		(0.6)		(0.4)
Amortization of Prior Service Cost		(0.9)		(0.1)
Curtailement Gain		—		(0.5)
Net Periodic Post Retirement Health Care Benefit Cost	\$	(1.3)	\$	(0.7)
Change in Obligations Recognized in OCI, Net of Tax				
Prior Service Gain	\$	(0.7)	\$	(0.1)
Net Actuarial Gain		(0.5)		(0.3)
Total Recognized in OCI	\$	(1.2)	\$	(0.4)

The following assumptions were used to determine net periodic post-retirement health care benefit cost for fiscal years 2020, 2019 and 2018, respectively.

	2020	2019	2018
Discount Rate	3.2%	4.2%	3.5%

The health care cost trend rate for fiscal 2020, 2019 and 2018, respectively, is 5.8%, 6.8% and 7.6% for pre-65 participants and 5.6%, 5.1% and 5.3% for post-65 participants, decreasing to 4.5% for all years in fiscal 2031, the year that the health care cost trend rate reaches the assumed ultimate rate.

The Company contributed \$0.3 million and \$0.4 million to the post-retirement health care plan in fiscal 2020 and fiscal 2019, respectively. The Company estimates that in fiscal 2021 it will make contributions of \$0.5 million to the post retirement health care plan.

The following post-retirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in millions):

Year	Expected Payments
2021	\$ 0.5
2022	0.4
2023	0.4
2024	0.4
2025	0.4
2026-2029	1.6

(9) Leases

The Company leases certain manufacturing facilities, warehouses/distribution centers, office space, machinery, equipment, IT assets, and vehicles. If the contract provides the Company the right to substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use ("ROU") assets and lease liabilities are recognized at lease commencement date based on the present value of the future lease payments over the expected lease term.

As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The incremental borrowing rate is estimated based upon the sovereign treasury rate for the currency in which the lease liability is denominated when the Company takes possession of the leased asset, adjusted for various factors, such as term and internal credit spread. The ROU asset also includes any lease payments made and excludes lease incentive and initial direct costs incurred.

Leases entered into may include one or more options to renew. The renewal terms can extend the lease term from one to twenty-five years. The exercise of lease renewal options is at the Company's sole discretion. Renewal option periods are included in the measurement of the ROU asset and lease liability when the exercise is reasonably certain to occur. Some leases include options to terminate the lease upon breach of contract and are remeasured at that point in time.

The depreciable life of leased assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Some of the Company's lease agreements include rental payments adjusted periodically for inflation or are based on an index rate. These increases are reflected as variable lease payments and are included in the measurement of the ROU asset and lease liability. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Operating leases are included in the following asset and liability accounts on the Company's Consolidated Balance Sheet: Operating Lease Assets, Current Operating Lease Liabilities and Noncurrent Operating Lease Liabilities. ROU assets and liabilities arising from finance leases are included in the following asset and liability accounts on the Company's Consolidated Balance Sheet: Net Property, Plant and Equipment, Current Maturities of Long-Term Debt and Long-Term Debt.

Short-term and variable lease expense was immaterial. The components of lease expense were as follows (in millions):

	January 2, 2021	December 28, 2019
Operating Lease Cost	\$ 30.9	\$ 31.1
Finance Lease Cost:		
Amortization of ROU Assets	0.3	0.3
Interest on Lease Liabilities	0.2	0.2
Total Lease Expense	\$ 31.4	\$ 31.6

Maturity of lease liabilities as of January 2, 2021 were as follows (in millions):

	Operating Leases	Finance Leases	Total
2021	\$ 26.7	\$ 0.5	\$ 27.2
2022	19.6	0.5	20.1
2023	13.3	0.6	13.9
2024	9.0	0.6	9.6
2025	7.0	0.6	7.6
Thereafter	18.4	1.3	19.7
Total Lease Payments	\$ 94.0	\$ 4.1	\$ 98.1
Less: Interest	(17.3)	(0.8)	(18.1)
Present Value of Lease Liabilities	\$ 76.7	\$ 3.3	\$ 80

Other information related to leases was as follows (in millions):

Supplemental Cash Flows Information	January 2, 2021	December 28, 2019
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Operating Leases	\$ 29.7	\$ 30.6
Operating Cash Flows from Finance Leases	0.3	0.3
Financing Cash Flows from Finance Leases	0.2	0.2
Leased Assets Obtained in Exchange for New Operating Lease Liabilities	24.3	13.6
Weighted Average Remaining Lease Term		
Operating Leases	5.2 years	4.7 years
Finance Leases	7.3 years	8.3 years
Weighted Average Discount Rate		
Operating Leases	8.2 %	8.8 %
Finance Leases	5.9 %	5.9 %

As of January 2, 2021, the Company has additional operating leases with future lease payments of \$1.7 million that have not yet commenced. These operating leases will commence during fiscal year 2021 with lease terms of one to 5 years. The Company had no finance leases that had not yet commenced nor entered into as of January 2, 2021.

(10) Shareholders' Equity

Common Stock

At a meeting of the Board of Directors on July 24, 2018, the Company's Board of Directors approved the extinguishment of the existing \$3.0 million share repurchase program that was approved in November 2013 and replaced it with an authorization to repurchase up to \$250.0 million of shares. At a meeting of the Board of Directors on October 25, 2019, the July 2018 repurchase authorization was extinguished and replaced with an authorization to purchase up to \$250.0 million of shares. In fiscal 2020, the Company acquired and retired 315,072 shares of its common stock at an average cost of \$79.38 per share for a total cost of \$25.0 million under the October 25, 2019 repurchase authorization. In fiscal 2019, the Company acquired and retired under the July 2018 repurchase authorization 2,013,782 shares of its common stock at an average cost of \$74.52 per share for a total cost of \$150.1 million. Also in fiscal 2019, the Company acquired and retired 180,763 shares of its common stock at an average cost of \$83.01 per share for a total cost of \$15.0 million under the October 25, 2019 repurchase authorization.

The Company announced it had suspended the share repurchase program starting in the first quarter of 2020. The Company has re-instated the share purchase program starting in the fourth quarter of 2020. The existing share repurchase program remains authorized by the Company's Board of Directors. There is approximately \$210.0 million in common stock available for repurchase under the October 25, 2019 repurchase authorization as of January 2, 2021.

Share-Based Compensation

The Company recognized approximately \$9.2 million, \$13.0 million and \$16.9 million in share-based compensation expense in fiscal years 2020, 2019 and 2018, respectively. The total income tax benefit recognized in the Consolidated Statements of Income for share-based compensation expense was \$2.2 million, \$3.1 million and \$4.1 million in fiscal years 2020, 2019 and 2018, respectively. The Company recognizes compensation expense on grants of share-based compensation awards on a straight-line basis over the vesting period of each award. The total fair value of shares and options vested was \$7.7 million, \$23.0 million and \$12.8 million in fiscal years 2020, 2019 and 2018, respectively. On October 10, 2018, the Company entered into a retirement agreement with the prior CEO resulting in the modification of the prior CEO's unvested awards. The Company expensed the modified awards over the modified service term. The modification increased the amount of unrecognized compensation cost and reduced the weighted average period in which the Company recognized compensation cost. On December 27, 2019, the Company entered into a retirement agreement with the COO resulting in the modification of certain of the COO's unvested awards. The Company recognized the modified award values over the modified service term. The modification increased the amount of unrecognized compensation cost and reduced the weighted average period in which the Company recognized the unrecognized compensation cost.

Total unrecognized compensation cost related to share-based compensation awards was approximately \$17.9 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 1.8 years as of January 2, 2021.

During 2018, the Company's shareholders approved the 2018 Equity Incentive Plan ("2018 Plan"). The 2018 Plan authorizes the issuance of 2.1 million shares of common stock, plus the number of shares reserved under the prior 2013 Equity Incentive Plan that are not the subject of outstanding awards for equity-based awards and terminates any further grants under prior equity plans. Approximately 3.4 million shares were available for future grant or payment under the 2018 Plans as of January 2, 2021.

Stock Appreciation Rights

The Company uses stock settled stock appreciation rights ("SARs") as a form of share-based incentive awards. SARs are the right to receive stock in an amount equal to the appreciation in value of a share of stock over the base price per share. Shares granted prior to fiscal 2020 generally vest over five years on the anniversary date while shares granted in fiscal 2020 generally vest over three years on the anniversary date of the grant date. Generally all grants expire 10 years from the grant date. All grants are made at prices equal to the fair market value of the stock on the grant date. For fiscal years ended January 2, 2021, December 28, 2019 and December 29, 2018, expired and canceled shares were immaterial.

The table below presents SARs share-based compensation activity for the fiscal years ended 2020, 2019 and 2018 (in millions):

	2020	2019	2018
Total Intrinsic Value of Share-Based Incentive Awards Exercised	\$6.7	\$11.7	\$5.2
Cash Received from Stock Option Exercises	0.2	0.1	—
Total Fair Value of Share-Based Incentive Awards Vested	2.1	5.4	3.9

The weighted average assumptions used in the Company's Black-Scholes valuation related to grants for SARs were as follows:

	2020	2019	2018
Per Share Weighted Average Fair Value of Grants	\$21.23	\$20.84	\$22.73
Risk-Free Interest Rate	1.5%	2.4%	2.9%
Expected Life (Years)	7.0	7.0	7.0
Expected Volatility	25.2%	25.0%	27.8%
Expected Dividend Yield	1.4%	1.5%	1.4%

The average risk-free interest rate is based on US Treasury security rates in effect as of the grant date. The expected dividend yield is based on the projected annual dividend as a percentage of the estimated market value of the Company's common stock as of the grant date. The Company estimated the expected volatility using a weighted average of daily historical volatility of the Company's stock price over the expected term of the award. The Company estimated the expected term using historical data.

Following is a summary of share-based incentive plan activity (options and SARs) for fiscal 2020:

Number of Shares Under SARs	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 28, 2019	817,790	\$ 73.34		
Granted	181,177	88.25		
Exercised	(322,820)	69.86		
Forfeited	(95,330)	77.26		
Expired	(3,308)	67.38		
Outstanding as of January 2, 2021	<u>577,509</u>	\$ 79.35	7.0	\$ 25.1
Exercisable as of January 2, 2021	<u>180,146</u>	\$ 71.22	4.2	\$ 9.3

Compensation expense recognized related to SARs was \$2.8 million, \$2.7 million and \$4.7 million for fiscal years 2020, 2019 and 2018, respectively.

As of January 2, 2021, there was \$5.6 million of unrecognized compensation cost related to non-vested SARs that is expected to be recognized as a charge to earnings over a weighted average period of 2.5 years.

The amount of SARs expected to vest is materially consistent with those outstanding and not yet exercisable.

Restricted Stock Awards and Restricted Stock Units

Restricted stock awards ("RSAs") and restricted stock units ("RSUs") consist of shares or the rights to shares of the Company's stock. The awards are restricted such that they are subject to substantial risk of forfeiture and to restrictions on their sale or other transfer. As defined in the individual grant agreements, acceleration of vesting may occur under a change in control, or death, disability or normal retirement of the grantee.

Following is the summary of RSAs activity for fiscal 2020:

	Shares	Weighted Average Fair Value at Grant Date	Weighted Average Remaining Contractual Term (years)
Unvested RSAs as of December 28, 2019	15,571	\$ 80.41	0.4
Granted	16,280	70.05	
Vested	(15,571)	80.41	
Unvested RSAs as of January 2, 2021	16,280	\$ 70.05	0.3

The weighted average grant date fair value of awards granted was \$70.05, \$80.41 and \$74.68 in fiscal years 2020, 2019 and 2018, respectively.

RSAs vest on the one year anniversary of the grant date, provided the holder of the shares is continuously employed by or in the service of the Company until the vesting date. Compensation expense recognized related to the RSAs was \$1.2 million for fiscal 2020, 2019 and 2018, respectively.

As of January 2, 2021, there was \$0.4 million of unrecognized compensation cost related to non-vested RSAs that is expected to be recognized as a charge to earnings over a weighted average period of 0.3 years.

Following is the summary of RSUs activity for fiscal 2020:

	Shares	Weighted Average Fair Value at Grant Date	Weighted Average Remaining Contractual Term (years)
Unvested RSUs as of December 28, 2019	175,025	\$ 78.19	1.9
Granted	69,331	86.70	
Vested	(50,565)	80.20	
Forfeited	(29,393)	78.23	
Unvested RSUs as of January 2, 2021	164,398	\$ 81.16	1.7

The weighted average grant date fair value of awards granted was \$86.70, \$78.98 and \$74.51 in fiscal years 2020, 2019 and 2018, respectively.

RSUs granted prior to fiscal 2020 vest on the third anniversary of the grant date while RSUs granted in fiscal 2020 vest one third each year on the anniversary of the grant date, provided the holder of the shares is continuously employed by the Company until the vesting date. Compensation expense recognized related to the RSUs was \$3.8 million, \$6.2 million and \$7.8 million for fiscal 2020, 2019 and 2018, respectively.

As of January 2, 2021, there was \$7.2 million of unrecognized compensation cost related to non-vested RSUs that is expected to be recognized as a charge to earnings over a weighted average period of 1.7 years.

Performance Share Units

Performance share unit awards ("PSUs") consist of shares or the rights to shares of the Company's stock which are awarded to associates of the Company. These shares are payable upon the determination that the Company achieved certain established performance targets and can range from 0% to 200% of the targeted payout based on the actual results. PSUs have a performance period of 3 years, vest three years from the grant date and are issued at a performance target of 100%. The PSUs have performance criteria based on a return on invested capital metric or they have performance criteria using returns relative to the Company's peer group. As set forth in the individual grant agreements, acceleration of vesting may occur under a change in control, death or disability. There are no voting rights with these instruments until vesting occurs and a share of stock is issued. Some of the PSU awards are valued using a Monte Carlo simulation method as of the grant date while others are valued using the closing market price less net present value of dividends as of the grant date depending on the performance criteria for the award.

The assumptions used in the Company's Monte Carlo simulation related to grants for performance share units were as follows:

	January 2, 2021	December 28, 2019	December 29, 2018
Risk-free interest rate	1.4%	2.3%	2.7%
Expected life (years)	3.0	3.0	3.0
Expected volatility	24.0%	25.0%	25.0%
Expected dividend yield	1.4%	1.5%	1.4%

Following is the summary of PSUs activity for fiscal 2020:

	Shares	Weighted Average Fair Value at Grant Date	Weighted Average Remaining Contractual Term (years)
Unvested PSUs as of December 28, 2019	90,565	\$ 86.35	1.9
Granted	36,556	117.63	
Vested	(7,545)	95.33	
Forfeited	(32,054)	86.54	
Unvested PSUs as of January 2, 2021	87,522	\$ 97.59	1.8

The weighted average grant date fair value of awards granted was \$117.63, \$85.54 and \$83.80 in fiscal years 2020, 2019 and 2018, respectively.

Compensation expense for awards granted are recognized based on the Monte Carlo simulation value or the expected payout ratio depending upon the performance criterion for the award, net of estimated forfeitures. Compensation expense recognized related to PSUs was \$1.4 million, \$2.9 million and \$3.2 million for fiscal 2020, 2019 and 2018, respectively. Total unrecognized compensation expense for all PSUs granted as of January 2, 2021 was \$4.7 million and it is expected to be recognized as a charge to earnings over a weighted average period of 1.8 years.

(11) Income Taxes

Income before taxes consisted of the following (in millions):

	2020	2019	2018
United States	\$ 80.2	\$ 126.7	\$ 121.5
Foreign	170.4	177.1	170.7
Total	\$ 250.6	\$ 303.8	\$ 292.2

The provision for income taxes is summarized as follows (in millions):

	2020	2019	2018
Current			
Federal	\$ 7.1	\$ 1.8	\$ 4.5
State	2.7	1.1	0.8
Foreign	63.5	35.9	37.9
	\$ 73.3	\$ 38.8	\$ 43.2
Deferred			
Federal	\$ (2.0)	\$ 20.4	\$ 16.6
State	(0.3)	2.6	2.1
Foreign	(14.2)	(0.6)	(5.5)
	(16.5)	22.4	13.2
Total	\$ 56.8	\$ 61.2	\$ 56.4

A reconciliation of the statutory federal income tax rate and the effective tax rate reflected in the consolidated statements of income follows:

	2020	2019	2018
Federal Statutory Rate	21.0%	21.0%	21.0%
State Income Taxes, Net of Federal Benefit	0.8%	1.3%	1.1%
Foreign Rate Differential - China	1.2%	0.9%	0.9%
Foreign Rate Differential - All Other	(0.4)%	(2.8)%	(1.4)%
Research and Development Credit	(3.0)%	(2.5)%	(2.5)%
Valuation Allowance	(0.1)%	0.8%	(0.3)%
Tax Cuts and Jobs Act of 2017	—%	—%	(1.3)%
Tax on Repatriation	1.2%	3.4%	1.3%
Adjustments to Tax Accruals and Reserves	0.1%	0.3%	—%
Tax Impact of Divestitures	—%	(1.7)%	—%
Other	1.9%	(0.6)%	0.5%
Effective Tax Rate	<u>22.7%</u>	<u>20.1%</u>	<u>19.3%</u>

Deferred taxes arise primarily from differences in amounts reported for tax and financial statement purposes. The Company's net deferred tax liability was \$(128.1) million as of January 2, 2021, classified on the consolidated Balance Sheet as a net non-current deferred tax asset of \$43.9 million and a net non-current deferred income tax liability of \$(172.0) million. As of December 28, 2019, the Company's net deferred tax liability was \$(113.5) million classified on the consolidated Balance Sheet as a net non-current deferred income tax asset of \$58.4 million and a net non-current deferred income tax liability of \$(171.9) million.

The components of this net deferred tax liability are as follows (in millions):

	January 2, 2021	December 28, 2019
Accrued Benefits	\$ 36.8	\$ 54.3
Bad Debt Allowances	4.9	2.0
Warranty Accruals	3.4	2.5
Inventory	10.4	7.3
Accrued Liabilities	(8.8)	(2.6)
Derivative Instruments	(7.5)	1.4
Tax Loss Carryforward	9.2	35.4
Valuation Allowance	(7.4)	(12.9)
Operating Lease Liability	18.8	17.2
Other	34.6	18.0
Deferred Tax Assets	<u>94.4</u>	<u>122.6</u>
Property Related	(33.7)	(36.1)
Intangible Items	(170.9)	(182.8)
Operating Lease Asset	(17.9)	(17.2)
Deferred Tax Liabilities	<u>(222.5)</u>	<u>(236.1)</u>
Net Deferred Tax Liability	<u>\$ (128.1)</u>	<u>\$ (113.5)</u>

Following is a reconciliation of the beginning and ending amount of unrecognized tax benefits (in millions):

Unrecognized Tax Benefits, December 30, 2017	\$	6.7
Gross Increases from Prior Period Tax Positions		—
Gross Increases from Current Period Tax Positions		0.3
Settlements with Taxing Authorities		(0.1)
Lapse of Statute of Limitations		(0.4)
Unrecognized Tax Benefits, December 29, 2018	\$	6.5
Gross Increases from Prior Period Tax Positions		—
Gross Increases from Current Period Tax Positions		0.7
Settlements with Taxing Authorities		—
Lapse of Statute of Limitations		(0.3)
Unrecognized Tax Benefits, December 28, 2019	\$	6.9
Gross Increases from Prior Period Tax Positions		—
Gross Increases from Current Period Tax Positions		0.2
Settlements with Taxing Authorities		—
Lapse of Statute of Limitations		(0.3)
Unrecognized Tax Benefits, January 2, 2021	\$	6.8

Unrecognized tax benefits as of January 2, 2021 amount to \$6.8 million, all of which would impact the effective income tax rate if recognized.

Potential interest and penalties related to unrecognized tax benefits are recorded in income tax expense. During fiscal years 2020, 2019 and 2018, the Company recognized approximately \$0.4 million, \$0.5 million and \$0.2 million in net interest (income) expense, respectively. The Company had approximately \$2.7 million, \$2.3 million and \$1.9 million of accrued interest as of January 2, 2021, December 28, 2019 and December 29, 2018, respectively.

