

RBC Bearings INC  
Form 10-Q  
February 08, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended December 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to .

Commission File Number: 333-124824

RBC Bearings Incorporated

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

95-4372080  
(I.R.S. Employer Identification No.)

One Tribology Center  
Oxford, CT  
(Address of principal executive offices)

06478  
(Zip Code)

(203) 267-7001  
(Registrant's telephone number, including area code)

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of January 30, 2012, RBC Bearings Incorporated had 22,081,438 shares of Common Stock outstanding.

TABLE OF CONTENTS

Part I -	FINANCIAL INFORMATION	3
ITEM 1.	Unaudited Consolidated Financial Statements	3
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	20
ITEM 4.	Controls and Procedures	21
	Changes in Internal Control over Financial Reporting	21
Part II -	OTHER INFORMATION	22
ITEM 1.	Legal Proceedings	22
ITEM 1A.	Risk Factors	22
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	22
ITEM 6.	Exhibits	23

## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**RBC Bearings Incorporated****Consolidated Balance Sheets****(dollars in thousands, except share and per share data)**

	December 31, 2011 (Unaudited)	April 2, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 59,711	\$63,975
Short-term investments	—	3,912
Accounts receivable, net of allowance for doubtful accounts of \$1,574 at December 31, 2011 and \$1,490 at April 2, 2011	62,894	60,095
Inventory	161,641	144,175
Deferred income taxes	10,647	9,145
Prepaid expenses and other current assets	3,747	4,040
Total current assets	298,640	285,342
Property, plant and equipment, net	90,006	88,408
Goodwill	34,713	34,713
Intangible assets, net of accumulated amortization of \$8,887 at December 31, 2011 and \$7,810 at April 2, 2011	11,539	12,121
Other assets	5,681	5,398
Total assets	\$ 440,579	\$425,982
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 25,539	\$24,245
Accrued expenses and other current liabilities	19,515	14,760
Current portion of long-term debt	1,104	30,546
Total current liabilities	46,158	69,551
Long-term debt, less current portion	—	750
Deferred income taxes	6,383	6,591
Other non-current liabilities	20,942	19,023
Total liabilities	73,483	95,915

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Stockholders' equity:

Preferred stock, \$.01 par value; authorized shares: 10,000,000 at December 31, 2011 and April 2, 2011; none issued and outstanding	—	—
Common stock, \$.01 par value; authorized shares: 60,000,000 at December 31, 2011 and April 2, 2011; issued and outstanding shares: 22,278,695 at December 31, 2011 and 22,092,011 at April 2, 2011	223	221
Additional paid-in capital	203,228	197,644
Accumulated other comprehensive gain/(loss)	(79	) 2,380
Retained earnings	169,866	135,395
Treasury stock, at cost, 200,957 shares at December 31, 2011 and 186,658 shares at April 2, 2011	(6,142	) (5,573 )
Total stockholders' equity	367,096	330,067
Total liabilities and stockholders' equity	\$ 440,579	\$425,982

See accompanying notes.

**RBC Bearings Incorporated****Consolidated Statements of Operations****(dollars in thousands, except share and per share data)****(Unaudited)**

	Three Months Ended		Nine Months Ended	
	December 31, 2011	January 1, 2011	December 31, 2011	January 1, 2011
Net sales	\$95,104	\$81,258	\$286,188	\$246,727
Cost of sales	61,478	55,294	186,782	167,272
Gross margin	33,626	25,964	99,406	79,455
Operating expenses:				
Selling, general and administrative	15,009	13,328	44,780	38,808
Other, net	413	432	1,042	508
Total operating expenses	15,422	13,760	45,822	39,316
Operating income	18,204	12,204	53,584	40,139
Interest expense, net	249	375	935	1,165
Other non-operating expense	36	456	557	1,273
Income before income taxes	17,919	11,373	52,092	37,701
Provision for income taxes	5,752	3,987	17,621	12,700
Net income	\$12,167	\$7,386	\$34,471	\$25,001
Net income per common share:				
Basic	\$0.56	\$0.34	\$1.58	\$1.16
Diluted	\$0.54	\$0.33	\$1.54	\$1.14
Weighted average common shares:				
Basic	21,894,128	21,690,144	21,860,593	21,641,997
Diluted	22,449,793	22,113,754	22,351,940	22,027,525

See accompanying notes.

