

## **REGAL BELOIT CORPORATION**

### **Corporate Governance Guidelines**

The following Corporate Governance Guidelines (these “Guidelines”) have been approved by the Board of Directors (the “Board”) of Regal Beloit Corporation (the “Company”), and with the Company’s bylaws, key practices and Committee Charters provide the framework for the governance of the Company. The Board recognizes that there is an ongoing need to review these principles/guidelines and other aspects of governance and will, through its Corporate Governance and Directors Affairs Committee, review them periodically and update them as necessary.

These guidelines do not replace the legal obligations of the Board, but are intended to facilitate the efficient execution of such obligations.

#### **1. Management and the Board’s Role**

Regal Beloit’s business is conducted by its employees, managers and officers, under the direction of the Chief Executive Officer (CEO) to enhance the long-term value of the Company for its shareholders. The Board is elected by the shareholders to oversee Management and to ensure that the long-term interest of the shareholders is being served.

#### **2. Board Functions/Responsibilities**

The Board represents and acts on behalf of all shareholders of the Company. The Board is responsible for establishing and helping the Company achieve business and organizational objectives through oversight, review and counsel. In addition to its general oversight of Management, the Board also performs a number of specific functions, including:

- a. Approves and monitors critical business and financial strategies of the Company.
- b. Assess major risks facing the Company and options for their mitigation.
- c. Approves and monitors major corporate actions.
- d. Oversees processes designed to ensure compliance with applicable laws, regulations, and the Company’s Business Conduct and Ethical Behavior Policy.
- e. Oversees processes designed to ensure the accuracy and completeness of the Company’s financial statements.
- f. Monitors the effectiveness of the Company’s internal controls.
- g. Selects, evaluates, and sets appropriate compensation for the CEO.
- h. Oversees succession planning for the CEO position.
- i. Reviews the recommendations of Company Management for and elects the Company’s principal officers.
- j. Oversees the compensation of the Company’s principal officers elected by the Board.

### 3. The Directors

- a. **Qualifications.** The Board will endeavor to attract and nominate directors with a diverse set of skills and experience with a background in areas that are relevant to the Company's activities. The criteria for director nominees established by the Board are set forth in Appendix A to these Guidelines.
- b. **Director Retirement.** Directors shall terminate their service on the day and hour of the Annual Shareholders Meeting next following the attainment of age 72.
- c. **Stock Ownership Guidelines.** Directors are expected to own, no later than five years after his or her election to the Board, shares of the Company's common stock with a value of not less than five times the annual retainer paid by the Company to such Director.
- e. **Director Orientation and Continuing Education.** New Directors participate in a Directors Orientation Program administered under the direction of the Directors Corporate Governance and Directors Affairs Committee. All Directors should endeavor to participate in educational opportunities in any area pertinent to the Company or such Director's committee assignment(s). From time to time, the Company will provide Board members with presentations from Company and/or third party experts on topics that will assist Board members in carrying out their responsibilities.
- f. **Director Resignation.** Each non-employee Director will tender his or her offer of voluntary resignation upon a change in position or responsibility in his or her principal occupation, business association, or employer, subject to review by the Corporate Governance and Director Affairs Committee and, in turn, by the Board. In such circumstances, the Board may reject or accept the Director's tender of an offer of resignation.
- g. **Director Notification.** Directors will provide advance notice to the Chairman of the Board and the Chairperson of the Corporate Governance and Director Affairs Committee of his or her acceptance of an invitation to serve on the Board of Directors of any other publicly traded company.
- h. **Limitation on Other Public Board Service.** No Director may serve on the board of directors of more than three (3) public companies without the prior approval of the Company's Board of Directors.
- i. **Shareholder Election of Appointed Director.** Any individual who is appointed by the Board of Directors to serve as a Director of the Company shall stand for re-election by the Company's shareholders at the next annual meeting of the Company's shareholders following the Director's appointment.