Due to statute expirations, approximately \$1.3 million of the unrecognized tax benefits, including accrued interest, could reasonably change in the coming year.

With few exceptions, the Company is no longer subject to US federal and state/local income tax examinations by tax authorities for years prior to 2014, and the Company is no longer subject to non-US income tax examinations by tax authorities for years prior to 2012.

As of January 2, 2021, the Company had approximately \$9.2 million of tax effected net operating losses in various jurisdictions with a portion expiring over a period of up to 15 years and the remaining without expiration. As of December 28, 2019, the Company had approximately \$35.4 million of tax effected net operating losses in various jurisdictions with a portion expiring over a period up to 15 years and the remaining without expiration.

Valuation allowances totaling \$7.4 million and \$12.9 million as of January 2, 2021 and December 28, 2019, respectively, have been established for deferred income tax assets primarily related to certain subsidiary loss carryforwards that may not be realized. Realization of the net deferred income tax assets is dependent on generating sufficient taxable income prior to their expiration. Although realization is not assured, management believes it is more-likely-than-not that the net deferred income tax assets will be realized. The amount of the net deferred income tax assets considered realizable, however, could change in the near term if future taxable income during the carryforward period fluctuates.

The Company has been granted tax holidays for some of its Chinese subsidiaries. The majority of these tax holidays expired at the end of 2020. All tax holidays will be renewed subject to certain conditions with which the Company expects to comply. In 2020, these holidays decreased the Provision for Income Taxes by \$4.1 million.

The Company continues to treat approximately \$149.6 million of earnings from certain foreign entities as permanently reinvested and has not recorded a deferred tax liability for the local withholding taxes of approximately \$15.2 million on those earnings.

(12) Contingencies

One of the Company's subsidiaries that it acquired in 2007 is subject to numerous claims filed in various jurisdictions relating to certain sub-fractional motors that were primarily manufactured through 2004 and that were included as components of residential and commercial ventilation units manufactured and sold in high volumes by a third party. These ventilation units are subject to product safety requirements and other potential regulation of their performance by government agencies such as the US Consumer Product Safety Commission ("CPSC"). The claims generally allege that the ventilation units were the cause of fires. The Company has recorded an estimated liability for incurred claims. Based on the current facts, the Company cannot assure that these claims, individually or in the aggregate, will not have a material adverse effect on its subsidiary's financial condition. The Company's subsidiary cannot reasonably predict the outcome of these claims, the nature or extent of any CPSC or other remedial actions, if any, that the Company's subsidiary may need to undertake with respect to motors that remain in the field, or the costs that may be incurred, some of which could be significant.

The Company is, from time to time, party to litigation and other legal or regulatory proceedings that arise in the normal course of its business operations and the outcomes of which are subject to significant uncertainty, including product warranty and liability claims, contract disputes and environmental, asbestos, intellectual property, employment and other litigation matters. The Company's products are used in a variety of industrial, commercial and residential applications that subject the Company to claims that the use of its products is alleged to have resulted in injury or other damage. Many of these matters will only be resolved when one or more future events occur or fail to occur. Management conducts regular reviews, including updates from legal counsel, to assess the need for accounting recognition or disclosure of these contingencies, and such assessment inherently involves an exercise in judgment. The Company accrues for exposures in amounts that it believes are adequate, and the Company does not believe that the outcome of any such lawsuit individually or collectively will have a material effect on the Company's financial position, results of operations or cash flows.

The Company recognizes the cost associated with its standard warranty on its products at the time of sale. The amount recognized is based on historical experience. The following is a reconciliation of the changes in accrued warranty costs for fiscal 2020 and fiscal 2019 (in millions):

	January 2, 2021	December 28, 2019
Beginning Balance	\$ 15.1	\$ 14.8
Less: Payments	16.7	14.5
Provisions	16.9	15.2
Held for Sale	—	(0.4)
Translation Adjustments	0.2	—
Ending Balance	<u>\$ 15.5</u>	<u>\$ 15.1</u>

These liabilities are included in Other Accrued Expenses and Other Noncurrent Liabilities on the Consolidated Balance Sheets.

(13) Derivative Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are commodity price risk, currency exchange risk, and interest rate risk. Forward contracts on certain commodities are entered into to manage the price risk associated with forecasted purchases of materials used in the Company's manufacturing process. Forward contracts on certain currencies are entered into to manage forecasted cash flows in certain foreign currencies. Interest rate swaps are utilized to manage interest rate risk associated with the Company's floating rate borrowings.

The Company is exposed to credit losses in the event of non-performance by the counterparties to various financial agreements, including its commodity hedging transactions, foreign currency exchange contracts and interest rate swap agreements. Exposure to counterparty credit risk is managed by limiting counterparties to major international banks and financial institutions meeting established credit guidelines and continually monitoring their compliance with the credit guidelines. The Company does not obtain collateral or other security to support financial instruments subject to credit risk. The Company does not anticipate non-performance by its counterparties, but cannot provide assurances.

The Company recognizes all derivative instruments as either assets or liabilities at fair value in the Consolidated Balance Sheets. The Company designates commodity forward contracts as cash flow hedges of forecasted purchases of commodities, currency forward contracts as cash flow hedges of forecasted foreign currency cash flows and interest rate swaps as cash flow

hedges of forecasted LIBOR-based interest payments. There were no significant collateral deposits on derivative financial instruments as of January 2, 2021 or December 28, 2019.

Cash flow hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or changes in market value of derivatives not designated as hedges are recognized in current earnings.

As of January 2, 2021 and December 28, 2019, the Company had \$3.7 million and \$1.3 million, net of tax, of derivative gains on closed hedge instruments in AOCI that will be realized in earnings when the hedged items impact earnings.

The Company had the following commodity forward contracts outstanding (with maturities extending through March 2022) to hedge forecasted purchases of commodities (notional amounts expressed in terms of the dollar value of the hedged item (in millions):

	January 2, 2021	December 28, 2019
Copper	\$ 47.0	\$ 49.3
Aluminum	3.6	3.4

The Company had the following currency forward contracts outstanding (with maturities extending through December 2022) to hedge forecasted foreign currency cash flows (in millions):

	January 2, 2021	December 28, 2019
Mexican Peso	\$ 174.6	\$ 160.2
Chinese Renminbi	188.5	104.6
Indian Rupee	37.8	36.7
Euro	231.7	127.0
Canadian Dollar	2.0	9.4
Australian Dollar	21.2	11.4
Thai Baht	15.3	5.7
Swedish Krona	—	2.4
British Pound	11.7	15.4

As of January 2, 2021, the total notional amount of the Company's receive-variable/pay-fixed interest rate swap was \$88.4 million with a maturity of April 12, 2021.

The Company entered into two receive variable/pay-fixed forward starting non-amortizing interest rate swaps in June 2020, with a total notional amount of \$250.0 million. These swaps become effective July 2021 and will expire in July 2025.

Fair values of derivative instruments as of January 2, 2021 and December 28, 2019 were (in millions):

	January 2, 2021			
	Prepaid Expenses and Other Current Assets	Other Noncurrent Assets	Other Accrued Expenses	Other Noncurrent Liabilities
Designated as Hedging Instruments:				
Interest Rate Swap Contracts	\$ —	\$ —	\$ 0.7	\$ 1.4
Currency Contracts	16.4	1.6	1.0	0.1
Commodity Contracts	11.3	0.1	—	—
Not Designated as Hedging Instruments:				
Currency Contracts	0.2	—	—	—
Commodity Contracts	0.1	—	—	—
Total Derivatives	<u>\$ 28.0</u>	<u>\$ 1.7</u>	<u>\$ 1.7</u>	<u>\$ 1.5</u>

	December 28, 2019			
	Prepaid Expenses and Other Current Assets	Other Noncurrent Assets	Other Accrued Expenses	Other Noncurrent Liabilities
Designated as Hedging Instruments:				
Interest Rate Swap Contracts	\$ —	\$ —	\$ —	\$ 1.0
Currency Contracts	8.8	10.3	3.0	0.2
Commodity Contracts	2.6	0.1	0.2	—
Not Designated as Hedging Instruments:				
Currency Contracts	0.1	—	0.1	—
Commodity Contracts	—	—	0.1	—
Total Derivatives	<u>\$ 11.5</u>	<u>\$ 10.4</u>	<u>\$ 3.4</u>	<u>\$ 1.2</u>

Derivatives Designated as Cash Flow Hedging Instruments

The effect of derivative instruments designated as cash flow hedges on the Consolidated Statements of Income and Consolidated Statements of Comprehensive Income for fiscal years 2020, 2019 and 2018 were (in millions):

	Fiscal 2020			
	Commodity Forwards	Currency Forwards	Interest Rate Swaps	Total
Gain (Loss) Recognized in Other Comprehensive Income	\$ 14.8	\$ (3.2)	\$ (0.2)	\$ 11.4
Amounts Reclassified from Other Comprehensive Income (Loss):				
Gain (Loss) Recognized in Cost of Sales	1.2	(2.9)	—	(1.7)
Loss Recognized in Operating Expense	—	(8.3)	—	(8.3)
Gain Recognized in Interest Expense	—	—	0.9	0.9

Fiscal 2019					
	Commodity Forwards	Currency Forwards	Interest Rate Swaps	Total	
Gain Recognized in Other Comprehensive Loss	\$ 1.5	\$ 16.5	\$ 1.3	\$	19.3
Amounts Reclassified from Other Comprehensive Income (Loss):					
Gain Recognized in Net Sales	—	0.3	—		0.3
Gain (Loss) Recognized in Cost of Sales	(7.7)	4.2	—		(3.5)
Gain Recognized in Operating Expense	—	2.5	—		2.5
Gain Recognized in Interest Expense	—	—	2.4		2.4

Fiscal 2018					
	Commodity Forwards	Currency Forwards	Interest Rate Swaps	Total	
Gain (Loss) Recognized in Other Comprehensive Loss	\$ (17.9)	\$ 11.0	\$ 1.7	\$	(5.2)
Amounts Reclassified from Other Comprehensive Income (Loss):					
Gain Recognized in Net Sales	—	0.2	—		0.2
Gain Recognized in Cost of Sales	5.0	2.9	—		7.9
Gain Recognized in Operating Expense	—	6.1	—		6.1
Gain Recognized in Interest Expense	—	—	1.6		1.6

The ineffective portion of hedging instruments recognized was immaterial for all periods presented.

Derivatives Not Designated as Cash Flow Hedging Instruments

The effect of derivative instruments not designated as cash flow hedges on the Consolidated Statements of Income for fiscal years 2020, 2019 and 2018 were (in millions):

Fiscal 2020					
	Commodity Forwards	Currency Forwards			Total
Gain Recognized in Cost of Sales	\$ 0.2	\$ —	\$		0.2
Loss Recognized in Operating Expenses	—	(8.6)			(8.6)
Fiscal 2019					
	Commodity Forwards	Currency Forwards			Total
Gain Recognized in Cost of Sales	\$ 0.2	\$ —	\$		0.2
Loss Recognized in Operating Expenses	—	(1.1)			(1.1)

	Fiscal 2018		
	Commodity Forwards	Currency Forwards	Total
Loss Recognized in Cost of Sales	\$ (0.5)	\$ —	\$ (0.5)
Loss Recognized in Operating Expenses	—	(6.8)	(6.8)

The net AOCI balance related to hedging activities of a \$23.5 million gain as of January 2, 2021 includes \$20.2 million of net deferred gains expected to be reclassified to the Consolidated Statement of Comprehensive Income in the next twelve months. There were no gains or losses reclassified from AOCI to earnings based on the probability that the forecasted transaction would not occur.

The Company's commodity and currency derivative contracts are subject to master netting agreements with the respective counterparties which allow the Company to net settle transactions with a single net amount payable by one party to another party. The Company has elected to present the derivative assets and derivative liabilities on the Consolidated Balance Sheets on a gross basis for the periods ended January 2, 2021 and December 28, 2019.

The following table presents the derivative assets and derivative liabilities presented on a net basis under enforceable master netting agreements (in millions):

	January 2, 2021		
	Gross Amounts as Presented in the Consolidated Balance Sheet	Derivative Contract Amounts Subject to Right of Offset	Derivative Contracts as Presented on a Net Basis
Prepaid Expenses and Other Current Assets:			
Derivative Currency Contracts	\$ 16.6	\$ (1.0)	\$ 15.6
Derivative Commodity Contracts	11.4	—	11.4
Other Noncurrent Assets:			
Derivative Currency Contracts	1.6	—	1.6
Derivative Commodity Contracts	0.1	—	0.1
Other Accrued Expenses:			
Derivative Currency Contracts	1.0	(1.0)	—
Other Noncurrent Liabilities:			
Derivative Currency Contracts	0.1	—	0.1

	December 28, 2019		
	Gross Amounts as Presented in the Consolidated Balance Sheet	Derivative Contract Amounts Subject to Right of Offset	Derivative Contracts as Presented on a Net Basis
Prepaid Expenses and Other Current Assets:			
Derivative Currency Contracts	\$ 8.9	\$ (2.5)	\$ 6.4
Derivative Commodity Contracts	2.6	(0.3)	2.3
Other Noncurrent Assets:			
Derivative Currency Contracts	10.3	(0.1)	10.2
Derivative Commodity Contracts	0.1	—	0.1
Other Accrued Expenses:			
Derivative Currency Contracts	3.1	(2.5)	0.6
Derivative Commodity Contracts	0.3	(0.3)	—
Other Noncurrent Liabilities:			
Derivative Currency Contracts	0.2	(0.1)	0.1

(14) Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2	Unadjusted quoted prices in active markets for similar assets or liabilities, or Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or Inputs other than quoted prices that are observable for the asset or liability
Level 3	Unobservable inputs for the asset or liability

The Company uses the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of January 2, 2021 and December 28, 2019, respectively (in millions):

	<u>January 2, 2021</u>	<u>December 28, 2019</u>	<u>Classification</u>
Assets:			
Prepaid Expenses and Other Current Assets:			
Derivative Currency Contracts	\$ 16.6	\$ 8.9	Level 2
Derivative Commodity Contracts	11.4	2.6	Level 2
Other Noncurrent Assets:			
Assets Held in Rabbi Trust	6.5	6.1	Level 1
Derivative Currency Contracts	1.6	10.3	Level 2
Derivative Commodity Contracts	0.1	0.1	Level 2
Liabilities:			
Other Accrued Expenses:			
Interest Rate Swap	0.7	—	Level 2
Derivative Currency Contracts	1.0	3.1	Level 2
Derivative Commodity Contracts	—	0.3	Level 2
Other Noncurrent Liabilities:			
Interest Rate Swap	1.4	1.0	Level 2
Derivative Currency Contracts	0.1	0.2	Level 2

Level 1 fair value measurements for assets held in a Rabbi Trust are unadjusted quoted prices.

Level 2 fair value measurements for derivative assets and liabilities are measured using quoted prices in active markets for similar assets and liabilities. Interest rate swaps are valued based on the discounted cash flows using the LIBOR forward yield curve for an instrument with similar contractual terms. Foreign currency forwards are valued based on exchange rates quoted by domestic and foreign banks for similar instruments. Commodity forwards are valued based on observable market transactions of forward commodity prices.

The Company did not change its valuation techniques during fiscal 2020.

(15) Restructuring Activities

The Company incurred restructuring and restructuring-related costs on projects during fiscal 2020, 2019 and 2018. Restructuring costs include associate termination and plant relocation costs. Restructuring-related costs include costs directly associated with actions resulting from the Company's simplification initiatives, such as asset write-downs or accelerated depreciation due to shortened useful lives in connection with site closures, discretionary employment benefit costs and other facility rationalization costs. Restructuring costs for associate termination expenses are generally required to be accrued over the associate's remaining service period while restructuring costs for plant relocation costs and restructuring-related costs are generally required to be expensed as incurred.

The following is a reconciliation of provisions and payments for the restructuring projects for fiscal 2020 and fiscal 2019 (in millions):

	January 2, 2021	December 28, 2019
Beginning Balance	\$ 0.9	\$ 0.2
Provision	26.6	21.6
Less: Payments	25.5	20.9
Ending Balance	\$ 2.0	\$ 0.9

The following is a reconciliation of expenses by type for the restructuring projects in fiscal years 2020, 2019 and 2018 (in millions):

	2020			2019			2018		
	Cost of Sales	Operating Expenses	Total	Cost of Sales	Operating Expenses	Total	Cost of Sales	Operating Expenses	Total
Restructuring Costs:									
Associate Termination Expenses	\$ 6.2	\$ 5.6	\$ 11.8	\$ 5.7	\$ 6.5	\$ 12.2	\$ —	\$ 0.3	\$ 0.3
Facility Related Costs	11.7	3.1	14.8	5.0	4.4	9.4	2.3	3.4	5.7
Other Expenses	0.3	(0.3)	—	—	—	—	0.8	0.8	1.6
Total Restructuring Costs	\$ 18.2	\$ 8.4	\$ 26.6	\$ 10.7	\$ 10.9	\$ 21.6	\$ 3.1	\$ 4.5	\$ 7.6
Restructuring-Related Costs:									
Other Employment Benefit Expenses	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.1	\$ —	\$ 0.1
Total Restructuring-Related Costs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.1	\$ —	\$ 0.1
Total Restructuring and Restructuring-Related Costs	\$ 18.2	\$ 8.4	\$ 26.6	\$ 10.7	\$ 10.9	\$ 21.6	\$ 3.2	\$ 4.5	\$ 7.7

The following table shows the allocation of Restructuring Expenses by segment for fiscal years 2020, 2019 and 2018 (in millions):

	Total	Commercial Systems	Industrial Systems	Climate Solutions	Power Transmission Solutions
Restructuring Expenses - 2020	\$ 26.6	\$ 6.3	\$ 8.7	\$ 3.7	\$ 7.9
Restructuring Expenses - 2019	\$ 21.6	\$ 9.5	\$ 7.2	\$ 2.2	\$ 2.7
Restructuring Expenses - 2018	\$ 7.7	\$ 2.9	\$ 2.7	\$ 1.8	\$ 0.3

The Company's current restructuring activities are expected to continue into fiscal 2021. The Company expects to record aggregate future charges of approximately \$1.6 million related to announced projects as of year-end fiscal 2020, which includes \$0.9 million of associate termination expenses and \$0.7 million of facility related and other costs.

(16) Subsequent Events

The Company has evaluated subsequent events since January 2, 2021, the date of these financial statements.

On February 16, 2021, the Company entered into definitive agreements with Rexnord, Land Newco, Inc., a wholly owned indirect subsidiary of Rexnord (“Land”), and Phoenix 2021, Inc., a wholly owned subsidiary of the Company (“Merger Sub”), with respect to a Reverse Morris Trust transaction pursuant to which, immediately after Rexnord undergoes an internal reorganization and spin-off of its PMC Business to Land, Merger Sub will merge with and into Land and all shares of Land common stock (other than those held by Rexnord, Land, the Company, Merger Sub or their respective subsidiaries) will be converted into the right to receive shares of the common stock, \$0.01 par value per share, of the Company, as calculated and subject to adjustment as set forth in the merger agreement for the Rexnord Transaction. When the merger is completed, Land (which at that time will hold the PMC business) will be a wholly owned subsidiary of the Company.

Closing of the Rexnord Transaction is subject to various closing conditions, including the receipt of the approval of the shareholders of Rexnord and the Company, the receipt of regulatory approvals and other customary closing conditions.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A - CONTROLS AND PROCEDURES

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(d) and 15(e) under the Exchange Act) as of the end of the year ended January 2, 2021. Based upon their evaluation of these disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of January 2, 2021 to ensure that (a) information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and (b) information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting.

The report of management required under this Item 9A is contained in Item 8 of Part II of this Annual Report on Form 10-K under the heading “Management's Annual Report on Internal Control over Financial Reporting.”

Report of Independent Registered Public Accounting Firm.