**RBC Bearings Incorporated****Consolidated Statements of Cash Flows****(dollars in thousands)****(Unaudited)**

	Nine Months Ended	
	December 31,	January 1,
	2011	2011
Cash flows from operating activities:		
Net income	\$34,471	\$ 25,001
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,530	8,712
Excess tax benefits from stock-based compensation	(791 )	(824 )
Deferred income taxes	(1,709 )	(1,665 )
Amortization of intangible assets	1,112	1,055
Amortization of deferred financing costs	244	220
Stock-based compensation	3,121	3,040
Gain on disposition or sale of assets	(62 )	(1,066 )
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(2,846 )	1,506
Inventory	(17,781 )	(2,355 )
Prepaid expenses and other current assets	297	3,407
Other non-current assets	(1,345 )	(453 )
Accounts payable	1,341	1,125
Accrued expenses and other current liabilities	5,751	3,750
Other non-current liabilities	637	(1,078 )
Net cash provided by operating activities	31,970	40,375
Cash flows from investing activities:		
Purchase of property, plant and equipment	(11,299 )	(7,252 )
Purchase of short-term investments	—	(1,693 )
Proceeds from sale or maturities of short-term investments	3,883	857
Proceeds from sale of assets	162	2,379
Net cash used in investing activities	(7,254 )	(5,709 )
Cash flows from financing activities:		
Net decrease in revolving credit facility	(30,000 )	(7,000 )
Exercise of stock options	1,673	2,420
Excess tax benefits from stock-based compensation	791	824
Repurchase of common stock	(569 )	(439 )
Financing fees paid in connection with senior credit facility	—	(1,389 )
Other, net	(238 )	(273 )
Net cash used in financing activities	(28,343 )	(5,857 )
Effect of exchange rate changes on cash	(637 )	2,507

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Cash and cash equivalents:		
Increase (decrease) during the period	(4,264 )	31,316
Cash, at beginning of period	63,975	21,389
Cash, at end of period	\$59,711	\$ 52,705

See accompanying notes.



## **RBC Bearings Incorporated**

### **Notes to Unaudited Interim Consolidated Financial Statements**

**(dollars in thousands, except share and per share data)**

The consolidated financial statements included herein have been prepared by RBC Bearings Incorporated, a Delaware corporation (collectively with its subsidiaries, the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The April 2, 2011 fiscal year end balance sheet data have been derived from the Company’s audited financial statements, but do not include all disclosures required by generally accepted accounting principles in the United States. The interim financial statements included with this report have been prepared on a consistent basis with the Company’s audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 2, 2011.

These statements reflect all adjustments, accruals and estimates consisting only of items of a normal recurring nature, which are, in the opinion of management, necessary for the fair presentation of the consolidated financial condition and consolidated results of operations for the interim periods presented. These financial statements should be read in conjunction with the Company’s audited financial statements and notes thereto included in the Annual Report on Form 10-K.

The results of operations for the three and nine month periods ended December 31, 2011 are not necessarily indicative of the operating results for the full year. The nine month periods ended December 31, 2011 and January 1, 2011 each include 39 weeks. The amounts shown are in thousands, unless otherwise indicated.

#### *Adoption of Recent Accounting Pronouncements*

In October 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2009-13, “Multiple-Deliverable Revenue Arrangements.” This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor’s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require disclosure of the significant judgments made and changes to those judgments and how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. This new ASU did not have an impact on the determination or reporting of the Company’s financial results for the three and nine

month periods ended December 31, 2011.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This update, which will become effective for interim and annual periods beginning after December 15, 2011, requires additional disclosures about the transfers between Level 1 and Level 2 of the fair value hierarchy, the sensitivity of unobservable inputs to the fair value measurements within Level 3 of the fair value hierarchy, and disclosure of the categorization by level of the fair value hierarchy for items for which fair value disclosure is required but that are not measured at fair value in the statement of financial position. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income." This update requires that an entity elect to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The amendments in this Update should be applied retrospectively and are effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, “Intangibles – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment (revised standard).” The revised standard is intended to reduce the costs and complexity of the annual goodwill impairment test by providing entities an option to perform a “qualitative” assessment to determine whether further impairment testing is necessary. This ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company will consider this new guidance as it conducts its annual goodwill impairment testing in its fiscal year beginning April 1, 2012.