#### 4. **The Board and its Committees**

- a. **Board Size.** The Board presently consists of nine Directors. Two Directors are members of Management and not considered independent. The number of Directors and their election to the Board will be in compliance with the Company's bylaws, and not less than a majority of the Board will be independent as such term is defined by the rules of the Securities and Exchange Commission (SEC) or the stock exchange on which the Company stock is traded. The Board has established the categorical standards set forth in Appendix B to these Guidelines to assist it in determining director independence. Typically, three Directors stand for election each year. Elected Directors are elected for three-year terms.
- b. **Board Access to Management and Independent Advisors.** Management: Non-employee members of the Board are encouraged to contact and/or meet with Company employees without principal officers being present for purposes of gathering information. However, no individual director should give direction to Company employees during these meetings; such direction should be provided by the full Board to the Company's CEO. Independent Advisors: The Board will hire such independent advisors, including attorneys, accountants, investment bankers, as it deems necessary or appropriate.
- c. **Number of Meetings.** The Board meets regularly in January, April, July, and October. The Board may also meet at any other time it deems necessary. Special meetings may be held in person, by telephone, or other form of interactive electronic communication.
- d. **Board Committees.** There presently are three committees of the Board—the Audit Committee, the Compensation and Human Resources Committee, and the Corporate Governance and Directors Affairs Committee. Each committee consists of not less than three Directors, and the Board designates one member of each committee as its chairperson. Only outside independent Directors serve on the Board committees. Each committee meets as it determines necessary to carry out its duties and responsibilities. To the extent practical, committee meetings are held in conjunction with regularly scheduled Board meetings. The Board may establish additional committees or subcommittees as appropriate.
- e. **Executive Sessions.** The Board shall have at least four regularly scheduled executive sessions a year for the non-employee directors to meet without members of the Company's management being present, which executive sessions may be scheduled with each regularly scheduled meeting of the Board of Directors or otherwise as the Board may deem necessary. The Presiding Director shall preside over each executive session. The position of the Presiding Director shall rotate periodically among the non-employee directors as determined by the Board upon the

recommendation of the Corporate Governance and Director Affairs Committee.

- f. Board Evaluations.** The Board, and each of its committees, will conduct a yearly self-evaluation of their performance and report the results of this evaluation to the full Board.
- g. Nominating Committee.** The Corporate Governance and Director Affairs Committee serves as the nominating committee for the Board. The process and procedures the Committee applies to this responsibility is set forth in Section 5 below.
- h. Board Compensation.** The Corporate Governance and Directors Affairs Committee has the responsibility for recommending to the Board compensation and benefits for non-employee Directors. The committee reviews comparative compensation data and information as it relates to the Directors' compensation, and makes a recommendation to the full Board. The data may be supplied by an outside consultant or obtained through other forms of public information. Compensation of Directors is approved by the full Board. In making its recommendations to the full Board concerning the compensation of Board members, the Committee should consider the following goals:

  - 1. Board members should be fairly compensated for the work involved in overseeing the management of a company the size and scope of Regal Beloit.
  - 2. Board member compensation should be competitive with director compensation at other U.S. companies the size and scope of Regal-Beloit.
  - 3. Board member compensation should align Board members interests with the long-term interests of the Company's shareholders.
- i. Audit Committee Service.** No member of the Audit Committee may serve on the audit committees of more than three (3) public companies without the prior approval of the Company's Board of Directors.

## **5. Nomination Process**

- a.** The Board seeks candidates possessing the relevant experience and skills the Company needs when evaluating potential new Board members.
- b.** The Corporate Governance and Director Affairs Committee may identify qualified candidates in a variety of ways including consulting with other Board members, engaging an outside search firm or by seeking individual referrals from associates or from industry or professional organizations.

The Committee shall be responsible for applying such general and specific criteria for Board membership as shall have been approved by the Board. The criteria for director nominees established by the Board are set forth in Appendix A to these Guidelines.

- c. The Committee will review recommendations for director nominees from any shareholder beneficially owning or group of shareholders beneficially owning in the aggregate, at least 5% of the issued and outstanding common stock of the Company for at least one year as of the date that the recommendation was made (a “Qualified Shareholder”). Any Qualified Shareholder must submit its recommendation not later than the 120<sup>th</sup> calendar day before the date of the Company’s proxy statement released to the shareholders in the previous year’s annual meeting, for the recommendation to be considered by the Corporate Governance and Director Affairs Committee. In considering any timely submitted recommendation from a Qualified Shareholder, the Committee shall have sole discretion as to whether to nominate the individual recommended by the Qualified Shareholder, except that in no event will a candidate recommended by the Qualified Shareholder who is not “independent” as defined in the New York Stock Exchange listing standards and who does not meet the minimum expectations for a director set forth in the Appendix A of these Guidelines, be recommended for nomination by the Corporate Governance and Director Affairs Committee.