The attestation report required under this Item 9A is contained in Item 8 of Part II of this Annual Report on Form 10-K under the heading “Report of Independent Registered Public Accounting Firm.”

Changes in Internal Controls.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended January 2, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B - OTHER INFORMATION

None.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information in the sections titled "Proposal 1: Election of Directors," "Board of Directors," "Other Matters-Delinquent Section 16(a) Reports" and "Stock Ownership" in the 2021 Proxy Statement is incorporated by reference herein. Information with respect to our executive officers appears in Part I of this Annual Report on Form 10-K.

We have adopted a Code of Business Conduct and Ethics (the "Code") that applies to all our directors, officers and associates. The Code is available on our website, along with our current Corporate Governance Guidelines, at www.regalbeloit.com. The Code and our Corporate Governance Guidelines are also available in print to any shareholder who requests a copy in writing from the Secretary of Regal Beloit Corporation. We intend to disclose through our website any amendments to, or waivers from, the provisions of these codes.

ITEM 11 - EXECUTIVE COMPENSATION

The information in the sections titled "Compensation Discussion and Analysis," "Executive Compensation," "Report of the Compensation and Human Resources Committee," "Director Compensation," and "Compensation Committee Interlocks and Insider Participation" in the 2021 Proxy Statement is incorporated by reference herein.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information in the sections titled "Stock Ownership" in the 2021 Proxy Statement is incorporated by reference herein.

Equity Compensation Plan Information

The following table provides information about our equity compensation plans as of January 2, 2021.

	Number of Securities to be Issued upon the Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in the column 1)
Equity Compensation Plans Approved by Security Holders	577,509	\$ 79.35	3,428,715
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	577,509		3,428,715

(1) Represents options to purchase our Common Stock and stock-settled appreciation rights granted under our 2013 Equity Incentive Plan and 2018 Equity Incentive Plan.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information in the section titled "Board of Directors" in the 2021 Proxy Statement is incorporated by reference herein.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the section titled "Proposal 3: Ratification of Deloitte & Touche LLP as our Independent Registered Public Accounting Firm for 2021" in the 2021 Proxy Statement is incorporated by reference herein.

PART IV

ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULE

- (a) 1. Financial statements - The financial statements listed in the accompanying index to financial statements and financial statement schedule are filed as part of this Annual Report on Form 10-K.
2. Financial statement schedule - The financial statement schedule listed in the accompanying index to financial statements and financial statement schedule are filed as part of this Annual Report on Form 10-K.
3. Exhibits required by Item 601 of Regulation S-K:

Exhibit Index

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1	Agreement and Plan of Merger, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc., Regal Beloit Corporation and Phoenix 2021, Inc. [Incorporated by reference to Exhibit 2.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on February 19, 2021]
3.1	Amended and Restated Articles of Incorporation of Regal Beloit Corporation. [Incorporated by reference to Exhibit 3 to Regal Beloit Corporation's Current Report on Form 8-K filed on May 1, 2015]
3.2	Amended and Restated Bylaws of Regal Beloit Corporation, as amended through February 14, 2021. **
4.1	Amended and Restated Articles of Incorporation and Amended and Restated Bylaws of Regal Beloit Corporation [Incorporated by reference to Exhibits 3.1 and 3.2 hereto]
4.2	Note Purchase Agreement, dated as of July 14, 2011, by and among Regal-Beloit Corporation and Purchasers listed in Schedule A attached thereto. [Incorporated by reference to Exhibit 4.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on July 20, 2011]
4.3	Subsidiary Guaranty Agreement, dated as of July 14, 2011, from certain subsidiaries of Regal-Beloit Corporation [Incorporated by reference to Exhibit 4.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on July 20, 2011]
4.4	First Amendment, dated as of August 16, 2011, to Note Purchase Agreement dated as of July 14, 2011, by and among Regal-Beloit Corporation, certain subsidiaries of Regal-Beloit Corporation and the Purchasers listed on the signature pages thereto. [Incorporated by reference to Exhibit 4.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 22, 2011]
4.5	Amended and Restated Credit Agreement, dated as of August 27, 2018, by and among Regal Beloit Corporation, various subsidiaries of Regal Beloit Corporation from time to time a party thereto, the financial institutions from time to time a party thereto as lenders and JPMorgan Chase Bank, N.A., as administrative agent. [Incorporated by reference to Exhibit 10.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on August 28, 2018]
4.6	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. [Incorporated by reference to Exhibit 4.6 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020]
10.1*	Form of Executive Employment Agreement, dated as of March 12, 2019, between Regal Beloit Corporation and Louis V. Pinkham. [Incorporated by reference to Exhibit 10.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on March 14, 2019.]
10.2*	Form of Key Executive Employment and Severance Agreement, effective as of April 1, 2019, between Regal Beloit Corporation and Louis V. Pinkham. [Incorporated by reference to Exhibit 10.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on March 14, 2019.]
10.3*	Form of Retirement Agreement, dated as of December 27, 2019, between Regal Beloit Corporation and Jonathan J. Schlemmer. [Incorporated by reference to Exhibit 10.3 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020]
10.4*	Form of Retirement Agreement, dated as of October 10, 2018, between Regal Beloit Corporation and Mark J. Gliebe. [Incorporated by reference to Exhibit 10.25 to Regal Beloit Corporation's Annual Report on Form 10-K filed on February 26, 2019]
10.5*	Form of Key Executive Employment and Severance Agreement between Regal Beloit Corporation and each of Jonathan J. Schlemmer and John M. Avampato. [Incorporated by reference to Exhibit 10.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on November 2, 2010]
10.6*	Regal Beloit Corporation Supplemental Defined Contribution Retirement Plan. [Incorporated by reference to Exhibit 10.6 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020]

- 10.7* [Regal Beloit Corporation Supplemental Employee Retirement Plan For Salary Level 27 & 30 Employees. \[Incorporated by reference to Exhibit 10.7 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020\]](#)
- 10.8* [Regal Beloit Corporation 2007 Equity Incentive Plan \[Incorporated by reference to Appendix B to Regal Beloit Corporation's definitive proxy statement on Schedule 14A for the Regal Beloit Corporation 2007 annual meeting of shareholders held April 20, 2007\]](#)
- 10.9* [Form of Stock Option Award Agreement under the Regal Beloit Corporation 2007 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 25, 2007\]](#)
- 10.10* [Form of Restricted Stock Award Agreement under the Regal Beloit Corporation 2007 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.3 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 25, 2007\]](#)
- 10.11* [Form of Restricted Stock Unit Award Agreement under the Regal Beloit Corporation 2007 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.4 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 25, 2007\]](#)
- 10.12* [Form of Stock Appreciation Right Award Agreement under the Regal Beloit Corporation 2007 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.5 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 25, 2007\]](#)
- 10.13* [Target Supplemental Retirement Plan for designated Officers and Key Employees, as amended and restated. \[Incorporated by reference to Exhibit 10.2 to Regal Beloit Corporation's Current Report on Form 8-K dated November 2, 2010\]](#)
- 10.14* [Form of Participation Agreement for Target Supplemental Retirement Plan. \[Incorporated by reference to Exhibit 10.14 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020\]](#)
- 10.15* [Regal Beloit Corporation 2016 Incentive Compensation Plan. \[Incorporated by reference to Appendix A to Regal Beloit Corporation's definitive proxy statement on Schedule 14A for the 2016 annual meeting of shareholders held April 25, 2016\]](#)
- 10.16* [Regal Beloit Corporation 2013 Equity Incentive Plan. \[Incorporated by reference to Appendix A to Regal Beloit Corporation's definitive proxy statement on Schedule 14A for the Regal Beloit Corporation 2013 annual meeting of shareholders held April 29, 2013\]](#)
- 10.17* [Form of Stock Appreciation Rights Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on May 2, 2013\]](#)
- 10.18* [Form of Restricted Stock Unit Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.3 to Regal Beloit Corporation's Current Report on Form 8-K filed on May 2, 2013\]](#)
- 10.19* [Form of TSR Based Performance Share Unit Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.4 to Regal Beloit Corporation's Current Report on Form 8-K filed on May 2, 2013\]](#)
- 10.20* [Form of EBIT Based Performance Share Unit Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.21 to Regal Beloit Corporation's Annual Report on Form 10-K filed on March 2, 2016\]](#)
- 10.21* [Form of ROIC Based Performance Share Unit Award Agreement under the Regal Beloit Corporation 2013 Equity Incentive Plan \[Incorporated by reference to Exhibit 10.22 to Regal Beloit Corporation's Annual Report on Form 10-K filed on March 1, 2017\]](#)
- 10.22* [Key Executive Employment and Severance Agreement, dated as of October 26, 2016, between Regal Beloit Corporation and Thomas E. Valentyn \[Incorporated by reference to Exhibit 10.23 to Regal Beloit Corporation's Annual Report on Form 10-K filed on March 1, 2017\]](#)
- 10.23* [Form of Key Executive Employment and Severance Agreement between Regal Beloit Corporation and Robert J. Rehard. \[Incorporated by reference to Exhibit 10.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on April 5, 2018\]](#)
- 10.24* [Form of Key Executive Employment and Severance Agreement, dated as of January 19, 2019, between Regal Beloit Corporation and Timothy J. Oswald. \[Incorporated by reference to Exhibit 10.24 to Regal Beloit Corporation's Annual Report on Form 10-K filed on February 26, 2019\]](#)
- 10.25* [Regal Beloit Corporation 2018 Equity Incentive Plan. \[Incorporated by reference to Appendix A to Regal Beloit Corporation's definitive proxy statement on Schedule 14A filed on March 21, 2018 for the 2018 annual meeting of shareholders held April 30, 2018\]](#)
- 10.26* [Form of Stock Appreciation Rights Award Agreement \(Stock Settled\) under the Regal Beloit Corporation 2018 Equity Incentive Plan. \[Incorporated by reference to Exhibit 10.26 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020\]](#)

10.27*	Form of Restricted Stock Unit Award Agreement (Stock Settled) under the Regal Beloit Corporation 2018 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.27 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020]
10.28*	Form of Restricted Stock Unit Award Agreement (Cash Settled) under the Regal Beloit Corporation 2018 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.28 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020]
10.29*	Form of Restricted Stock Award Agreement under the Regal Beloit Corporation 2018 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.29 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020]
10.30*	Form of Performance Share Unit Award Agreement (Return on Invested Capital) under the Regal Beloit Corporation 2018 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.30 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020]
10.31*	Form of Performance Share Unit Award Agreement (Total Shareholder Return) under the Regal Beloit Corporation 2018 Equity Incentive Plan. [Incorporated by reference to Exhibit 10.31 to Regal Beloit Corporation's Annual Report on Form 10-K on February 26, 2020]
10.32	Separation and Distribution Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation [Incorporated by reference to Exhibit 10.1 to Regal Beloit Corporation's Current Report on Form 8-K filed on February 19, 2021]
10.33	Tax Matters Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation [Incorporated by reference to Exhibit 10.2 to Regal Beloit Corporation's Current Report on Form 8-K filed on February 19, 2021]
10.34	Employee Matters Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation [Incorporated by reference to Exhibit 10.3 to Regal Beloit Corporation's Current Report on Form 8-K filed on February 19, 2021]
10.35	Intellectual Property Matters Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation [Incorporated by reference to Exhibit 10.4 to Regal Beloit Corporation's Current Report on Form 8-K filed on February 19, 2021]
10.36	Real Estate Matters Agreement, dated as of February 15, 2021, by and among Rexnord Corporation, Land Newco, Inc. and Regal Beloit Corporation [Incorporated by reference to Exhibit 10.5 to Regal Beloit Corporation's Current Report on Form 8-K filed on February 19, 2021]
10.37	Bridge Facility Commitment Letter, dated as of February 15, 2021, by and between Regal Beloit Corporation and Barclays Bank PLC [Incorporated by reference to Exhibit 10.6 to Regal Beloit Corporation's Current Report on Form 8-K filed on February 19, 2021]
18.1	Preferability Letter for Change in Accounting Principle **
21.1	Significant Subsidiaries of Regal Beloit Corporation.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
31.2	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
32.1	Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).

* A management contract or compensatory plan or arrangement.

** Furnished herewith.

(b) Exhibits- see (a)3., above.

(c) See (a)2., above.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>/s/ LOUIS V. PINKHAM</u> Louis V. Pinkham	Director and Chief Executive Officer (Principal Executive Officer)	March 2, 2021
<u>/s/ JAN A. BERTSCH</u> Jan A. Bertsch	Director	March 2, 2021
<u>/s/ STEPHEN M. BURT</u> Stephen M. Burt	Director	March 2, 2021
<u>/s/ ANESA T. CHAIBI</u> Anesa T. Chaibi	Director	March 2, 2021
<u>/s/ CHRISTOPHER L. DOERR</u> Christopher L. Doerr	Director	March 2, 2021
<u>/s/ DEAN A. FOATE</u> Dean A. Foate	Director	March 2, 2021
<u>/s/ MICHAEL F. HILTON</u> Michael F. Hilton	Director	March 2, 2021
<u>/s/ RAKESH SACHDEV</u> Rakesh Sachdev	Director, Chairman	March 2, 2021
<u>/s/ CURTIS W. STOELTING</u> Curtis W. Stoelting	Director	March 2, 2021

REGAL BELOIT CORPORATION
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And Financial Statement Schedule

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(2) Financial Statement Schedule:	
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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

SCHEDULE II
REGAL BELOIT CORPORATION
VALUATION AND QUALIFYING ACCOUNTS

	Balance Beginning of Year		Charged to Expenses		Deductions (a)		Adjustments (b)		Balance End of Year
(Dollars in Millions)									
Allowance for Receivables:									
Fiscal 2020	\$ 9.7	\$	5.8	\$	(2.0)	\$	4.8	\$	18.3
Fiscal 2019	13.3		4.0		(7.5)		(0.1)		9.7
Fiscal 2018	11.3		6.9		(2.1)		(2.8)		13.3

^(a) Deductions consist of write offs charged against the allowance for doubtful accounts.

^(b) Adjustments consist of balances moved to held for sale, translation and adoption of ASC 2016-13 Financial Instruments for Credit Losses.

ITEM 16 - FORM 10-K SUMMARY

Not Applicable

AMENDED AND RESTATED BYLAWS

OF

REGAL BELOIT CORPORATION

(a Wisconsin corporation)

(as of February 14, 2021)

Article I. OFFICES

1.01 Principal and Business Offices

. The corporation may have such principal and other business offices, either within or without the State of Wisconsin, as the Board of Directors may designate or as the business of the corporation may require from time to time.

1.02 Registered Office

. The registered office of the corporation required by the Wisconsin Business Corporation Law to be maintained in the State of Wisconsin may be, but need not be, identical to the principal office in the State of Wisconsin, and the address of the registered office may be changed from time to time by the Board of Directors. The business office of the registered agent of the corporation shall be identical to such registered office.

Article II. SHAREHOLDERS

2.01 Annual Meeting

. The annual meeting of the shareholders of the corporation (the “Annual Meeting”) shall be held at such time and date as may be fixed by or under the authority of the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may properly come before the Annual Meeting in accordance with Section 2.13 of these bylaws. If the election of directors shall not be held on the day fixed as herein provided for any Annual Meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders (a “Special Meeting”) as soon thereafter as the Board deems appropriate. In fixing a meeting date for any Annual Meeting, the Board of Directors may consider such factors as it deems relevant within the good faith exercise of its business judgment.

2.02 Special Meetings

(a) A Special Meeting may be called only by (i) the Chairman of the Board, (ii) the Chief Executive Officer or (iii) the Board of Directors and shall be called by the Chairman of the Board or the Chief Executive Officer upon the demand, in accordance with this Section 2.02, of the holders of record of shares representing at least 10% of all the votes entitled to be cast on any issues proposed to be considered at the Special Meeting.

(b) In order that the corporation may determine the shareholders entitled to demand a Special Meeting, the Board of Directors may fix a record date to determine the shareholders entitled to make such a demand (the “Demand Record Date”). The Demand Record

Date shall not precede the date upon which the resolution fixing the Demand Record Date is adopted by the Board of Directors and shall not be more than 10 days after the date upon which the resolution fixing the Demand Record Date is adopted by the Board of Directors. Any shareholder of record seeking to have shareholders demand a Special Meeting shall, by sending written notice to the Secretary of the corporation by hand or by certified or registered mail, return receipt requested, request the Board of Directors to fix a Demand Record Date. The Board of Directors shall promptly, but in all events within 10 days after the date on which a valid request to fix a Demand Record Date is received, adopt a resolution fixing the Demand Record Date and shall make a public announcement of such Demand Record Date. If no Demand Record Date has been fixed by the Board of Directors within 10 days after the date on which such request is received by the Secretary, the Demand Record Date shall be the 10th day after the first day on which a valid written request to set a Demand Record Date is received by the Secretary. To be valid, such written request shall set forth the purpose or purposes for which the Special Meeting is to be held, shall be signed by one or more shareholders of record (or their duly authorized proxies or other representatives), shall bear the date of signature of each such shareholder (or proxy or other representative) and shall set forth all information about each such shareholder and about the beneficial owner or owners, if any, on whose behalf the request is made that would be required to be set forth in a shareholder's notice described in paragraph (a)(ii) of Section 2.13 of these bylaws.

(c) In order for a shareholder or shareholders to demand a Special Meeting, a written demand or demands for a Special Meeting by the holders of record as of the Demand Record Date of shares representing at least 10% of all the votes entitled to be cast on any issue proposed to be considered at the Special Meeting must be delivered to the corporation. To be valid, each written demand by a shareholder for a Special Meeting shall set forth the specific purpose or purposes for which the Special Meeting is to be held (which purpose or purposes shall be limited to the purpose or purposes set forth in the written request to set a Demand Record Date received by the corporation pursuant to paragraph (b) of this Section 2.02), shall be signed by one or more persons who as of the Demand Record Date are shareholders of record (or their duly authorized proxies or other representatives), shall bear the date of signature of each such shareholder (or proxy or other representative), shall set forth the name and address, as they appear in the corporation's books, of each shareholder signing such demand and the class or series and number of shares of the corporation which are owned of record and beneficially by each such shareholder, shall be sent to the Secretary by hand or by certified or registered mail, return receipt requested, and shall be received by the Secretary within 70 days after the Demand Record Date.

(d) The corporation shall not be required to call a Special Meeting upon shareholder demand unless, in addition to the documents required by paragraph (c) of this Section 2.02, the Secretary receives a written agreement signed by each Soliciting Shareholder (as defined herein), pursuant to which each Soliciting Shareholder, jointly and severally, agrees to pay the corporation's costs of holding the Special Meeting, including the costs of preparing and mailing proxy materials for the corporation's own solicitation, provided that if each of the resolutions introduced by any Soliciting Shareholder at such meeting is adopted, and each of the individuals nominated by or on behalf of any Soliciting Shareholder for election as director at such meeting is elected, then the Soliciting Shareholders shall not be required to pay such costs. For purposes of this paragraph (d), the following terms shall have the meanings set forth below:

(i) "Affiliate" of any Person shall mean any Person controlling, controlled by or under common control with such first Person.

(ii) “Participant” shall have the meaning assigned to such term in Rule 14a-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

(iii) “Person” shall mean any individual, firm, corporation, partnership, joint venture, association, trust, unincorporated organization or other entity.

(iv) “Proxy” shall have the meaning assigned to such term in Rule 14a-1(f) promulgated under the Exchange Act.

(v) “Solicitation” shall have the meaning assigned to such term in Rule 14a-1(l) promulgated under the Exchange Act.