## 1. Disposition

On June 28, 2010, RBC France SAS, a subsidiary of Schaublin SA, sold certain assets relating to its J. Bovagnet sales branch. The assets sold included the trade name, inventory, equipment, and a building. Simultaneously, Schaublin SA entered into a long-term distribution agreement for the continued distribution of Schaublin products by the J. Bovagnet sales operation into a defined territory. A gain of \$1,066 was realized from the sale of the assets in the three month period ended July 3, 2010.

## 2. Net Income Per Common Share

Basic net income per common share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding.

Diluted net income per common share is computed by dividing net income by the sum of the weighted-average number of common shares and dilutive common share equivalents then outstanding using the treasury stock method. Common share equivalents consist of the incremental common shares issuable upon the exercise of stock options.

The table below reflects the calculation of weighted-average shares outstanding for each period presented as well as the computation of basic and diluted net income per common share:

	Three Months Ended December 31, January 1, 2011		Nine Months Ended December 31, January 1, 2011	
Net income	\$12,167	\$7,386	\$34,471	\$25,001
	21,894,128	21,690,144	21,860,593	21,641,997

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Denominator for basic net income per common share—weighted-average shares outstanding				
Effect of dilution due to employee stock options	555,665	423,610	491,347	385,528
Denominator for diluted net income per common share — weighted-average shares outstanding	22,449,793	22,113,754	22,351,940	22,027,525
Basic net income per common share	\$0.56	\$0.34	\$1.58	\$1.16
Diluted net income per common share	\$0.54	\$0.33	\$1.54	\$1.14

Basic weighted-average common shares do not include 161,612 and 107,645 unvested restricted stock shares at December 31, 2011 and January 1, 2011, respectively.

At December 31, 2011, 15,100 employee stock options have been excluded from the calculation of diluted earnings per share, as the inclusion of these shares would be anti-dilutive. 33,000 such options were excluded at January 1, 2011.

### 3. Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

### 4. Short-term Investments

Short-term investments include corporate bonds that are classified as available-for-sale expected to be sold within the next twelve months. These bonds, with an amortized basis of \$0 and \$3,804 at December 31, 2011 and April 2, 2011 respectively, were measured at fair value by using quoted prices in active markets for identical assets and are classified as Level 1 of the valuation hierarchy. All such bonds reached their respective maturities as of July 2011. Corporate bonds in the amount of \$3,799 were either sold or matured during the nine month period ended December 31, 2011. As a result, the Company recognized a gain of \$84 which was recorded in other non-operating expense in the nine month period ended December 31, 2011.

### 5. Inventory

Inventories are stated at the lower of cost or market, using the first-in, first-out method, and are summarized below:

	December 31, 2011	April 2, 2011
Raw materials	\$ 15,852	\$ 12,594
Work in process	39,622	35,709
Finished goods	106,167	95,872
	\$ 161,641	\$ 144,175

### 6. Intangible Assets

	December 31, 2011		April 2, 2011	
Weighted Average Useful Lives	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization

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Product approvals	15	\$ 6,110	\$ 2,107	\$6,189	\$ 1,819
Customer relationships and lists	10	5,543	2,889	5,558	2,578
Trade names	11	1,382	937	1,387	840
Distributor agreements	5	722	722	722	722
Patents and trademarks	13	5,256	1,252	4,658	917
Domain names	12	437	161	437	124
Other	5	976	819	980	810
Total		\$ 20,426	\$ 8,887	\$19,931	\$ 7,810

Amortization expense for definite-lived intangible assets for the three and nine month periods ended December 31, 2011 was \$374 and \$1,112, respectively. For the three and nine month periods ended January 1, 2011, amortization expense was \$357 and \$1,055, respectively. Estimated amortization expense for the remaining three months of fiscal 2012, the five succeeding fiscal years and thereafter is as follows:

2012	\$376
2013	1,506
2014	1,408
2015	1,410
2016	1,401
2017	1,290
2018 and thereafter	4,148