(updated 01/31/09)

**REGAL BELOIT CORPORATION  
CRITERIA FOR DIRECTOR NOMINEES**

In making recommendations to the Company's Board of Directors of nominees to serve as directors, the Corporate Governance and Director Affairs Committee will examine each director nominee on a case-by-case basis regardless of who recommended the nominee and take into account all factors it considers appropriate, which may include strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge. However, the Board of Directors believes the following minimum qualifications must be met by a director nominee to be recommended by the Corporate Governance and Director Affairs Committee:

1. Each director must display the highest personal and professional ethics, integrity and values.
2. Each director must have the ability to exercise sound business judgment.
3. Each director must be accomplished in his or her respective field, and have broad experience at the administrative and/or policy-making level in business, government, education, technology or public interest.
4. Each director must be independent of any particular constituency, be able to represent all shareholders of the Company and be committed to enhancing long-term shareholder value.
5. Each director must have sufficient time available to devote to activities of the Board of Directors and to enhance his or her knowledge of the Company's business.

The Board of Directors also believes the following qualities or skills are necessary for one or more directors to possess:

- A. At least one director should have the requisite experience and expertise to be designated as an "audit committee financial expert" as defined by applicable rules of the Securities and Exchange Commission.
- B. One or more of the directors generally should be active or former chief executive officers of public companies or leaders of major complex organizations including commercial, scientific, governmental, educational and other similar institutions.
- C. Directors should be selected so that the Board of Directors represents diverse backgrounds and perspectives.

**REGAL BELOIT CORPORATION  
CRITERIA FOR DETERMINING DIRECTOR INDEPENDENCE**

The Board of Directors has established categorical standards to assist it in making determinations of director independence. Under these categorical standards, the following relationships that currently exist or that have existed, including during the preceding three years, will not be considered to be material relationships that would impair a director's independence:

1. An immediate family member of the director is an employee (other than an executive officer) of the Company;
2. A director, or a family member of the director, receives or received less than \$100,000 during any twelve-month period in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided that such compensation is not contingent in any way on continued service with the Company); provided, however, that compensation received by a director for former service as an interim Chairman or Chief Executive Officer or other executive officer of the Company need not be considered in determining independence under this test; and provided, further, that compensation received by an immediate family member of the director for service as an employee of the Company (other than an executive officer) need not be considered in determining independence under this test;
3. (A) A director, or a family member of the director, is a former partner or employee of the Company's internal or external auditor but did not personally work on the Company's audit within the last three years; or (B) a family member of a director is employed by an internal or external auditor of the Company but does not participate in such auditor's audit, assurance or tax compliance practice;
4. A director, or a family member of the director, is or was an employee, other than an executive officer, of another company where any of the Company's present executives serve on that company's compensation committee;
5. A director is or was an executive officer, employee or director of, or has or had any other relationship (including through a family member) with, another company, that makes payments (other than contributions to tax exempt organizations) to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, does not exceed the greater of \$1 million or 2% of such other company's consolidated gross revenues; provided, however, that in applying this test, both the payments and the consolidated gross revenues to be measured shall be those reported in the last completed fiscal year; and provided, further, that this test applies solely to the financial relationship between the Company and the director's (or immediate

- family member's) current employer — the Company need not consider former employment of the director or immediate family member;
6. A family member of the director, other than his or her spouse, is an employee of a company that has a relationship with the Company, but the family member is not an executive officer of that company;
  7. A family member of the director has a relationship with the Company, but the family member is not an immediate family member of the director;
  8. The director, or an immediate family member of the director, was an executive officer of another company that was indebted to the Company, or to which the Company was indebted, but the total amount of either company's indebtedness to the other was less than 2% of the total consolidated assets of the company for which the director, or an immediate family member of the director, served as an executive officer;
  9. A director is or was an executive officer, employee or director of, or has or had any other relationship (including through a family member) with, a tax exempt organization to which the Company's and its foundation's contributions in any single fiscal year do not exceed the greater of \$1 million or 2% of such organization's consolidated gross revenues; or
  10. A director is a shareholder of the Company.

For purposes of the foregoing, an "immediate family member" shall be deemed to include a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home; provided, however, that when applying the three-year "look-back" provisions of the foregoing tests, the Company need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

For relationships not covered by the categorical standards set forth above, the determination of whether the relationship is material or not, and therefore whether the director would be independent or not, shall be made by the directors who satisfy the categorical standards set forth above. The Company must identify which directors are independent and disclose the basis for that determination in the next proxy statement.

In addition, the Company shall disclose in its annual proxy statement any contributions made by the Company to any tax exempt organization in which any independent director serves as executive officer if, within the preceding three years, contributions in any single year from the Company exceeded the greater of \$1 million or 2% of such charitable organization's consolidated gross revenues.