(vi) “Soliciting Shareholder” shall mean, with respect to any Special Meeting demanded by a shareholder or shareholders, any of the following Persons:

(A) if the number of shareholders signing the demand or demands for a meeting delivered to the corporation pursuant to paragraph (c) of this Section 2.02 is 10 or fewer, each shareholder signing any such demand;

(B) if the number of shareholders signing the demand or demands for a meeting delivered to the corporation pursuant to paragraph (c) of this Section 2.02 is more than 10, each Person who either (I) was a Participant in any Solicitation of such demand or demands or (II) at the time of the delivery to the corporation of the documents described in paragraph (c) of this Section 2.02, had engaged or intended to engage in any Solicitation of Proxies for use at such Special Meeting (other than a Solicitation of Proxies on behalf of the corporation); or

(C) any Affiliate of a Soliciting Shareholder, if a majority of the directors then in office determine, reasonably and in good faith, that such Affiliate should be required to sign the written notice described in paragraph (c) of this Section 2.02 and/or the written agreement described in this paragraph (d) in order to prevent the purposes of this Section 2.02 from being evaded.

(e) Except as provided in the following sentence, any Special Meeting shall be held at such hour and day as may be designated by whichever of the Chairman of the Board, the Chief Executive Officer or the Board of Directors shall have called such meeting. In the case of any Special Meeting called by the Chairman of the Board or the Chief Executive Officer upon the demand of shareholders (a “Demand Special Meeting”), such meeting shall be held at such hour and day as may be designated by the Board of Directors; provided, however, that the date of any Demand Special Meeting shall be not more than 70 days after the Meeting Record Date (as defined in Section 2.05 of these bylaws); and provided further that in the event that the directors then in office fail to designate an hour and date for a Demand Special Meeting within 10 days after the date that valid written demands for such meeting by the holders of record as of the Demand Record Date of shares representing at least 10% of all the votes entitled to be cast on any issue proposed to be considered at the Special Meeting are delivered to the corporation (the “Delivery Date”), then such meeting shall be held at 2:00 p.m. (local time) on the 100th day after

the Delivery Date or, if such 100th day is not a Business Day (as defined below), on the first preceding Business Day. In fixing a meeting date for any Special Meeting, the Chairman of the Board, the Chief Executive Officer or the Board of Directors may consider such factors as he, she or it deems relevant within the good faith exercise of his, her or its business judgment, including, without limitation, the nature of the action proposed to be taken, the facts and circumstances surrounding any demand for such meeting, and any plan of the Board of Directors to call an Annual Meeting or a Special Meeting for the conduct of related business.

(f) The corporation may engage nationally or regionally recognized independent inspectors of elections to act as an agent of the corporation for the purpose of promptly performing a ministerial review of the validity of any purported written demand or demands for a Special Meeting received by the Secretary. For the purpose of permitting the inspectors to perform such review, no purported demand shall be deemed to have been delivered to the corporation until the earlier of (i) five Business Days following receipt by the Secretary of such purported demand and (ii) such date as the independent inspectors certify to the corporation that the valid demands received by the Secretary represent at least 10% of all the votes entitled to be cast on each issue proposed to be considered at the Special Meeting. Nothing contained in this paragraph shall in any way be construed to suggest or imply that the Board of Directors or any shareholder shall not be entitled to contest the validity of any demand, whether during or after such five Business Day period, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto).

(g) For purposes of these bylaws, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of Wisconsin are authorized or obligated by law or executive order to close.

2.03 Place of Meeting

. The Board of Directors, the Chairman of the Board or the Chief Executive Officer may designate any place, either within or without the State of Wisconsin, as the place of meeting for any Annual Meeting or for any Special Meeting, or for any postponement thereof. If no designation is made, the place of meeting shall be the principal business office of the corporation in the State of Wisconsin. Any meeting may be adjourned to reconvene at any place designated by vote of the Board of Directors or by the Chairman of the Board or the Chief Executive Officer.

2.04 Notice of Meeting

. Written notice stating the place, day and hour of any Annual Meeting or Special Meeting shall be delivered not less than 10 (unless a longer period is required by the Wisconsin Business Corporation Law) nor more than 70 days before the date of such meeting, either personally or by mail, by or at the direction of the Secretary, to each shareholder of record entitled to vote at such meeting and to other shareholders as may be required by the Wisconsin Business Corporation Law. In the event of any Demand Special Meeting, such notice of meeting shall be sent not more than 30 days after the Delivery Date. If mailed, notice pursuant to this Section 2.04 shall be deemed to be effective when deposited in the United States mail, addressed to each shareholder at his or her address as it appears on the stock record books of the corporation, with postage thereon prepaid. Unless otherwise required by the Wisconsin Business Corporation Law, a notice of an Annual Meeting need not include a description of the purpose for which the meeting is called. In the case of any Special Meeting, (a) the notice of meeting shall describe any business that the Board of Directors shall have theretofore determined to bring

before the meeting and (b) in the case of a Demand Special Meeting, the notice of meeting (i) shall describe any business set forth in the statement of purpose of the demands received by the corporation in accordance with Section 2.02 of these bylaws and (ii) shall contain all of the information required in the notice received by the corporation in accordance with Section 2.13(b) of these bylaws. If an Annual Meeting or Special Meeting is adjourned to a different date, time or place, the corporation shall not be required to give notice of the new date, time or place if the new date, time or place is announced at the meeting before adjournment; provided, however, that if a new Meeting Record Date for an adjourned meeting is or must be fixed, the corporation shall give notice of the adjourned meeting to persons who are shareholders as of the new Meeting Record Date.

2.05 Fixing of Record Date

(a) The Board of Directors may fix in advance a date not less than 10 days and not more than 70 days prior to the date of any Annual Meeting or Special Meeting as the record date for the determination of shareholders entitled to notice of, or to vote at, such meeting (the "Meeting Record Date"). In the case of any Demand Special Meeting, (i) the Meeting Record Date shall be not later than the 30th day after the Delivery Date and (ii) if the Board of Directors fails to fix the Meeting Record Date within 30 days after the Delivery Date, then the close of business on such 30th day shall be the Meeting Record Date. The shareholders of record on the Meeting Record Date shall be the shareholders entitled to notice of and to vote at the meeting. Except as provided by the Wisconsin Business Corporation Law for a court-ordered adjournment, a determination of shareholders entitled to notice of and to vote at any Annual Meeting or Special Meeting is effective for any adjournment of such meeting unless the Board of Directors fixes a new Meeting Record Date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

(b) The Board of Directors may also fix in advance a date as the record date for the purpose of determining shareholders entitled to take any other action or determining shareholders for any other purpose. Such record date shall be not more than 70 days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. The record date for determining shareholders entitled to a distribution (other than a distribution involving a purchase, redemption or other acquisition of the corporation's shares) or a share dividend is the date on which the Board of Directors authorizes the distribution or share dividend, as the case may be, unless the Board of Directors fixes a different record date.

(c) In order that the corporation may determine the shareholders entitled to express consent to corporate action in writing without a meeting, the Board of Directors may fix a record date to determine the shareholders entitled to express consent to corporate action in writing without a meeting (the "Consent Record Date"). The Consent Record Date shall not precede the date upon which the resolution fixing the Consent Record Date is adopted by the Board of Directors, and such date shall not be more than ten days after the date upon which the resolution fixing the Consent Record Date is adopted by the Board of Directors. Any shareholder of record seeking to have the shareholders express consent to corporate action in writing without a meeting shall, by sending written notice to the Secretary of the corporation by hand or by certified registered mail, return receipt requested, request the Board of Directors to fix a Consent Record Date. The Board of Directors shall promptly, but in all events within ten days after the date on which such a request is received, adopt a resolution fixing the Consent Record Date and shall make a public announcement of such Consent Record Date. If no Consent Record Date has

been fixed by the Board of Directors within ten days after the date on which such a request is received by the Secretary, then the Consent Record Date shall be the 10th day after the first date on which a valid written request to set a Consent Record Date is received by the Secretary. To be valid, such written request shall comply with each of the following:

(i) Such written request shall be signed by one or more shareholders of record and by the beneficial owners or owners, if any, on whose behalf the shareholder or shareholders are acting, shall bear the date of signature of each such shareholder and any such beneficial owner and shall set forth: (A) the name and address, as they appear on this corporation's books, of each such shareholder and any such beneficial owner who seeks to have the shareholders express consent to corporate action in writing without a meeting; (B) the class and number of shares of the corporation which are owned of record and/or beneficially by each such shareholder and any such beneficial owner; (C) a representation that each such shareholder is a holder of record of shares of the corporation entitled to vote at a meeting of shareholders; (D) the manner in which each such shareholder and any such beneficial owner intend to comply with Regulation 14A under the Exchange Act in seeking to have the shareholders express consent to corporate action in writing without a meeting; (E) in the case of any such shareholder and any such beneficial owner seeking to elect or re-elect a director by the shareholders expressing consent to corporate action in writing without a meeting, (1) the name and residence address of the person or persons each such shareholder and any such beneficial owner are seeking to elect or re-elect as a director, (2) a description of all arrangements or understandings between each such shareholder and any such beneficial owner and each person such shareholder and any such beneficial owner are seeking to elect or re-elect as a director and any other person or persons (naming such person or persons) pursuant to which such shareholder and any such beneficial owner are seeking to elect or re-elect such person as a director, (3) such other information regarding each person such shareholder and any such beneficial owner are seeking to elect or re-elect as a director as would be required to be disclosed in solicitations of proxies for elections of directors, or would be otherwise required to be disclosed, in each case pursuant to Regulation 14A under the Exchange Act, including any information that would be required to be included in a proxy statement filed pursuant to Regulation 14A had such person been nominated by the Board of Directors and (4) the written consent of each such person to serve as a director of the corporation if so elected; (F) in the case of any such shareholder and any such beneficial owner seeking to remove a director by the shareholders expressing consent to corporate action in writing without a meeting, (1) the names of the director(s) each such shareholder and any such beneficial owner are seeking to remove and (2) the reasons of each such shareholder and any such beneficial owner for asserting that such director(s) may be removed for cause; and (G) in the case of any such shareholder and any such beneficial owner seeking to authorize or take any other corporate action by the shareholders expressing consent to corporate action in writing without a meeting, (1) a brief description of the corporate action desired to be authorized or taken and, if such corporate action includes an amendment to these bylaws, the language of the proposed amendment, (2) the reasons of each such shareholder and any such beneficial owner for authorizing or taking such corporate action and (3) any material interest in such corporate action of each such shareholder and any such beneficial owner.

(ii) Such written request shall be accompanied by a written agreement signed by each Consent Soliciting Shareholder (as defined below) pursuant to which each Consent Soliciting Shareholder, jointly and severally, agrees to pay the corporation's costs relating to such Consent Soliciting Shareholder seeking to have the shareholders express consent to corporate action in writing without a meeting, including the costs of preparing and mailing proxy materials for the corporation's own solicitation, provided that if the Consent Soliciting Shareholder obtains the requisite number of shares subject to valid and unrevoked Consents (as defined in Section 7.02(a)) to express the corporate action referred to therein in accordance with these Bylaws, then the Consent Soliciting Shareholders shall not be required to pay such costs. For purposes of these Bylaws, "Consent Soliciting Shareholder" shall mean each of the following Persons:

(A) if the number of shareholders signing the Consent or Consents is ten or fewer, each Person signing any such Consents; or

(B) if the number of shareholders signing the Consent or Consents is more than ten, each Person who either (1) was a Participant in any Solicitation of such consent or consents or (2) at the time of the delivery to the corporation of the documents described in this Section 2.05(c) had engaged or intends to engage in any Solicitation of Consents and/or Proxies for expressing consent to corporate action in writing without a meeting (other than a Solicitation of Consents and/or Proxies on behalf of the corporation).

A "Consent Soliciting Shareholder" shall also mean each Affiliate of a Consent Soliciting Shareholder described in clause (A) or (B) above who is a member of such Consent Soliciting Shareholder's "group" for purposes of Rule 13d-5(b) under the Exchange Act, and any other Affiliate of such a Consent Soliciting Shareholder, if a majority of the directors then in office determine, reasonably and in good faith, that such Affiliate should be required to sign the written notice described in Section 2.05(c)(i) and/or the written agreements described in this Section 2.05(c)(ii) and Section 2.05(c)(iii) to prevent the purposes of this Section 2.05(c) and Section 7.02 from being evaded.

(iii) Such written request shall be accompanied by a written agreement signed by each Consent Soliciting Shareholder pursuant to which each Consent Soliciting Shareholder agrees to deliver to any inspectors of election engaged by the corporation pursuant to Section 7.02(c) within two (2) Business Days after receipt all Consents and revocations thereof received by such Consent Soliciting Shareholder or such Consent Soliciting Shareholder's proxy solicitor or other designated agent in connection with such Consent Soliciting Shareholder seeking to have the shareholders express written consent to corporate action without a meeting.

2.06 Shareholder Lists

. After a Meeting Record Date has been fixed, the corporation shall prepare a list of the names of all of the shareholders entitled to notice of the meeting. The list shall be arranged by class or series of shares, if any, and show the address of and number of shares held by each shareholder. Such list shall be available for inspection by any shareholder, beginning two

Business days after notice of the meeting is given for which the list was prepared and continuing to the date of the meeting, at the corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held. A shareholder or his or her agent may, on written demand, inspect and, subject to the limitations imposed by the Wisconsin Business Corporation Law, copy the list, during regular business hours and at his or her expense, during the period that it is available for inspection pursuant to this Section 2.06. The corporation shall make the shareholders' list available at the meeting and any shareholder or his or her agent or attorney may inspect the list at any time during the meeting or any adjournment thereof. Refusal or failure to prepare or make available the shareholders' list shall not affect the validity of any action taken at a meeting of shareholders.

2.07 Quorum and Voting Requirements; Postponements; Adjournments

(a) Shares entitled to vote as a separate voting group may take action on a matter at any Annual Meeting or Special Meeting only if a quorum of those shares exists with respect to that matter. If the corporation has only one class of stock outstanding, such class shall constitute a separate voting group for purposes of this Section 2.07. Except as otherwise provided in the Articles of Incorporation, any bylaw adopted under authority granted in the Articles of Incorporation, or the Wisconsin Business Corporation Law, a majority of the votes entitled to be cast on the matter shall constitute a quorum of the voting group for action on that matter. Once a share is represented for any purpose at any Annual Meeting or Special Meeting, other than for the purpose of objecting to holding the meeting or transacting business at the meeting, it is considered present for purposes of determining whether a quorum exists for the remainder of the meeting and for any adjournment of that meeting unless a new Meeting Record Date is or must be set for the adjourned meeting. If a quorum exists, action on a matter shall be approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation, any bylaw adopted under authority granted in the Articles of Incorporation, or the Wisconsin Business Corporation Law requires a greater number of affirmative votes.

(b) The Board of Directors acting by resolution may postpone and reschedule any previously scheduled Annual Meeting or Special Meeting; provided, however, that a Demand Special Meeting shall not be postponed beyond the 100th day following the Delivery Date. Any Annual Meeting or Special Meeting may be adjourned from time to time, whether or not there is a quorum, (i) at any time, upon a resolution of shareholders if the votes cast in favor of such resolution by the holders of shares of each voting group entitled to vote on any matter theretofore properly brought before the meeting exceed the number of votes cast against such resolution by the holders of shares of each such voting group or (ii) at any time prior to the transaction of any business at such meeting, by the Chairman of the Board or pursuant to resolution of the Board of Directors. No notice of the time and place of adjourned meetings need be given except as required by the Wisconsin Business Corporation Law. At any adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

2.08 Conduct of Meetings

. The Chairman of the Board and, in his or her absence, the Chief Executive Officer shall call any Annual Meeting or Special Meeting to order and shall act as chairman of such meeting. In the absence of the Chairman of the Board and the Chief Executive Officer, such duties shall

be performed by the President. In the absence of the Chairman of the Board, the Chief Executive Officer and the President, such duties shall be performed by a Vice President in the order provided under Section 4.08, or in their absence, by any person chosen by the shareholders present. The Secretary of the corporation shall act as secretary of all Annual Meetings and Special Meetings, but, in the absence of the Secretary, the presiding officer may appoint any other person to act as secretary of the meeting.

2.09 Proxies

. At any Annual Meeting or Special Meeting, a shareholder entitled to vote may vote in person or by proxy. A shareholder entitled to vote at any Annual Meeting or Special Meeting, or to express consent or dissent in writing to any corporate action without a meeting, may authorize another person to act for the shareholder by appointing the person as a proxy. The means by which a shareholder or the shareholder's authorized officer, director, employee, agent or attorney-in-fact may authorize another person to act for the shareholder by appointing the person as proxy include:

(a) Appointment of a proxy in writing by signing or causing the shareholder's signature to be affixed to an appointment form by any reasonable means, including, but not limited to, by facsimile signature.

(b) Appointment of a proxy by transmitting or authorizing the transmission of an electronic transmission of the appointment to the person who will be appointed as proxy or to a proxy solicitation firm, proxy support service organization or like agent authorized to receive the transmission by the person who will be appointed as proxy. Every electronic transmission shall contain, or be accompanied by, information that can be used to reasonably determine that the shareholder transmitted or authorized the transmission of the electronic transmission. Any person charged with determining whether a shareholder transmitted or authorized the transmission of the electronic transmission shall specify the information upon which the determination is made.

An appointment of a proxy is effective when a signed appointment form or an electronic transmission of the appointment is received by the inspector of election or the officer or agent of the corporation authorized to tabulate votes. An appointment is valid for eleven months unless a different period is expressly provided in the appointment. An appointment of a proxy is revocable unless the appointment form or electronic transmission states that it is irrevocable and the appointment is coupled with an interest. The presence of a shareholder who has made an effective proxy appointment shall not of itself constitute a revocation. The Board of Directors shall have the power and authority to make rules that are not inconsistent with the Wisconsin Business Corporation Law as to the validity and sufficiency of proxy appointments.

2.10 Voting of Shares

. Each outstanding share shall be entitled to one vote upon each matter submitted to a vote at any Annual Meeting or Special Meeting except to the extent that the voting rights of the shares of any class or classes are enlarged, limited or denied by the Articles of Incorporation or the Wisconsin Business Corporation Law.

2.11 Acceptance of Instruments Showing Shareholder Action

. If the name signed on a vote, consent, waiver or proxy appointment corresponds to the name of a shareholder, the corporation, if acting in good faith, may accept the vote, consent,

waiver or proxy appointment and give it effect as the act of a shareholder. If the name signed on a vote, consent, waiver or proxy appointment does not correspond to the name of a shareholder, the corporation, if acting in good faith, may accept the vote, consent, waiver or proxy appointment and give it effect as the act of the shareholder if any of the following apply:

(a) The shareholder is an entity and the name signed purports to be that of an officer or agent of the entity.

(b) The name purports to be that of a personal representative, administrator, executor, guardian or conservator representing the shareholder and, if the corporation requests, evidence of fiduciary status acceptable to the corporation is presented with respect to the vote, consent, waiver or proxy appointment.

(c) The name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation is presented with respect to the vote, consent, waiver or proxy appointment.

(d) The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder is presented with respect to the vote, consent, waiver or proxy appointment.

(e) Two or more persons are the shareholders as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners and the person signing appears to be acting on behalf of all co-owners.

The corporation may reject a vote, consent, waiver or proxy appointment if the Secretary or other officer or agent of the corporation who is authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

2.12 Waiver of Notice by Shareholders

. A shareholder may waive any notice required by the Wisconsin Business Corporation Law, the Articles of Incorporation or these bylaws before or after the date and time stated in the notice. The waiver shall be in writing and signed by the shareholder entitled to the notice, contain the same information that would have been required in the notice under applicable provisions of the Wisconsin Business Corporation Law (except that the time and place of meeting need not be stated) and be delivered to the corporation for inclusion in the corporate records. A shareholder's attendance at any Annual Meeting or Special Meeting, in person or by proxy, waives objection to all of the following: (a) lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting or promptly upon arrival objects to holding the meeting or transacting business at the meeting; and (b) consideration of a particular matter at the meeting that is not within the purpose described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

2.13 Notice of Shareholder Business and Nomination of Directors

(a) Annual Meetings.

(i) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareholders may be made at an Annual Meeting (A) pursuant to the corporation's notice of meeting, (B) by or at the direction of the Board of Directors, (C) by any shareholder of the Corporation who (1) is a shareholder of record at the time of giving of notice provided for in this Section 2.13, (2) is entitled to vote with respect to such nomination or other business at the meeting under the Articles of Incorporation and (3) complies with the notice procedures set forth in this Section 2.13 or (D) with respect to nominations, by any shareholder of the corporation who is eligible under, and complies with the notice procedures set forth in, Section 2.14.