## 7. Comprehensive Income

Total comprehensive income is as follows:

	Three Months Ended		Nine Months Ended	
	December 31,	January 1,	December 31,	January 1,
	2011	2011	2011	2011
Net income	\$ 12,167	\$ 7,386	\$ 34,471	\$ 25,001
Net prior service pension cost and actuarial losses, net of taxes	(141 )	(73 )	(421 )	(212 )
Change in fair value of derivatives, net of taxes	(47 )	155	122	391
Unrealized loss on investments, net of taxes	—	(30 )	(68 )	(71 )
Foreign currency translation adjustments	(1,951 )	1,196	(2,092 )	3,963
Total comprehensive income	\$ 10,028	\$ 8,634	\$ 32,012	\$ 29,072

## 8. Debt

The balances payable under all borrowing facilities are as follows:

	December 31,	April 2,
	2011	2011
JP Morgan Credit Agreement, five-year senior secured revolving credit facility; amounts outstanding bear interest at LIBOR (0.25% plus a margin of 1.50% at April 2, 2011)	\$ —	\$ 30,000
Notes payable	1,104	1,296
Total debt	1,104	31,296
Less: current portion	1,104	30,546
Long-term debt	\$ —	\$ 750

On November 30, 2010, the Company entered into a new credit agreement (the “JP Morgan Credit Agreement”) and related security and guaranty agreements with certain banks, J.P. Morgan Chase Bank, N.A., as Administrative Agent,

and J.P. Morgan Chase Bank, N.A. and KeyBank National Association as Co-Lead Arrangers and Joint Lead Book Runners. The JP Morgan Credit Agreement provides RBCA, as borrower, with a \$150,000 five-year senior secured revolving credit facility which can be increased by up to \$100,000, in increments of \$25,000, under certain circumstances and subject to certain conditions (including the receipt from one or more lenders of the additional commitment).

Amounts outstanding under the JP Morgan Credit Agreement generally bear interest at the prime rate or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based upon the Company's consolidated ratio of net debt to adjusted EBITDA, measured at the end of each quarter. As of December 31, 2011, the Company's margin is 0.5% for prime rate loans and 1.5% for LIBOR rate loans.



The JP Morgan Credit Agreement requires the Company to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA, not to exceed 3.25 to 1; and (2) a consolidated fixed charge coverage ratio not to exceed 1.5 to 1. The credit agreement allows the Company to, among other things, make distributions to shareholders, repurchase its stock, incur other debt or liens, or acquire or dispose of assets provided that the Company complies with certain requirements and limitations of the agreement. As of December 31, 2011, the Company was in compliance with all such covenants.

Approximately \$5,771 of the JP Morgan Credit Agreement is being utilized to provide letters of credit to secure RBCA's obligations relating to certain insurance programs. As of December 31, 2011, RBCA had the ability to borrow up to an additional \$144,229 under the JP Morgan Credit Agreement.

On January 8, 2008, the Company entered into an interest rate swap agreement with a total notional value of \$30,000 to hedge a portion of its variable rate debt. Under the terms of the agreement, the Company paid interest at a fixed rate (3.64%) and received interest at variable rates. The fair value of this swap at April 2, 2011 was a liability of \$240, included in other current liabilities, and was measured using observable market inputs such as yield curves. Based on these inputs, the swap was classified as a Level 2 of the valuation hierarchy. This instrument was designated and qualified as a cash flow hedge. Accordingly, the gain or loss on the hedging instrument was recognized in other comprehensive income and reclassified into earnings contemporaneously with the earnings effect of the hedged transaction. Earnings effect and the hedged item are reported in interest expense. This swap agreement expired on June 24, 2011.

On October 27, 2008, Schaublin entered into a new bank credit facility with Credit Suisse (the "Swiss Credit Facility") which replaced the prior bank credit facility of December 8, 2003 and its amendment of November 8, 2004. This facility provides for up to 4,000 Swiss francs, or \$4,256, of revolving credit loans and letters of credit. Borrowings under the Swiss Credit Facility bear interest at Credit Suisse's prevailing prime bank rate. As of December 31, 2011, there were no borrowings under the Swiss Credit Facility.

## **9. Income Taxes**

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to state or foreign income tax examinations by tax authorities for years ending before March 31, 2004.