(ii) For nominations or other business to be properly brought before an Annual Meeting by a shareholder pursuant to the foregoing Section 2.13(a)(i)(C), the shareholder must have given timely notice thereof in writing to the Secretary and such other business must otherwise be a proper matter for shareholder action. To be timely, a shareholder's notice shall be received by the Secretary at the principal offices of the corporation not less than 45 days nor more than 70 days prior to the first annual anniversary of the date set forth in the corporation's proxy statement for the immediately preceding Annual Meeting as the date on which the corporation first made available to its shareholders definitive proxy materials for the immediately preceding Annual Meeting (the "Anniversary Date"); provided, however, that if the date for which the Annual Meeting is called more than 30 days before or more than 30 days after the first anniversary of the immediately preceding Annual Meeting, then notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 100th day prior to the date of such Annual Meeting and not later than the later of (A) the 75th day prior to the date of such Annual Meeting or (B) the 10th day following the day on which public announcement of the date of such Annual Meeting is first made. In no event shall the announcement of an adjournment or postponement of an Annual Meeting commence a new time period for the giving of a shareholder notice as described above. Such shareholder's notice shall be signed by the shareholder of record who intends to make the nomination or introduce the other business and by the beneficial owner or owners, if any, on whose behalf the shareholder is acting, shall bear the date of signature of such shareholder and any such beneficial owner and shall set forth: (I) the name and address of such shareholder (as they appear on the corporation's books) and any such beneficial owner; (II) (1) the class or series and number of shares of the corporation that are owned of record and/or beneficially by such shareholder and any such beneficial owner; (2) any option, warrant, convertible security, stock appreciation right or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the corporation or otherwise (a "Derivative Instrument") directly or indirectly owned beneficially by such shareholder and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the corporation, (3) any proxy, contract, arrangement, understanding, or relationship pursuant to which such shareholder has a right to vote any shares of any security of the corporation, (4) any short interest in any security of the corporation (for

purposes of this bylaw a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (5) any rights to dividends on the shares of the corporation owned beneficially by such shareholder that are separated or separable from the underlying shares of the corporation, (6) any proportionate interest in shares of the corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such shareholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (7) any performance-related fees (other than an asset-based fee) that such shareholder is entitled to based on any increase or decrease in the value of shares of the corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such shareholder's immediate family sharing the same household (which information shall be supplemented by such shareholder and beneficial owner, if any, not later than 10 days after the record date for the meeting to disclose such ownership as of the record date); (III) a representation that such shareholder is a holder of record of shares of the corporation entitled to vote under the Articles of Incorporation at such meeting with respect to such nomination or other business and intends to appear in person or by proxy at the meeting to make such nomination or introduce such other business; (IV) any other information relating to such shareholder and any such beneficial owner that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 15 of the Exchange Act and the rules and regulations promulgated thereunder; (V) in the case of any proposed nomination for election or re-election as a director, (1) the name and residence address of the person or persons to be nominated, (2) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such shareholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the shareholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant, (3) such other information regarding each nominee proposed by such shareholder and any such beneficial owner as would be required to be disclosed in solicitations of proxies for elections of directors, or would be otherwise required to be disclosed, in each case pursuant to Regulation 14A under the Exchange Act, including any information that would be required to be included in a proxy statement filed pursuant to Regulation 14A had the nominee been nominated by the Board of Directors and (4) the written consent of each nominee to be named in a proxy statement and to serve as a director of the corporation if so elected; (VI) in the case of any proposed removal of a director, (1) the names of the directors to be removed and (2) the reasons of such

shareholder and any such beneficial owner for asserting that such directors should be removed; and (VII) in the case of any other business that such shareholder and any such beneficial owner propose to bring before the meeting, (1) a brief description of the business desired to be brought before the meeting and, if such business includes a proposal to amend these bylaws, the language of the proposed amendment, (2) the reasons of such shareholder and any such beneficial owner for conducting such business at the meeting and (3) a description of all agreements, arrangements and understandings between such shareholder and any beneficial owner and any other person or persons (including their names) in connection with the proposal of such business by such shareholder . The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as an independent director of the corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such nominee.

(iii) Notwithstanding anything in the second sentence of the foregoing Section 2.13(a)(ii) to the contrary, if the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the corporation at least 45 days prior to the Anniversary Date, then a shareholder's notice required by this Section 2.13 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary at the principal offices of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(b) Special Meetings. Only such business shall be conducted at a Special Meeting as shall have been described in the notice of meeting sent to shareholders pursuant to the foregoing Section 4. Nominations of persons for election to the Board of Directors may be made at a Special Meeting at which directors are to be elected pursuant to such notice of meeting (i) by or at the direction of the Board of Directors or (ii) by any shareholder of the corporation who (A) is a shareholder of record at the time of giving of such notice of meeting, (B) is entitled to vote with respect to such nominations at the meeting under the Articles of Incorporation and (C) complies with the notice procedures set forth in this Section 2.13. Any shareholder permitted to nominate persons for election to the Board of Directors pursuant to clause (ii) of the preceding sentence who desires to nominate persons for election to the Board of Directors at such a Special Meeting shall cause a written notice complying with the requirements as to proper form set forth in paragraph (a)(ii) of this Section 2.13 to be received by the Secretary at the principal offices of the corporation not earlier than 90 days prior to such Special Meeting and not later than the close of business on the later of (I) the 60th day prior to such Special Meeting and (II) the 10th day following the day on which public announcement is first made of the date of such Special Meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the announcement of an adjournment or postponement of a Special Meeting commence a new time period for the giving of a shareholder notice as described above.

(c) General.

(i) Only persons who are nominated in accordance with the procedures set forth in this Section 2.13 or Section 2.14 shall be eligible to be elected as directors at an Annual Meeting or Special Meeting. Only such business shall be conducted

at an Annual Meeting or Special Meeting as shall have been brought before such meeting in accordance with the procedures set forth in this Section 2.13. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 2.13 or Section 2.14 and, if any proposed nomination or business is not in compliance with this Section 2.13 or Section 2.14, as the case may be,, to declare that such defective proposal shall be disregarded.

(ii) For purposes of this Section 2.13, “public announcement” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission (the “SEC”) pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(iii) Notwithstanding the foregoing provisions of this Section 2.13, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.13; provided, however, that any references in these bylaws to the Exchange Act or the rules and regulations promulgated thereunder are not intended to limit the requirements applicable to nominations or shareholder action pursuant to paragraph (a)(ii) or (b) of this Section 2.13. Nothing in this Section 2.13 shall be deemed to limit the corporation’s obligation to include shareholder proposals in its proxy statement if such inclusion is required by Rule 14a-8 under the Exchange Act.

2.14 Shareholder Nominations Included in the Corporation’s Proxy Materials:

(a) Inclusion of Nominee in Proxy Statement. Subject to the provisions of this Section 2.14, if expressly requested in the relevant Nomination Notice (as defined below), the corporation shall include in its proxy statement for any Annual Meeting:

(i) the name of any person nominated for election (the “Nominee”) to the Board of Directors, which shall also be included on the corporation’s form of proxy and ballot for the relevant Annual Meeting, by any Eligible Holder (as defined below) or group of up to 20 Eligible Holders that has (individually and collectively, in the case of a group) satisfied, as determined by the Board of Directors or its designee, acting in good faith, all applicable conditions and complied with all applicable procedures set forth in this Section 2.14 (such Eligible Holder or group of Eligible Holders being a “Nominating Shareholder”);

(ii) disclosure about the Nominee and the Nominating Shareholder required under SEC rules or any other applicable law, rule or regulation to be included in the proxy statement; and

(iii) any statement included by the Nominating Shareholder in the Nomination Notice for inclusion in the proxy statement in support of the Nominee’s election to the Board of Directors (subject, without limitation, to Section 2.14(e)(ii)), if such statement does not exceed 500 words.

Promptly after the corporation has determined that it shall include a Nominee in its proxy statement and proxy card for an Annual Meeting, the corporation shall notify the Nominating Shareholder that nominated the Nominee of such determination.

Notwithstanding anything herein to the contrary, the corporation may solicit shareholders against any Nominee and include in its proxy statement for any Annual Meeting any other information that the corporation or the Board of Directors determines, in their discretion, to include in the proxy statement relating to the nomination of the Nominee, including without limitation any statement in opposition to the nomination and any of the information provided pursuant to this Section 2.14.

(b) Maximum Number of Nominees.

(i) The corporation shall not be required to include in the proxy statement for an Annual Meeting more Nominees than that number of directors constituting 20% of the total number of directors of the corporation on the last day on which a Nomination Notice may be submitted pursuant to Section 2.14(d) (the “Final Nomination Date”), rounded down to the nearest whole number, but not less than two (the “Maximum Number”). The Maximum Number for a particular Annual Meeting shall be reduced by (A) Nominees nominated by a Nominating Shareholder for that Annual Meeting whose nomination is subsequently withdrawn after the Nominating Shareholder is notified by the corporation that the Nominees will be included in the corporation’s proxy statement and proxy card for the Annual Meeting, (B) Nominees nominated by a Nominating Shareholder for such Annual Meeting pursuant to this Section 2.14 that the Board of Directors itself decides to nominate for election at such Annual Meeting, (C) the number of directors in office as of the Final Nomination Date who had been Nominees nominated by a Nominating Shareholder with respect to any of the preceding two Annual Meetings (including any Nominee who had been counted at any such Annual Meeting pursuant to the immediately preceding clause (B)) and (1) if Article V of the corporation’s Articles of Incorporation provides for a classified Board of Directors, whose term as a director extends past such Annual Meeting or (2) if Article V of the corporation’s Articles of Incorporation provides for annual elections of the entire Board of Directors, whose reelection at the upcoming Annual Meeting is being recommended by the Board of Directors and (D) any director candidate for whom the Corporation shall have received one or more valid shareholder notices (whether or not subsequently withdrawn) nominating such person for election to the Board of Directors pursuant to Section 2.13(a)(i)(C), other than any such director referred to in this clause (D) who at the time of such Annual Meeting will have served as a director continuously, as a nominee of the Board of Directors, for at least two annual terms, but only to the extent the Maximum Number after such reduction with respect to this clause (D) equals one. If one or more vacancies for any reason occurs on the Board of Directors after the Final Nomination Date but before the date of the Annual Meeting and the Board of Directors resolves to reduce the size of the Board of Directors in connection with the occurrence of the vacancy or vacancies, then the Maximum Number shall be calculated based on the number of directors in office as so reduced.

(ii) Any Nominating Holder submitting more than one Nominee pursuant to this Section 2.14 for an Annual Meeting shall rank such Nominees based on the

order in which the Nominating Holder desires such Nominees to be selected for inclusion in the corporation's proxy statement for such Annual Meeting if the number of Nominees pursuant to this Section 2.14 exceeds the Maximum Number. If the number of Nominees pursuant to this Section 2.14 for any Annual Meeting exceeds the Maximum Number, then the highest ranking Nominee who meets the requirements of this Section 2.14 from each Nominating Holder will be selected for inclusion in the corporation's proxy statement until the Maximum Number is reached, going in order of the amount (largest to smallest) of the shares of common stock of the corporation disclosed as owned in each Nominating Shareholder's Nomination Notice.

(iii) If, after the Final Nomination Date, (A) the corporation is notified, or the Board of Directors or its designee, acting in good faith, determines, that (1) a Nominating Shareholder has failed to satisfy or to continue to satisfy the eligibility requirements described in Section 2.14(c), (2) any of the representations and warranties made in the Nomination Notice cease to be true and accurate in all material respects (or omit a material fact necessary to make the statements therein not misleading) or (3) any material violation or breach occurs of the obligations, agreements, representations or warranties of the Nominating Shareholder or the Nominee under this Section 2.14, (B) a Nominating Shareholder or any qualified representative thereof does not appear at the Annual Meeting to present any nomination submitted pursuant to this Section 2.14, or the Nominating Shareholder withdraws its nomination, or (C) a Nominee becomes ineligible for inclusion in the corporation's proxy statement pursuant to this Section 2.14 or dies, becomes disabled or is otherwise disqualified from being nominated for election or serving as a director of the corporation or is unwilling or unable to serve as a director of the corporation, in each case as determined by the Board of Directors or its designee, acting in good faith, whether before or after the corporation's definitive proxy statement for such Annual Meeting is made available to shareholders, then the nomination of the Nominating Shareholder or such Nominee, as the case may be, shall be disregarded and no vote on such Nominee will occur (notwithstanding that proxies in respect of such vote may have been received by the corporation), the Nominating Shareholder may not cure in any way any defect preventing the nomination of the Nominee, and the corporation (1) may omit from its proxy statement and any ballot or form of proxy the disregarded Nominee and any information concerning such Nominee (including a Nominating Shareholder's statement in support), any other Nominee that the corporation had determined not to include in its proxy statement and proxy card for such Annual Meeting and any successor or replacement nominee proposed by the Nominating Shareholder or by any other Nominating Shareholder and (2) may otherwise communicate to its shareholders, including without limitation by amending or supplementing its proxy statement or ballot or form of proxy, that the Nominee will not be included as a Nominee in the proxy statement or on any ballot or form of proxy and will not be voted on at the Annual Meeting.

(c) Eligibility of Nominating Shareholder.

(i) An "Eligible Holder" is a person who has either (A) been a record holder of the shares of the corporation's common stock used to satisfy the eligibility requirements in this Section 2.14(c) continuously for the three-year period specified in Section 2.14(c)(ii) or (B) provides to the Secretary of the

corporation, within the time period referred to in Section 2.14(d), evidence of continuous ownership of such shares for such three-year period from one or more securities intermediaries in a form and in substance that the Board of Directors or its designee, acting in good faith, determines would be deemed acceptable for purposes of a shareholder proposal under Rule 14a-8(b)(2) under the Exchange Act (or any successor rule).

(ii) An Eligible Holder or group of up to 20 Eligible Holders may submit a nomination in accordance with this Section 2.14 only if the person or group (in the aggregate) has continuously owned at least the Minimum Number (as defined below) of shares of the corporation's common stock throughout the three-year period preceding and including the date of submission of the Nomination Notice and continues to own at least the Minimum Number through the date of the Annual Meeting. A group of funds under common management and investment control shall be treated as one Eligible Holder for purposes of such limitation if such Eligible Holder shall provide together with the Nomination Notice documentation reasonably satisfactory to the corporation that demonstrates that the funds are under common management and investment control. For the avoidance of doubt, in the event of a nomination by a group of Eligible Holders, any and all requirements and obligations applicable to an individual Eligible Holder that are set forth in this Section 2.14, including the minimum holding period, shall apply to each member of such group; provided, however, that the Minimum Number shall apply to the ownership of the group in the aggregate, and a breach of any obligation, agreement, representation or warranty under this Section 2.14 by any member of a group shall be deemed a breach by the Nominating Shareholder. If any shareholder withdraws from a group of Eligible Holders at any time prior to the Annual Meeting, then the group of Eligible Shareholders shall only be deemed to own the shares held by the remaining members of the group and if, as a result of such withdrawal, the Nominating Shareholder no longer owns the Minimum Number of shares of the corporation's common stock, then the nomination shall be disregarded as provided in Section 2.14(b)(iii).

(iii) The "Minimum Number" of shares of the corporation's common stock means 3% of the number of outstanding shares of the corporation's common stock as of the most recent date for which such amount is given in any filing by the corporation with the SEC prior to the submission of the Nomination Notice.

(iv) For purposes of this Section 2.14, an Eligible Holder "owns" only those outstanding shares of common stock of the corporation as to which the Eligible Holder possesses both:

(A) the full voting and investment rights pertaining to such shares; and

(B) the full economic interest in (including the opportunity for profit and risk of loss on) such shares;

provided that the number of shares calculated in accordance with clauses (A) and (B) shall not include any shares (1) sold by such Eligible Holder or any of its affiliates in any transaction that has not been settled or closed, (2) borrowed by

such Eligible Holder or any of its affiliates for any purpose or purchased by such Eligible Holder or any of its affiliates pursuant to an agreement to resell or (3) subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar instrument or agreement entered into by such Eligible Holder or any of its affiliates, whether any such instrument or agreement is to be settled with shares or with cash based on the notional amount or value of outstanding shares of common stock of the corporation, in any such case which instrument or agreement has, or is intended to have, the purpose or effect of (x) reducing in any manner, to any extent or at any time in the future, such Eligible Holder's or any of its affiliates' full right to vote or direct the voting of any such shares and/or (y) hedging, offsetting, or altering to any degree gain or loss arising from maintaining the full economic ownership of such shares by such Eligible Holder or any of its affiliates. An Eligible Holder "owns" shares held in the name of a nominee or other intermediary so long as the Eligible Holder retains the right to instruct how the shares are voted with respect to the election of directors and possesses the full economic interest in the shares. An Eligible Holder's ownership of shares shall be deemed to continue during any period in which the Eligible Holder has delegated any voting power by means of a proxy, power of attorney or other similar instrument or arrangement that is revocable at any time by the Eligible Holder. An Eligible Holder's ownership of shares shall be deemed to continue during any period in which the Eligible Holder has loaned such shares provided that the Eligible Holder has the power to recall such loaned shares on five Business Days' notice, recalls such loaned shares upon being notified by the corporation that any of the Eligible Holder's Nominees will be included in the corporation's proxy statement and proxy card for the Annual Meeting (subject to the provisions of this Section 2.14) and holds such shares through the date of the Annual Meeting. The terms "owned," "owning," "ownership" and other variations of the word "own" shall have correlative meanings. Whether outstanding shares of the corporation are "owned" for these purposes shall be determined by the Board. For purposes of this Section 2.14, the term "affiliate" or "affiliates" shall have the meaning ascribed thereto under the General Rules and Regulations under the Exchange Act.

(v) No person shall be permitted to be in more than one group constituting a Nominating Shareholder, and if any person appears as a member of more than one group, then it shall be deemed to be a member of the group that has the largest amount of shares of common stock of the corporation disclosed as owned in the Nomination Notice.

(d) Nomination Notice. To nominate a Nominee for purposes of this Section 2.14, the Nominating Shareholder must have given timely notice thereof in writing to the Secretary. To be timely, a Nominating Shareholder's notice shall be received by the Secretary at the principal offices of the corporation not less than 120 days nor more than 150 days prior to the first annual anniversary of the date set forth in the corporation's proxy statement for the immediately preceding Annual Meeting as the date on which the corporation first made available to its shareholders definitive proxy materials for the immediately preceding Annual Meeting; provided, however, that if the date for which the Annual Meeting is called is more than 30 days before or more than 30 days after the first annual anniversary of the immediately preceding Annual Meeting, then notice by the Nominating Shareholder to be timely must be received by the Secretary by the later of the close of business on the date that is 180 days prior to the date of

such Annual Meeting or the tenth day following the day on which public announcement of such Annual Meeting is first made. In no event shall any adjournment or postponement of any Annual Meeting or the announcement thereof commence a new time period for the giving of a Nomination Notice. To be in proper form, a Nominating Shareholder's notice to the Secretary for purposes of this Section 2.14 shall include all of the following information and documents (collectively, the "Nomination Notice"):

(i) A Schedule 14N (or any successor form) relating to the Nominee, completed and filed with the SEC by the Nominating Shareholder as applicable, in accordance with SEC rules;

(ii) A written notice of the nomination of such Nominee that includes the following additional information, agreements, representations and warranties by the Nominating Shareholder (including each group member):

(A) the information and representations that would be required to be set forth in a shareholder's notice of a nomination for the election of directors pursuant to Section 2.13(a);

(B) the details of any relationship that existed within the past three years and that would have been described pursuant to Item 6(e) of Schedule 14N (or any successor item) if it existed on the date of submission of the Schedule 14N;

(C) a representation and warranty that the shares of common stock of the corporation owned by the Nominating Shareholder were acquired in the ordinary course of business and not with the intent or objective to influence or change control of the corporation and are not being held with the purpose or effect of changing control of the corporation or to gain a number of seats on the Board of Directors that exceeds the maximum number of nominees that shareholders may nominate pursuant to this Section 2.14;

(D) a representation and warranty that the Nominating Shareholder satisfies the eligibility requirements set forth in Section 2.14(c) and has provided evidence of ownership to the extent required by Section 2.14(c)(i);

(E) a representation and warranty that the Nominating Shareholder will continue to satisfy the eligibility requirements described in Section 2.14(c) through the date of the Annual Meeting;

(F) a representation and warranty that the Nominating Shareholder has not nominated and will not nominate for election to the Board of Directors at the Annual Meeting any person other than the Nominees it is nominating pursuant to this Section 2.14;

(G) a representation and warranty as to the Nominating Shareholder's intentions with respect to continuing to own the Minimum Number of shares of common stock of the corporation for at least one year following the Annual Meeting;

(H) a representation and warranty that the Nominating Shareholder will not engage in, and will not be a “participant” in another person’s, “solicitation” within the meaning of Rule 14a-1(l) under the Exchange Act (without reference to the exception in Rule 14a-1(2)(iv)) (or any successor rules), with respect to the Annual Meeting, other than with respect to its Nominees or any nominees of the Board of Directors;

(I) a representation and warranty that the Nominating Shareholder will not use any proxy card other than the corporation’s proxy card in soliciting shareholders in connection with the election of a Nominee at the Annual Meeting;

(J) a representation and warranty that the Nominee’s nomination for election to the Board of Directors or, if elected, Board membership would not violate applicable state or federal law or the rules of any stock exchange on which the corporation’s securities are traded;

(K) a representation and warranty that the Nominee (1) qualifies as independent under the rules of any stock exchange on which the corporation’s securities are traded, (2) meets the audit committee and compensation committee independence requirements under the rules of any stock exchange on which the corporation’s securities are traded, (3) is a “non-employee director” for the purposes of Rule 16b-3 under the Exchange Act (or any successor rule), (4) is an “outside director” for the purposes of Section 162(m) of the Internal Revenue Code (or any successor provision), (5) does not exceed the retirement age set forth in Section 3.04, and (6) is not and has not been subject to any event specified in Rule 506(d)(1) of Regulation D (or any successor rule) under the Securities Act of 1933, as amended, or Item 401(f) of Regulation S-K (or any successor rule) under the Exchange Act, without reference to whether the event is material to an evaluation of the ability or integrity of the Nominee;

(L) details of any position of the Nominee as an employee, consultant, agent, officer or director of any Competitor within the three years preceding the submission of the Nomination Notice;

(1) “Competitor” means an individual, business or any other entity or enterprise engaged or having publicly announced its intent to engage in the sale or marketing of any Competing Product or Service.

(2) “Competing Product or Service” means any product or service that is sold in competition with, or is being developed and that will compete with, a product or service developed, manufactured, or sold by the corporation.

(M) if desired, a statement for inclusion in the proxy statement in support of the Nominee’s election to the Board of Directors, provided that such statement shall not exceed 500 words and shall fully comply

with Section 14 of the Exchange Act and the rules and regulations thereunder, including Rule 14a-9 thereunder; and

(N) in the case of a nomination by a group, the designation by all group members of one group member for purposes of receiving communications, notices and inquiries from the corporation and that is authorized to act on behalf of all group members with respect to matters relating to the nomination, including withdrawal of the nomination;

(iii) An executed agreement, in a form deemed satisfactory by the Board of Directors or its designee, acting in good faith, pursuant to which the Nominating Shareholder (including each group member) agrees:

(A) to comply with all applicable laws, rules and regulations in connection with the nomination, solicitation and election;

(B) to file any written solicitation or other written communication with the corporation's shareholders relating to one or more of the corporation's directors or director nominees or any Nominee with the SEC, regardless of whether any such filing is required under rule or regulation or whether any exemption from filing is available for such materials under any rule or regulation;

(C) to assume all liability (jointly and severally by all group members in the case of a nomination by a group) stemming from any action, suit or proceeding concerning any actual or alleged legal or regulatory violation arising out of any communication by the Nominating Shareholder, its affiliates and associates or their respective agents and representatives with the corporation, its shareholders or any other person in connection with the nomination or election of directors, including without limitation the Nomination Notice, or out of the facts, statements or other information that the Nominating Shareholder or its Nominees provided to the corporation in connection with the inclusion of such Nominees in the corporation's proxy statement;

(D) to indemnify and hold harmless (jointly with all other group members, in the case of a group member) the corporation and each of its directors, officers and employees individually against any liability, loss, damages, expenses or other costs (including attorneys' fees) incurred in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the corporation or any of its directors, officers or employees arising out of or relating to any nomination submitted by the Nominating Shareholder pursuant to this Section 2.14 or a failure or alleged failure of the Nominating Shareholder to comply with, or any breach or alleged breach of, its obligations, agreements or representations under this Section 2.14;

(E) in the event that any information included in the Nomination Notice, or any other communication by the Nominating Shareholder (including with respect to any group member) with the corporation, its shareholders or any other person in connection with the

nomination or election ceases to be true and accurate in all material respects or omits a material fact necessary to make the statements made not misleading or that the Nominating Shareholder (including any group member) has failed to continue to satisfy the eligibility requirements described in Section 2.14(c), to promptly (and in any event within 48 hours of discovering such misstatement, omission or failure) notify the corporation and any other recipient of such communication of the misstatement or omission in such previously provided information and of the information that is required to correct the misstatement or omission and/or notify the corporation of the failure to continue to satisfy the eligibility requirements described in Section 2.14(c), as the case may be, it being understood that providing any such notification shall not be deemed to cure any defect or limit the corporation's right to omit a Nominee from its proxy materials as provided in this Section 2.14; and

(F) at the request of the corporation, promptly, but in any event within five (5) Business Days after such request, to provide to the corporation such additional information as reasonably requested by the corporation.

(iv) An executed agreement, in a form deemed satisfactory by the Board of Directors or its designee, acting in good faith, by the Nominee:

(A) that the Nominee will provide such other information as may reasonably be required by the corporation to determine the eligibility of such person to serve as a director of the corporation and will make such other acknowledgments, enter into such agreements and provide such other information as the Board of Directors requires of all directors, including promptly completing the corporation's director questionnaire;

(B) that the Nominee has read and agrees, if elected as a director of the corporation, to adhere to the corporation's corporate governance guidelines and codes of ethics and any other corporation policies and guidelines applicable to directors;

(C) that the Nominee is not and will not become a party to (1) any compensatory, payment, reimbursement, indemnification or other financial agreement, arrangement or understanding with any person or entity in connection with service or action as a director of the corporation that has not been disclosed to the corporation, (2) any agreement, arrangement or understanding with any person or entity as to how the Nominee would vote or act on any issue or question as a director (a "Voting Commitment") that has not been disclosed to the corporation or (3) any Voting Commitment that could limit or interfere with the Nominee's ability to comply, if elected as a director of the corporation, with his or her fiduciary duties under applicable law; and

(D) in the event that any information or communication provided by the Nominee to the corporation, its shareholders or any other person in connection with the nomination or election ceases to be true and accurate in all material respects or omits a material fact necessary to make

the statements made not misleading (and in any event within 48 hours of discovering such misstatement, omission or failure), that the Nominee will notify the corporation and any other recipient of such communication of the misstatement or omission in such previously provided information and of the information that is required to correct the misstatement or omission, as the case may be, it being understood that providing any such notification shall not be deemed to cure any defect or limit the corporation's right to omit a Nominee from its proxy materials as provided in this Section 2.14.

The information and documents required by this Section 2.14(d) shall be (i) provided with respect to and executed by each group member in the case of information applicable to group members and (ii) provided with respect to the persons specified in Instruction 1 to Items 6(c) and (d) of Schedule 14N (or any successor item) in the case of a Nominating Shareholder or group member that is an entity. The Nomination Notice shall be deemed submitted on the date on which all the information and documents referred to in this Section 2.14(d) (other than such information and documents contemplated to be provided after the date the Nomination Notice is provided) have been delivered to or, if sent by mail, received by the Secretary of the corporation.

(e) Exceptions

(i) Notwithstanding anything to the contrary contained in this Section 2.14, the corporation may omit from its proxy statement and any ballot or form of proxy any Nominee and any information concerning such Nominee (including a Nominating Shareholder's statement in support), and no vote on such Nominee will occur (notwithstanding that proxies in respect of such vote may have been received by the corporation), and the Nominating Shareholder may not, after the Final Nomination Date, cure in any way any defect preventing the nomination of the Nominee, if:

(A) the corporation receives a notice pursuant to Section 2.13(a) that a shareholder intends to nominate a person for election to the Board of Directors at the Annual Meeting;

(B) the Board of Directors or its designee, acting in good faith, determines that such Nominee's nomination or election to the Board of Directors would result in the corporation violating or failing to be in compliance with these bylaws, the corporation's articles of incorporation or any applicable law, rule or regulation to which the corporation is subject, including any rules or regulations of any stock exchange on which the corporation's securities are traded;

(C) the Nominee was nominated for election to the Board of Directors pursuant to this Section 2.14 at one of the corporation's two preceding Annual Meetings and either (i) withdrew or became ineligible or unavailable for election at any such Annual Meeting or (ii) received a vote of less than 25% of the shares of common stock of the corporation entitled to vote for such Nominee; or

(D) the Nominee has been, within the past three years, an officer or director of a competitor, as defined for purposes of Section 8 of the Clayton Antitrust Act of 1914, as amended.

(ii) Notwithstanding anything to the contrary contained in this Section 2.14, the corporation may omit from its proxy statement, or may supplement or correct, any information, including all or any portion of the statement in support of the Nominee included in the Nomination Notice, if the Board of Directors or its designee, acting in good faith, determines that:

(A) such information is not true in all material respects or omits a material statement necessary to make the statements made not misleading;

(B) such information directly or indirectly impugns character, integrity or personal reputation of, or directly or indirectly makes charges concerning improper, illegal or immoral conduct or associations, without factual foundation, with respect to, any person; or

(C) the inclusion of such information in the proxy statement would otherwise violate SEC rules or any other applicable law, rule or regulation.

Article III. BOARD OF DIRECTORS

3.01 General Powers and Number

; Tenure. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, its Board of Directors. Each director shall hold office until the next Annual Meeting in the year in which such director's term expires and until his or her successor shall have been duly elected and, if necessary, qualified, or until there is a decrease in the number of directors which takes effect after the expiration of his or her term, or until his or her prior retirement, death, resignation or removal. Notwithstanding the foregoing, a director who is also an employee of the corporation shall cease to be a director on the date such employee's employment by the corporation is terminated for any reason without further action by the corporation.

3.02 Chairman of the Board

. The Board of Directors shall annually elect one of its members to be Chairman of the Board and shall fill any vacancy in the position of Chairman of the Board at such time and in such manner as the Board of Directors shall determine. The Chairman of the Board shall preside at all meetings of the Board of Directors and of shareholders. The Chairman shall perform such other duties and services as shall be assigned to or required of the Chairman by the Board of Directors.

3.03 Resignation and Removal

. A director may resign at any time by delivering written notice that complies with the Wisconsin Business Corporation Law to the Chairman of the Board or to the corporation. Unless otherwise provided in these bylaws, a director's resignation is effective when the notice is delivered unless the notice specifies a later effective date. Directors need not be residents of the

State of Wisconsin. Pursuant to Article V(b) of the Articles of Incorporation, any director may be removed from office by the corporation's shareholders, but only for cause and only by the affirmative vote of a majority of the votes then entitled to be cast in an election of directors. In determining whether a director may be removed by the Company's shareholders, "cause" shall exist only if the director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction or has been adjudged liable for actions or omissions in the performance of his or her duty to the corporation in a matter which has had a materially adverse effect on the business of the corporation.

3.04 Eligibility

. A person shall not be eligible for nomination to serve as a director of the corporation beginning with the Annual Meeting immediately following such director's seventy-second (72nd) birthday.

3.05 Regular Meetings

. A regular meeting of the Board of Directors shall be held without other notice than this bylaw immediately after the Annual Meeting, and each adjourned session thereof. The place of such regular meeting shall be the same as the place of the Annual Meeting which precedes it, or such other suitable place as may be announced at such Annual Meeting. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Wisconsin, for the holding of additional regular meetings without other notice than such resolution.

3.06 Special Meetings

. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the Chief Executive Officer or any three directors. The Chairman of the Board or the Chief Executive Officer may fix any place, either within or without the State of Wisconsin, as the place for holding any special meeting of the Board of Directors, and if no other place is fixed the place of meeting shall be the principal business office of the corporation in the State of Wisconsin.

3.07 Notice; Waiver

. Notice of each meeting of the Board of Directors (unless otherwise provided in or pursuant to Section 3.05) shall be given by written notice delivered or communicated in person, by telegram, facsimile or other form of wire or wireless communication, or by mail or private carrier, to each director at his or her business address or at such other address as such director shall have designated in writing filed with the Secretary, in each case not less than 48 hours prior to the time of the meeting. If mailed, such notice shall be deemed to be effective when deposited in the United States mail so addressed, with postage thereon prepaid. If notice is given by telegram, facsimile or other form of wire or wireless communication, such notice shall be deemed to be effective when transmitted for delivery. If notice is given by private carrier, such notice shall be deemed to be effective when the notice is delivered to the private carrier. Whenever any notice whatever is required to be given to any director of the corporation under the Articles of Incorporation or these bylaws or any provision of the Wisconsin Business Corporation Law, a waiver thereof in writing, signed at any time, whether before or after the time of meeting, by the director entitled to such notice, shall be deemed equivalent to the giving of such notice. The corporation shall retain any such waiver as part of the permanent corporate records. A director's attendance at or participation in a meeting waives any required notice to

him or her of the meeting unless the director at the beginning of the meeting or promptly upon his or her arrival objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at nor the purpose of any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

3.08 Quorum

. Except as otherwise provided by the Wisconsin Business Corporation Law or by the Articles of Incorporation or these bylaws, a majority of the number of directors set forth in Section 3.01 shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but a majority of the directors present (though less than such quorum) may adjourn the meeting from time to time without further notice.

3.09 Manner of Acting

. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by the Wisconsin Business Corporation Law or by the Articles of Incorporation or these bylaws.

3.10 Conduct of Meetings

. The Chairman of the Board and, in his or her absence, any director chosen by the directors present, shall call meetings of the Board of Directors to order and shall act as chairman of the meeting. The Secretary of the corporation shall act as secretary of all meetings of the Board of Directors, but in the absence of the Secretary, the presiding officer may appoint any Assistant Secretary or any director or other person present to act as secretary of the meeting. Minutes of any regular or special meeting of the Board of Directors shall be prepared and distributed to each director.

3.11 Vacancies

. Any vacancy occurring in the Board of shall be filled in accordance with Article V(c) of the Articles of Incorporation. A vacancy that will occur at a specific later date, because of a resignation effective at a later date or otherwise, may be filled before the vacancy occurs, but the new director may not take office until the vacancy occurs.

3.12 Compensation

. The Board of Directors by affirmative vote of a majority of the directors then in office, irrespective of any personal interest of any of its members, may establish reasonable compensation of all directors for services to the corporation as directors, officers or otherwise, or may delegate such authority to an appropriate committee. The Board of Directors shall also have authority to provide for, or to delegate authority to, an appropriate committee to provide for reasonable pensions, disability or death benefits, and other benefits or payments to directors, officers and employees of the corporation.

3.13 Presumption of Assent

. A director of the corporation who is present at a meeting of the Board of Directors or a committee thereof of which he or she is a member at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless any of the following occurs:

(a) the director objects at the beginning of the meeting or promptly upon his arrival to holding the meeting or transacting business at the meeting; (b) the director dissents or abstains from an action taken and minutes of the meeting are prepared that show the director's dissent or abstention from the action taken; (c) the director delivers written notice that complies with the Wisconsin Business Corporation Law of his dissent or abstention to the presiding officer of the meeting before its adjournment or to the corporation immediately after adjournment of the meeting; or (d) the director dissents or abstains from an action taken, minutes of the meeting are prepared that fail to show the director's dissent or abstention from the action taken, and the director delivers to the corporation a written notice of that failure that complies with the Wisconsin Business Corporation Law promptly after receiving the minutes. Such right to dissent or abstain shall not apply to a director who voted in favor of such action.

3.14 Committees

. The Board of Directors may create one or more committees, appoint members of the Board of Directors to serve on the committees and designate other members of the Board of Directors to serve as alternates. Each committee shall have at least one member who shall, unless otherwise provided by the Board of Directors, serve at the pleasure of the Board of Directors. A committee may be authorized to exercise the authority of the Board of Directors, except as otherwise limited by the Wisconsin Business Corporation Law. Unless otherwise provided by the Board of Directors in creating the committee, a committee may employ counsel, accountants and other consultants to assist it in the exercise of its authority.

3.15 Telephonic Meetings

. Except as herein provided and notwithstanding any place set forth in the notice of the meeting or these bylaws, members of the Board of Directors (and any committee thereof) may participate in regular or special meetings by, or through the use of, any means of communication by which all participants may simultaneously communicate with each other, such as by conference telephone. If a meeting is conducted by such means, then at the commencement of such meeting the presiding officer shall inform the participating directors that a meeting is taking place at which official business may be transacted. Any participant in a meeting by such means shall be deemed present in person at such meeting. Notwithstanding the foregoing, no action may be taken at any meeting held by such means on any particular matter which the presiding officer determines, in his sole discretion, to be inappropriate under the circumstances for action at a meeting held by such means. Such determination shall be made and announced in advance of such meeting.

Article IV. OFFICERS

4.01 Number

. The principal officers of the corporation shall be established by the Board of Directors and may include a Chief Executive Officer, a President, a Chief Financial Officer, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. The Board of Directors may also authorize any duly appointed officer to appoint one or more officers or assistant officers. Any two or more offices may be held by the same person.

4.02 Election and Term of Office

. The officers of the corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after the Annual Meeting. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until such officer's successor shall have been duly elected or until his or her prior death, resignation or removal, or a different person is appointed to such office.

4.03 Removal and Resignation

. The Board of Directors may remove any officer with or without cause and notwithstanding the contract rights, if any, of the officer removed. Election or appointment shall not of itself create contract rights. An officer may resign at any time by delivering notice to the corporation that complies with the Wisconsin Business Corporation Law. The resignation shall be effective when the notice is delivered, unless the notice specifies a later effective date and the corporation accepts the later effective date.

4.04 Vacancies

. A vacancy in any principal office because of death, resignation, removal, disqualification or otherwise, shall be filled by the Board of Directors for the unexpired portion of the term. If a resignation of an officer is effective at a later date as contemplated by Section 4.03 hereof, the Board of Directors may fill the pending vacancy before the effective date if the Board provides that the successor may not take office until the effective date.

4.05 Chief Executive Officer

. Subject to the control of the Board of Directors, the Chief Executive Officer shall in general supervise and control all of the business and affairs of the corporation. He or she shall have authority, subject to such rules as may be prescribed by the Board of Directors, to appoint and remove such agents and employees of the corporation as he or she shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them. He or she shall have authority to sign, execute and acknowledge, on behalf of the corporation, all deeds, mortgages, securities, contracts, leases, reports, and all other documents or other instruments necessary or proper to be executed in the course of the corporation's regular business, or which shall be authorized by resolution of the Board of Directors; and, except as otherwise provided by law or the Board of Directors, he or she may authorize any elected President, Vice President or other officer or agent of the corporation to sign, execute and acknowledge such documents or instruments in his place and stead. In general, he or she shall perform all duties incident to the office of Chief Executive Officer of the corporation and such other duties as may be prescribed by the Board of Directors from time to time.

4.06 President

. In the absence of the Chief Executive Officer or in the event of his or her death, inability or refusal to act, or in the event for any reason it shall be impracticable for the Chief Executive Officer to act personally, the President shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. He or she shall have authority, subject to such rules as may be prescribed by the Board of Directors, to appoint such agents and employees of the corporation as he or she shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them. Such agents and employees shall hold office at the discretion of the

President. He or she shall have authority to sign, execute and acknowledge, on behalf of the corporation, all deeds, mortgages, bonds, stock certificates, contracts, leases, reports and all other documents or instruments necessary or proper to be executed in the course of the corporation's regular business, or which shall be authorized by resolution of the Board of Directors; and, except as otherwise provided by law or the Board of Directors, he or she may authorize any Vice President or other officer or agent of the corporation to sign, execute and acknowledge such documents or instruments in his place and stead. In general the President shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer from time to time.

4.07 Chief Financial Officer

. Subject to the control of the Board of Directors and the Chief Executive Officer, the Chief Financial Officer shall in general perform all of the duties incident to the office of Chief Financial Officer and have such other duties and exercise such other authority as from time to time may be delegated or assigned to him by the Chief Executive Officer or by the Board of Directors. He or she shall have authority to sign, execute and acknowledge, on behalf of the corporation, all deeds, mortgages, contracts, leases, reports, and all other documents or other instruments necessary or proper to be executed in the course of the corporation's regular business, or which shall be authorized by the Chief Executive Officer or by resolution of the Board of Directors. The Chief Financial Officer shall have the same authority as a Vice President of the corporation under these bylaws to execute documents, contracts or the like on behalf of the corporation or to otherwise bind the corporation.

4.08 The Vice Presidents

. In the absence of the President or in the event of his or her death, inability or refusal to act, or in the event for any reason it shall be impracticable for the President to act personally, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign, with the Secretary or Assistant Secretary, certificates for shares of the corporation and shall perform such other duties and have such authority as from time to time may be delegated or assigned to him or her by the President, Chief Executive Officer or by the Board of Directors. The execution of any instrument of the corporation by any Vice President shall be conclusive evidence, as to third parties, of his authority to act in the stead of the President.

4.09 The Secretary

. The Secretary shall: (a) keep the minutes of all Annual Meetings and Special Meetings and of all meetings of the Board of Directors in one or more books provided for that purpose (including records of actions taken without a meeting); (b) see that all notices are duly given in accordance with the provisions of these bylaws or as required by the Wisconsin Business Corporation Law; (c) be custodian of the corporate records and of the seal of the corporation and see that the seal of the corporation is affixed to all documents the execution of which on behalf of the corporation under its seal is duly authorized; (d) maintain a record of the shareholders of the corporation, in a form that permits preparation of a list of the names and addresses of all shareholders, by class or series of shares and showing the number and class or series of shares held by each shareholder; (e) sign with the Chief Executive Officer, the President, or a Vice President, certificates for shares of the corporation, the issuance of which shall have been

authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the corporation; and (g) in general perform all duties incident to the office of Secretary and have such other duties and exercise such authority as from time to time may be delegated or assigned to him or her by the President, the Chief Executive Officer or by the Board of Directors.

4.10 The Treasurer

. The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the corporation; (b) maintain appropriate accounting records; (c) receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such banks, trust companies or other depositaries as shall be selected in accordance with the provisions of Section 5.04; and (d) in general perform all of the duties incident to the office of Treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned to him or her by the President, the Chief Executive Officer or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine.

4.11 Assistant Secretaries and Assistant Treasurers

. There shall be such number of Assistant Secretaries and Assistant Treasurers as the Board of Directors may from time to time authorize. The Assistant Secretaries may sign, with the Chief Executive Officer, the President or a Vice President, certificates for shares of the corporation the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties and have such authority as shall from time to time be delegated or assigned to them by the Secretary or the Treasurer, respectively, or by the President, the Chief Executive Officer or the Board of Directors.

4.12 Other Assistants and Acting Officers

. The Board of Directors shall have the power to appoint, or to authorize any duly appointed officer of the corporation to appoint, any person to act as assistant to any officer, or as agent for the corporation in his stead, or to perform the duties of such officer whenever for any reason it is impracticable for such officer to act personally, and such assistant or acting officer or other agent so appointed by the Board of Directors or the appointing officer shall have the power to perform all the duties of the office to which he or she is so appointed to be assistant, or as to which he or she is so appointed to act, except as such power may be otherwise defined or restricted by the Board of Directors or the appointing officer.

4.13 Salaries

. The salaries of the principal officers shall be fixed from time to time by the Board of Directors or by a duly authorized committee thereof, and no officer shall be prevented from receiving such salary by reason of the fact that he or she is also a director of the corporation.

Article V. CONTRACTS, LOANS, CHECKS AND DEPOSITS; SPECIAL CORPORATE ACTS

5.01 Contracts

. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute or deliver any instrument in the name of and on behalf of the corporation, and such authorization may be general or confined to specific instances. In the absence of other designation, all deeds, mortgages and instruments of assignment or pledge made by the corporation shall be executed in the name of the corporation by the Chief Executive Officer, the President or one of the Vice Presidents and by the Secretary, an Assistant Secretary, the Treasurer or an Assistant Treasurer; the Secretary or an Assistant Secretary, when necessary or required, shall affix the corporate seal thereto; and when so executed no other party to such instrument or any third party shall be required to make any inquiry into the authority of the signing officer or officers.

5.02 Loans

. No indebtedness for borrowed money shall be contracted on behalf of the corporation and no evidences of such indebtedness shall be issued in its name unless authorized by or under the authority of a resolution of the Board of Directors. Such authorization may be general or confined to specific instances.

5.03 Checks, Drafts, etc

. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by or under the authority of a resolution of the Board of Directors.

5.04 Deposits

. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as may be selected by or under the authority of a resolution of the Board of Directors.

5.05 Voting of Securities Owned by this Corporation

. Subject always to the specific directions of the Board of Directors, (a) any shares or other securities issued by any other corporation and owned or controlled by this corporation may be voted at any meeting of security holders of such other corporation by the Chief Executive Officer if he or she be present, or in his or her absence by the President of this corporation if he or she be present, or in his or her absence by any Vice President of this corporation who may be present, and (b) whenever, in the judgment of the Chief Executive Officer, or in his absence of the President, or in his absence of any Vice President, it is desirable for this corporation to execute a proxy or written consent in respect to any shares or other securities issued by any other corporation and owned by this corporation, such proxy or consent shall be executed in the name of this corporation by the Chief Executive Officer, the President or one of the Vice Presidents of this corporation, without necessity of any authorization by the Board of Directors, affixation of corporate seal or countersignature or attestation by another officer. Any person or persons designated in the manner above stated as the proxy or proxies of this corporation shall have full right, power and authority to vote the shares or other securities issued by such other corporation and owned by this corporation the same as such shares or other securities might be voted by this corporation.

5.06 No Nominee Procedures

. The corporation has not established, and nothing in these bylaws shall be deemed to establish, any procedure by which a beneficial owner of the corporation's shares that are registered in the name of a nominee is recognized by the corporation as the shareholder under Section 180.0723 of the Wisconsin Business Corporation Law.

Article VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

6.01 Certificates for Shares

. Certificates representing shares of the corporation shall be in such form, consistent with the Wisconsin Business Corporation Law, as shall be determined by the Board of Directors. Such certificates shall be signed by the Chairman of the Board, the Chief Executive Officer, the President or a Vice President and by the Secretary or an Assistant Secretary. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation. All certificates surrendered to the corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except as provided in Section 6.06.

6.02 Facsimile Signatures and Seal

. The seal of the corporation (if any) on any certificates for shares may be a facsimile. The signatures of the Chairman of the Board, the Chief Executive Officer, the President or any Vice President and the Secretary or Assistant Secretary upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the corporation itself or an employee of the corporation.

6.03 Signature by Former Officers

. In case any officer, who has signed or whose facsimile signature has been placed upon any certificate for shares, shall have ceased to be such officer before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer at the date of its issue.

6.04 Transfer of Shares

. Prior to due presentment of a certificate for shares for registration of transfer the corporation may treat the registered owner of such shares as the person exclusively entitled to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner. Where a certificate for shares is presented to the corporation with a request to register for transfer, the corporation shall not be liable to the owner or any other person suffering loss as a result of such registration of transfer if (a) there were on or with the certificate the necessary endorsements, and (b) the corporation had no duty to inquire into adverse claims or has discharged any such duty. The corporation may require reasonable assurance that said endorsements are genuine and effective and in compliance with such other regulations as may be prescribed under the authority of the Board of Directors.

6.05 Restrictions on Transfer

. The face or reverse side of each certificate representing shares shall bear a conspicuous notation of any restriction imposed by the corporation upon the transfer of such shares.

6.06 Lost, Destroyed or Stolen Certificates

. Where the owner claims that his or her certificate for shares has been lost, destroyed or wrongfully taken, a new certificate shall be issued in place thereof if the owner (a) so requests before the corporation has notice that such shares have been acquired by a bona fide purchaser, and (b) files with the corporation a sufficient indemnity bond, and (c) satisfies such other reasonable requirements as the Board of Directors may prescribe.

6.07 Consideration for Shares

. The Board of Directors may authorize shares to be issued for consideration consisting of any tangible or intangible property or benefit to the corporation, including cash, promissory notes, services performed, contracts for services to be performed or other securities of the corporation. Before the corporation issues shares, the Board of Directors shall determine that the consideration received or to be received for the shares to be issued is adequate. In the absence of a resolution adopted by the Board of Directors expressly determining that the consideration received or to be received is adequate, Board approval of the issuance of the shares shall be deemed to constitute such a determination. The determination of the Board of Directors is conclusive insofar as the adequacy of consideration for the issuance of shares relates to whether the shares are validly issued, fully paid and nonassessable. The corporation may place in escrow shares issued in whole or in part for a contract for future services or benefits, a promissory note, or other property to be issued in the future, or make other arrangements to restrict the transfer of the shares, and may credit distributions in respect of the shares against their purchase price, until the services are performed, the benefits or property are received or the promissory note is paid. If the services are not performed, the benefits or property are not received or the promissory note is not paid, the corporation may cancel, in whole or in part, the shares escrowed or restricted and the distributions credited.

6.08 Stock Regulation

. The Board of Directors shall have the power and authority to make all such further rules and regulations not inconsistent with the statutes of the State of Wisconsin as it may deem expedient concerning the issue, transfer and registration of certificates representing shares of the corporation.

Article VII. ACTION WITHOUT MEETINGS

7.01 Director Action without Meeting

. Any action required or permitted by the Articles of Incorporation or these bylaws or any provision of the Wisconsin Business Corporation Law to be taken by the Board of Directors (or a committee thereof) at a meeting may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by such number of members of the Board or of the committee, as the case may be, as is required by the Wisconsin Business Corporation Law or by the Articles of Incorporation or these bylaws to take such action. Such action shall be effective when the last director or committee member signs the consent, unless the consent specifies a different effective date.

7.02 Shareholder Action without Meeting

(a) To be valid, each expression of consent to corporate action in writing (a “Consent”) shall be in writing; shall set forth the specific corporate action to be taken (which corporate action or actions shall be limited to the action or actions set forth in the written request to set a Consent Record Date received by the corporation pursuant to Section 2.05(c)); shall be signed by one or more persons who as of the Consent Record Date are shareholders of record (or their duly authorized proxies); shall bear the date of signature of each such shareholder (or their duly authorized proxies); shall set forth the name and address, as they appear in the corporation’s books, of each shareholder signing such Consent and the class and number of shares of the corporation that are owned of record by each such shareholder; in the case of a Person who is not a shareholder of record, shall be accompanied by a proxy or proxies evidencing each such Person’s appointment as a proxy for the applicable shareholder of record; and shall be sent to the inspectors of elections engaged by the corporation pursuant to Section 7.02(c) in accordance with the provisions of Section 7.02(d). Without limiting the foregoing, no Consent shall be valid unless, within seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c), Consents representing the requisite number of shares subject to valid and unrevoked Consents to express such corporate action are delivered to the corporation pursuant to Section 7.02; provided, however, that if the corporation or a Consent Soliciting Shareholder (whichever is soliciting Consents) has requested a Preliminary Consent Report that is pending on such 70th day pursuant to Section 7.02(e), then such Consents shall be valid if Consents representing the requisite number of shares subject to valid and unrevoked Consents to express such corporate action are delivered to the corporation pursuant to this Section 7.02 at such time as such inspectors issue the Final Consent Report relating to the pending Preliminary Consent Report pursuant to Section 7.02(f) or Section 7.02(g). The Board of Directors shall have the power and authority to make rules that are not inconsistent with the Wisconsin Business Corporation Law as to the validity of Consents and revocations thereof.

(b) Consents may be revoked at any time prior to the earlier of (i) such time as the inspectors of elections issue a Final Consent Report pursuant to Section 7.02(f) or Section 7.02(g) or (ii) seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c) by written notice delivered to (A) the Secretary, (B) any Consent Soliciting Shareholder, (C) to a proxy solicitor or other agent designated by the corporation or any Consent Soliciting Shareholder and/or (D) the inspectors of elections engaged by the corporation pursuant to Section 7.02(c).

(c) Within three (3) Business Days after a Consent Record Date fixed pursuant to Section 2.05(c), the corporation shall (i) engage regionally or nationally recognized independent inspectors of elections to act as agent of the corporation for the purpose of promptly performing a ministerial review of the validity of Consents and revocations thereof and (ii) provide notice to each Consent Soliciting Shareholder of the identity of such inspectors and the manner in which such Consent Soliciting Shareholder may deliver Consents and revocations thereof to such inspectors pursuant to Section 7.02(d). Except as provided in Section 2.05(c) (ii), the cost of retaining inspectors of election shall be borne by the corporation.

(d) The corporation, the Consent Soliciting Shareholders and their respective proxy solicitors or other designated agents shall deliver Consents and revocations thereof to the inspectors within two (2) Business Days after receipt. As soon as the inspectors receive Consents and/or revocations thereof, the inspectors shall review the Consents and revocations thereof and shall maintain a count of the number of shares subject to valid and unrevoked Consents. The inspectors shall keep such count confidential and shall not reveal the count to any Person; provided, however, that, as soon as practicable after a written request therefor by the corporation or a Consent Soliciting Shareholder, the inspectors shall issue a report (a “Consent Report”) to

the corporation and the Consent Soliciting Shareholders stating: (i) number of shares subject to valid Consents; (ii) the number of shares subject to valid revocations of Consents; (iii) the number of shares subject to valid and unrevoked Consents; (iv) the number of shares subject to invalid Consents; (v) the number of shares subject to invalid revocations of Consents; (vi) whether, based on their count, the requisite number of shares subject to valid and unrevoked Consents has been obtained to express the corporate action specified in the Consents; and (vii) the latest date the inspectors received Consents and revocations thereof that the inspectors reflected in such report (the “Report Date”).

(e) As soon as practicable after a written request therefor by the corporation or a Consent Soliciting Shareholder (whichever is soliciting Consents), notice of which request shall be given to the corporation and any parties opposing the solicitation of Consents, if any, which request shall state that the corporation or the Consent Soliciting Shareholders, as the case may be, have a good faith belief that the requisite number of shares subject to valid and unrevoked Consents to express the corporate action specified in the Consents has been received in accordance with the Articles of Incorporation and these Bylaws, the inspectors shall issue and deliver to the corporation and the Consent Soliciting Shareholders a preliminary Consent Report (the “Preliminary Consent Report”); provided, however, that neither the corporation nor the Consent Soliciting Shareholders may request a Preliminary Consent Report after the 70th day after the applicable Consent Record Date fixed pursuant to Section 2.05(c). Unless the corporation and the Consent Soliciting Shareholders shall agree to a shorter or longer period, the corporation and the Consent Soliciting Shareholders shall have two (2) Business Days after receipt of the Preliminary Consent Report to review the Consents and revocations thereof and to advise the inspectors and the opposing parties in writing as to whether they intend to challenge the Preliminary Consent Report.

(f) If no written notice of an intention to challenge a Preliminary Consent Report is received within two (2) Business Days after receipt of the Preliminary Consent Report by the corporation and the Consent Soliciting Shareholders and either (i) the date that is two (2) Business Days after such receipt of such Preliminary Consent Report (the “Cut-Off Date”) is more than seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c) or (ii) the Cut-Off Date is not more than seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c) and the requisite number of shares subject to valid and unrevoked Consents to express the corporate action specified in the Consents was obtained, then the inspectors shall as promptly as practicable issue to the corporation and the Consent Soliciting Shareholders their final Consent Report (a “Final Consent Report”), which shall contain the information included in the Preliminary Consent Report, plus all changes in the vote totals as a result of Consents and revocations thereof received after the Preliminary Consent Report Report Date to the time of issuance of the Final Consent Report, if such Consents and revocations thereof are received within seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c), and a certification as to whether the requisite number of shares subject to valid and unrevoked Consents to express the corporate action specified in the Consents was obtained. If the Cut-Off Date is not more than seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c) and the requisite number or shares subject to valid and unrevoked Consents to express the corporate action specified in the Consents was not obtained, then the inspectors shall as promptly as practicable issue a Consent Report to the corporation and the Consent Soliciting Shareholders and a certification that the requisite number of shares subject to valid and unrevoked Consents to express the corporate action specified in the Consents was not obtained, and the corporation or the Consent Soliciting

Shareholders (whichever is soliciting Consents) shall have the right to request again a Preliminary Consent Report in accordance with the provisions of Section 7.02(e).

(g) If the corporation or the Consent Soliciting Shareholders issue written notice to the inspectors and the corporation or the Consent Soliciting Shareholders, as the case may be, of an intention to challenge a Preliminary Consent Report within two (2) Business Days after receipt of the Preliminary Consent Report by the corporation and the Consent Soliciting Shareholders, then challenge session shall be scheduled by the inspectors as promptly as practicable, at which the corporation and the Consent Soliciting Shareholders shall have the right to object to the validity of Consents and revocations thereof. A transcript of the challenge session shall be recorded by a certified court reporter. Following completion of the challenge session, if either (i) the date on which the challenge session is completed (the "Completion Date") is more than seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c) or (ii) the Completion Date is not more than seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c) and the requisite number of shares subject to valid and unrevoked Consents to express the corporate action specified in the Consents was obtained, then the inspectors shall as promptly as practicable issue to the corporation and the Consent Soliciting Shareholders a Final Consent Report, which shall contain the information included in the Preliminary Consent Report, plus all changes in the vote totals as a result of the challenge and, if such Consents and revocations thereof are received within seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c), Consents and revocations thereof received after the Preliminary Consent Report Report Date to the time of issuance of the Final Report, and a certification as to whether the requisite number of shares subject to valid and unrevoked Consents to express the corporate action specified in the Consents was obtained. If the Completion Date is not more than seventy (70) days after the applicable Consent Record Date fixed pursuant to Section 2.05(c) and the requisite number of shares subject to valid and unrevoked Consents to express the corporate action specified in the Consents was not obtained, then the inspectors shall as promptly as practicable issue a Consent Report to the corporation and the Consent Soliciting Shareholders and a certification that the requisite number of shares subject to valid and unrevoked Consents to express the corporate action specified in the Consents was not obtained, and the corporation or the Consent Soliciting Shareholders whichever is soliciting Consents) shall have the right to request again a Preliminary Consent Report in accordance with the provisions of Section 7.02(e).

(h) Simultaneously with the delivery of any Final Consent Report to the corporation pursuant to Section 7.02(f) or Section 7.02(g), the inspectors shall deliver all valid and unrevoked Consents to the corporation, which shall constitute delivery of such Consents to the corporation for purposes of Section 180.0704 of the Wisconsin Business Corporation Law and the Articles of Incorporation. A copy of any Final Consent Report shall be included in the book in which the proceedings of meetings of shareholders are recorded.

(i) As to any Consent, if, prior to the issuance of a Final Consent Report and delivery of Consents to the corporation, all Consent Soliciting Shareholders notify the corporation and the inspectors in writing that such Consent Soliciting Shareholders no longer desire to express consent to the corporate actions specified in the Consents, then the Consents shall be deemed abandoned, and the inspectors shall not issue a Final Consent Report or deliver such Consents to the corporation.

Article VIII. MISCELLANEOUS

8.01 Seal. The Board of Directors may (but shall not be required to) provide a corporate seal.

8.02 Forum for Certain Actions.

(a) Forum. Unless a majority of the Board of Directors, acting on behalf of the corporation, consents in writing to the selection of an alternative forum (which consent may be given at any time, including during the pendency of litigation), the Circuit Court for Rock County, Wisconsin (or, if such Circuit Court does not have jurisdiction, another state court located within the State of Wisconsin or, if no state court located within the State of Wisconsin has jurisdiction, the federal district court for the Western District of Wisconsin), to the fullest extent permitted by law, shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer or other employee of the corporation to the corporation or the corporation's shareholders, (iii) any action asserting a claim against the corporation or any of its directors, officers or other employees arising pursuant to any provision of the Wisconsin Business Corporation Law, these bylaws or the Articles of Incorporation (in each case, as may be amended from time to time), or (iv) any action asserting a claim against the corporation or any of its directors, officers or other employees governed by the internal affairs doctrine of the State of Wisconsin, in all cases subject to the court's having personal jurisdiction over all indispensable parties named as defendants. Unless a majority of the Board, acting on behalf of the corporation, consents in writing to the selection of an alternative forum (which consent may be given at any time, including during the pendency of litigation), the federal district courts of the United States of America, to the fullest extent permitted by law, shall be the sole and exclusive forum for the resolution of any action asserting a cause of action arising under the Securities Act of 1933, as amended.

(b) Personal Jurisdiction. If any action the subject matter of which is within the scope of subparagraph (a) of this Section 8.02 is filed in a court other than a court located within the State of Wisconsin (a "Foreign Action") in the name of any shareholder, such shareholder shall be deemed to have consented to (i) the personal jurisdiction of the state and federal courts located within the State of Wisconsin in connection with any action brought in any such court to enforce subparagraph (a) of this Section 8.02 (an "Enforcement Action") and (ii) having service of process made upon such shareholder in any such Enforcement Action by service upon such shareholder's counsel in the Foreign Action as agent for such shareholder.

(c) Enforceability. If any provision of this Section 8.02 shall be held to be invalid, illegal or unenforceable as applied to any person, entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provision in any other circumstance and of the remaining provisions of this Section 8.02, and the application of such provision to other persons or entities and circumstances shall not in any way be affected or impaired thereby.

(d) Notice and Consent. For the avoidance of doubt, any person or entity purchasing or otherwise acquiring or holding any interest in any security of the corporation shall be deemed to have notice of and consented to the provisions of this Section 8.02.

Article IX. INDEMNIFICATION

9.01 Certain Definitions

. The following capitalized terms (including any plural forms thereof) used in this Article IX shall be defined for purposes of this Article IX as follows:

- (a) “Authority” shall mean the persons or entity selected by the Director or Officer to determine his or her right to indemnification pursuant to Section 9.04.
- (b) “Board” shall mean the entire then elected and serving Board of Directors of the Corporation, including without limitation all members thereof who are Parties to the subject Proceeding or any related Proceeding.
- (c) “Breach of Duty” shall mean the Director or Officer breached or failed to perform his or her duties to the Corporation and his or her breach or failure to perform those duties is determined, in accordance with Section 9.04, to constitute misconduct under Section 180.0851(2)(a) 1, 2, 3 or 4 of the Statute.
- (d) “Corporation,” as used herein and as defined in the Statute and incorporated by reference into the definitions of certain other capitalized terms used herein, shall mean this corporation, including, without limitation, any successor corporation or entity to this corporation by way of merger, consolidation or acquisition of all or substantially all of the capital stock or assets of this corporation.
- (e) “Corporation Affiliate” shall include, without limitation, any corporation, partnership, limited liability company, joint venture, employee benefit plan, trust or other enterprise, whether domestic or foreign, that is an Affiliate (as defined in Section 1.04(d)(i) of these bylaws) of the Corporation.
- (f) “Director or Officer” shall have the meaning set forth in the Statute; provided, that, for purposes of this Article IX, (i) “Director or Officer” shall include a director or officer of a Subsidiary (whether or not otherwise serving as a Director or Officer), (ii) the term “employee benefit plan” as used in Section 180.0850(2)(c) of the Statute shall include an employee benefit plan sponsored, maintained or contributed to by a Subsidiary and (iii) it shall be conclusively presumed that any Director or Officer serving as a director, officer, partner, member, trustee, member of any governing or decision-making committee, manager, employee or agent of a Corporation Affiliate shall be so serving at the request of the Corporation.
- (g) “Disinterested Quorum” shall mean a quorum of the Board who are not Parties to the subject Proceeding or any related Proceeding.
- (h) “Expenses” shall mean and include fees, costs, charges, disbursements, attorney fees and any other expenses incurred in connection with a Proceeding.
- (i) “Liability” shall mean and include the obligation to pay a judgment, settlement, penalty, assessment, forfeiture or fine, including an excise tax assessed with respect to an employee benefit plan, and reasonable Expenses.
- (j) “Party” shall have the meaning set forth in the Statute; provided, that, for purposes of this Article IX, the term “Party” shall also include any Director or Officer or employee of the Corporation who is or was a witness in a Proceeding at a time when he or she has not otherwise been formally named a Party thereto.

(k) “Proceeding” shall have the meaning set forth in the Statute; provided, that, in accordance with Section 180.0859 of the Statute and for purposes of this Article IX, the term “Proceeding” shall include without limitation all Proceedings (i) brought under (in whole or in part) the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, their respective state counterparts, and/or any rule or regulation promulgated under any of the foregoing; (ii) brought before an Authority or otherwise to enforce rights hereunder; (iii) involving any appeal from a Proceeding; and (iv) in which the Director or Officer is a plaintiff or petitioner because he or she is a Director or Officer; provided, however, that any such Proceeding under this subsection (iv) must be authorized by a majority vote of a Disinterested Quorum.

(l) “Statute” shall mean Sections 180.0850 through 180.0859, inclusive, of the Wisconsin Business Corporation Law, Chapter 180 of the Wisconsin Statutes, as the same shall then be in effect, including any amendments thereto, but, in the case of any such amendment, only to the extent such amendment permits or requires the Corporation to provide broader indemnification rights than the Statute permitted or required the Corporation to provide prior to such amendment.

(m) “Subsidiary” shall mean any direct or indirect subsidiary of the Corporation as determined for financial reporting purposes, whether domestic or foreign.

9.02 Mandatory Indemnification of Directors and Officers

To the fullest extent permitted or required by the Statute, the Corporation shall indemnify a Director or Officer against all Liabilities incurred by or on behalf of such Director or Officer in connection with a Proceeding in which the Director or Officer is a Party because he or she is a Director or Officer.

9.03 Procedural Requirements

(a) A Director or Officer who seeks indemnification under Section 9.02 shall make a written request therefor to the Corporation. Subject to Section 9.03(b), within 60 days of the Corporation’s receipt of such request, the Corporation shall pay or reimburse the Director or Officer for the entire amount of Liabilities incurred by the Director or Officer in connection with the subject Proceeding (net of any Expenses previously advanced pursuant to Section 9.05).

(b) No indemnification shall be required to be paid by the Corporation pursuant to Section 9.02 if, within such 60-day period, (i) a Disinterested Quorum, by a majority vote thereof, determines that the Director or Officer requesting indemnification engaged in misconduct constituting a Breach of Duty or (ii) a Disinterested Quorum cannot be obtained.

(c) In case of nonpayment pursuant to Section 9.03(b), the Board shall immediately authorize by resolution that an Authority, as provided in Section 9.04, determine whether the Director’s or Officer’s conduct constituted a Breach of Duty and, therefore, whether indemnification should be denied hereunder.

(d) (i) If the Board does not authorize an Authority to determine the Director’s or Officer’s right to indemnification hereunder within such 60-day period and/or (ii) if indemnification of the requested amount of Liabilities is paid by the Corporation, then it shall be conclusively presumed for all purposes that a Disinterested Quorum has affirmatively determined

that the Director or Officer did not engage in misconduct constituting a Breach of Duty and, in the case of subsection (i) above (but not subsection (ii)), indemnification by the Corporation of the requested amount of Liabilities shall be paid to the Director or Officer immediately.

9.04 Determination of Indemnification

(a) If the Board authorizes an Authority to determine a Director's or Officer's right to indemnification pursuant to Section 9.03, then the Director or Officer requesting indemnification shall have the absolute discretionary authority to select one of the following as such Authority:

(i) An independent legal counsel; provided, that such counsel shall be mutually selected by such Director or Officer and by a majority vote of a Disinterested Quorum or, if a Disinterested Quorum cannot be obtained, then by a majority vote of the Board;

(ii) A panel of three arbitrators selected from the panels of arbitrators of the American Arbitration Association in Wisconsin; provided, that (A) one arbitrator shall be selected by such Director or Officer, the second arbitrator shall be selected by a majority vote of a Disinterested Quorum or, if a Disinterested Quorum cannot be obtained, then by a majority vote of the Board, and the third arbitrator shall be selected by the two previously selected arbitrators, and (B) in all other respects (other than this Article IX), such panel shall be governed by the American Arbitration Association's then existing Commercial Arbitration Rules; or

(iii) A court pursuant to and in accordance with Section 180.0854 of the Statute.

(b) In any such determination by the selected Authority, there shall exist a rebuttable presumption that the Director's or Officer's conduct did not constitute a Breach of Duty and that indemnification against the requested amount of Liabilities is required. The burden of rebutting such a presumption by clear and convincing evidence shall be on the Corporation or such other party asserting that such indemnification should not be allowed.

(c) The Authority shall make its determination within 60 days of being selected and shall submit a written opinion of its conclusion simultaneously to both the Corporation and the Director or Officer.

(d) If the Authority determines that indemnification is required hereunder, then the Corporation shall pay the entire requested amount of Liabilities (net of any Expenses previously advanced pursuant to Section 9.05), including interest thereon at a reasonable rate, as determined by the Authority, within 10 days of receipt of the Authority's opinion; provided, that, if it is determined by the Authority that a Director or Officer is entitled to indemnification against Liabilities incurred in connection with some claims, issues or matters, but not as to other claims, issues or matters involved in the subject Proceeding, then the Corporation shall be required to pay (as set forth above) only the amount of such requested Liabilities as the Authority shall deem appropriate in light of all of the circumstances of such Proceeding.

(e) The determination by the Authority that indemnification is required hereunder shall be binding upon the Corporation, regardless of any prior determination that the Director or Officer engaged in a Breach of Duty.

(f) All Expenses incurred in the determination process under this Section 9.04 by either the Corporation or the Director or Officer, including, without limitation, all Expenses of the selected Authority, shall be paid by the Corporation.

9.05 Mandatory Allowance of Expenses

(a) The Corporation shall pay or reimburse from time to time or at any time, within 10 days after the receipt of the Director's or Officer's written request therefor, the reasonable Expenses of the Director or Officer as such Expenses are incurred; provided, the following conditions are satisfied:

(b) The Director or Officer furnishes to the Corporation an executed written certificate affirming his or her good faith belief that he or she has not engaged in misconduct which constitutes a Breach of Duty; and

(c) The Director or Officer furnishes to the Corporation an unsecured executed written agreement to repay any advances made under this Section 9.05 if it is ultimately determined by an Authority that he or she is not entitled to be indemnified by the Corporation for such Expenses pursuant to Section 9.04.

(d) If the Director or Officer must repay any previously advanced Expenses pursuant to this Section 9.05, then such Director or Officer shall not be required to pay interest on such amounts.

9.06 Indemnification and Allowance of Expenses of Certain Others

(a) The Board may, in its sole and absolute discretion as it deems appropriate, pursuant to a majority vote thereof, indemnify a director or officer of a Corporation Affiliate (who is not otherwise serving as a Director or Officer) against all Liabilities, and shall advance the reasonable Expenses, incurred by such director or officer in a Proceeding to the same extent hereunder as if such director or officer incurred such Liabilities because he or she was a Director or Officer, if such director or officer is a Party thereto because he or she is or was a director or officer of the Corporation Affiliate.

(b) The Corporation shall indemnify an employee who is not a Director or Officer, to the extent he or she has been successful on the merits or otherwise in defense of a Proceeding, for all reasonable Expenses incurred in the Proceeding if the employee was a Party because he or she was an employee of the Corporation.

(c) The Board may, in its sole and absolute discretion as it deems appropriate, pursuant to a majority vote thereof, indemnify (to the extent not otherwise provided in Section 9.06(b)) against Liabilities incurred by, and/or provide for the allowance of reasonable Expenses of, an employee or authorized agent of the Corporation acting within the scope of his or her duties as such and who is not a Director or Officer.

9.07 Insurance

. The Corporation may purchase and maintain insurance on behalf of a Director or Officer or any individual who is or was an employee or authorized agent of the Corporation against any Liability asserted against or incurred by such individual in his or her capacity as such or arising from his or her status as such, regardless of whether the Corporation is required or permitted to indemnify against any such Liability under this Article IX.

9.08 Notice to the Corporation

. A Director or Officer or an employee of the Corporation shall promptly notify the Corporation in writing when he or she has actual knowledge of a Proceeding that may result in a claim of indemnification against Liabilities or allowance of Expenses hereunder, but the failure to do so shall not relieve the Corporation of any liability to the Director or Officer or employee hereunder unless the Corporation shall have been irreparably prejudiced by such failure (as determined, in the case of Directors or Officers only, by an Authority selected pursuant to Section 9.04(a)).

9.09 Severability

. If any provision of this Article IX shall be deemed invalid or inoperative, or if a court of competent jurisdiction determines that any of the provisions of this Article IX contravene public policy, then this Article IX shall be construed so that the remaining provisions shall not be affected, but shall remain in full force and effect, and any such provisions which are invalid or inoperative or which contravene public policy shall be deemed, without further action or deed by or on behalf of the Corporation, to be modified, amended and/or limited, but only to the extent necessary to render the same valid and enforceable; it being understood that it is the Corporation's intention to provide Directors and Officers with the broadest possible protection against personal liability allowable under the Statute.

9.10 Nonexclusivity of Article IX

. The rights of a Director or Officer or an employee of the corporation (or any other person) granted under this Article IX shall not be deemed exclusive of any other rights to indemnification against Liabilities or allowance of Expenses which the Director or Officer or employee of the corporation (or such other person) may be entitled to under any written agreement, board resolution, vote of shareholders of the corporation or otherwise, including, without limitation, under the Statute. Nothing contained in this Article IX shall be deemed to limit the corporation's obligations to indemnify against Liabilities or allow Expenses to a Director or Officer or an employee of the corporation under the Statute.

9.11 Contractual Nature of Article IX; Repeal or Limitation of Rights

. This Article IX shall be deemed to be a contract between the Corporation and each Director or Officer and employee of the Corporation and any repeal or other limitation of this Article IX or any repeal or limitation of the Statute or any other applicable law shall not limit any rights of indemnification against Liabilities or allowance of Expenses then existing or arising out of events, acts or omissions occurring prior to such repeal or limitation, including, without limitation, the right to indemnification against Liabilities or allowance of Expenses for Proceedings commenced after such repeal or limitation to enforce this Article IX with regard to acts, omissions or events arising prior to such repeal or limitation. If the Statute is amended to permit or require the Corporation to provide broader indemnification rights than this Article IX

permits or requires, then this Article IX shall be automatically amended and deemed to incorporate such broader indemnification rights.

Article X. AMENDMENTS

10.01 By Shareholders

. These bylaws may be altered, amended or repealed and new bylaws may be adopted by the shareholders at any Annual Meeting or Special Meeting at which a quorum is in attendance.

10.02 By Directors

. These bylaws may also be altered, amended or repealed and new bylaws may be adopted by the Board of Directors by affirmative vote of a majority of the number of directors present at any meeting at which a quorum is in attendance; provided, however, that the shareholders in adopting, amending or repealing a particular bylaw may provide therein that the Board of Directors may not amend, repeal or readopt that bylaw.

10.03 Implied Amendments

. Any action taken or authorized by the shareholders or by the Board of Directors, which would be inconsistent with the bylaws then in effect but is taken or authorized by affirmative vote of not less than the number of shares or the number of directors required to amend the bylaws so that the bylaws would be consistent with such action, shall be given the same effect as though the bylaws had been temporarily amended or suspended so far, but only so far, as is necessary to permit the specific action so taken or authorized.

Article XI. INTERPRETATION

11.01 Interpretation

. Unless the context requires otherwise, all words used in these bylaws in the singular number extend to and include the plural, all words in the plural number extend to and include the singular, and all words in any gender extend to and include all genders.

Exhibit 18

March 2, 2021

To the Board of Directors and Shareholders of
Regal Beloit Corporation
200 State Street
Beloit, WI 53511

Dear Sirs/Madams:

We have audited the consolidated financial statements of Regal Beloit Corporation and its consolidated subsidiaries as of January 2, 2021 and December 28, 2019, and for each of the three fiscal years in the period ended January 2, 2021, included in your Annual Report on Form 10-K to the Securities and Exchange Commission and have issued our report thereon dated March 2, 2021, which expresses an unqualified opinion and includes an explanatory paragraph concerning the adoption of a new accounting standard (Accounting Standard Update No. 2016-02). Note 3 to such consolidated financial statements contains a description of your change in accounting principle during the year ended January 2, 2021 for inventories using the Last-in, First-out (“LIFO”) method by increasing the number of LIFO inventory pools from three to four. In our judgment, such change is to an alternative accounting principle that is preferable under the circumstances.

Yours truly,

/s/ DELOITTE & TOUCHE LLP

Milwaukee, WI

REGAL BELOIT CORPORATION
SIGNIFICANT SUBSIDIARIES
AS OF
JANUARY 2, 2021

Significant Subsidiary	State/Country of Incorporation
Marathon Electric India Pvt. Ltd.	India
Regal Beloit Italy SPA	Italy
RBC Foreign Manufacturing BV	The Netherlands
Regal Beloit (Changzhou) Co., Ltd.	China
Regal Beloit Electrical Products (Suzhou) Co., Ltd.	China
Regal Beloit (Wuxi) Co., Ltd.	China
Regal Beloit America, Inc.	Wisconsin
Regal Beloit Spain SA	Spain
Rotor Beheer BV	The Netherlands
System Plast Srl	Italy

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-142743, 333-193414, 333-204645 and 333-224831 on Form S-8 of our reports dated March 2, 2021, relating to the consolidated financial statements and financial statement schedule of Regal Beloit Corporation and subsidiaries, and the effectiveness of Regal Beloit Corporation and subsidiaries' internal control over financial reporting, appearing in the Annual Report on Form 10-K of Regal Beloit Corporation for the year ended January 2, 2021.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin
March 2, 2021

Exhibit 31.1

**Certification of Chief Executive Officer Pursuant to Section 302 of the
Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a)
Under the Securities and Exchange Act of 1934**

I, Louis V. Pinkham, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended January 2, 2021 of Regal Beloit Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 2, 2021

REGAL BELOIT CORPORATION

By: _____ /s/ Louis V. Pinkham

Louis V. Pinkham
Director and Chief Executive Officer

Exhibit 31.2

**Certification of Chief Financial Officer Pursuant to Section 302 of the
Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a)
Under the Securities and Exchange Act of 1934**

I, Robert J. Rehard, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended January 2, 2021 of Regal Beloit Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 2, 2021

REGAL BELOIT CORPORATION

By: _____ /s/ Robert J. Rehard

Robert J. Rehard
Vice President and Chief Financial Officer

EXHIBIT 32.1

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Regal Beloit Corporation (the "Company"), hereby certify, based on our knowledge, that the Annual Report on Form 10-K of the Company for the year ended January 2, 2021 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Louis V. Pinkham

Louis V. Pinkham
Chief Executive Officer

/s/ Robert J. Rehard

Robert J. Rehard
Vice President and Chief Financial Officer

Date: March 2, 2021