The effective income tax rates for the three and nine month periods ended December 31, 2011 and January 1, 2011 were 32.1% and 35.1% and 33.8% and 33.7%, respectively. In addition to discrete items, the effective income tax rates for these periods are different from the U.S. statutory rates due to a special manufacturing deduction in the U.S.

and foreign income taxed at lower rates which decrease the rate, and state income taxes and an officers' compensation adjustment which increase the rate.

The effective income tax rates for the three and nine month periods ended December 31, 2011 include discrete items in the amounts of \$437 and \$356, respectively. The effective income tax rates without these discrete items would have been 34.5% for both periods. The discrete items pertain primarily to a deferred tax benefit relating to fixed assets.

The effective income tax rate for the nine month period ended January 1, 2011 of 33.7% includes the reversal of unrecognized tax benefits associated with the conclusion of the Company's IRS audit. A U.S. federal income tax examination by the Internal Revenue Service for the years ended March 31, 2007 and March 31, 2008 was completed during fiscal 2011. The effective income tax rate for the nine month period ended January 1, 2011 without this discrete item would have been 35.2%. The Company maintains reserves for certain other unrecognized tax benefits of \$2,525 related to this matter based on management's judgment that the related tax positions have not yet been effectively settled. Management expects such federal tax positions, along with \$993 pertaining to state tax positions, to be settled by the end of the Company's fiscal year ending March 31, 2012 or the end of the Company's fiscal quarter ending June 30, 2012.

## 10. Segment Information

The Company has four reportable business segments engaged in the manufacture and sale of the following:

**Plain Bearings.** Plain bearings are produced with either self-lubricating or metal-to-metal designs and consists of several sub-classes, including rod end bearings, spherical plain bearings and journal bearings. Unlike ball bearings, which are used in high-speed rotational applications, plain bearings are primarily used to rectify inevitable misalignments in various mechanical components.

**Roller Bearings.** Roller bearings are anti-friction bearings that use rollers instead of balls. The Company manufactures four basic types of roller bearings: heavy duty needle roller bearings with inner rings, tapered roller bearings, track rollers and aircraft roller bearings.

**Ball Bearings.** The Company manufactures four basic types of ball bearings: high precision aerospace, airframe control, thin section and commercial ball bearings which are used in high-speed rotational applications.

**Other.** Other consists of three minor operating locations that do not fall into the above segmented categories. The Company's precision machine tool collets provide effective part holding and accurate part location during machining operations. Additionally, the Company provides machining for integrated bearing assemblies and aircraft components for the commercial and defense aerospace markets and tight-tolerance, precision mechanical components for use in the motion control industry.

Segment performance is evaluated based on segment net sales and operating income. Items not allocated to segment operating income include corporate administrative expenses and certain other amounts.

	Three Months Ended		Nine Months Ended	
	December 31,	January 1,	December 31,	January 1,
	2011	2011	2011	2011
Net External Sales				
Plain	\$ 46,816	\$ 39,919	\$ 143,522	\$ 123,515
Roller	30,632	24,988	88,711	73,280
Ball	9,962	9,561	30,931	30,537
Other	7,694	6,790	23,024	19,395
	\$ 95,104	\$ 81,258	\$ 286,188	\$ 246,727

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**Operating Income**

Plain	\$ 13,028	\$ 9,929	\$ 40,724	\$ 33,630
Roller	10,139	6,996	28,145	20,371
Ball	911	838	2,751	2,268
Other	2,137	1,367	5,967	4,309
Corporate	(8,011 )	(6,926 )	(24,003 )	(20,439 )
	\$ 18,204	\$ 12,204	\$ 53,584	\$ 40,139

Geographic External Sales

Domestic	\$ 82,148	\$ 69,852	\$ 244,424	\$ 214,363
Foreign	12,956	11,406	41,764	32,364
	\$ 95,104	\$ 81,258	\$ 286,188	\$ 246,727

Intersegment Sales

Plain	\$ 650	\$ 457	\$ 1,886	\$ 1,308
Roller	4,130	3,099	12,210	8,589
Ball	451	297	1,188	958
Other	5,857	4,158	17,070	13,595
	\$ 11,088	\$ 8,011	\$ 32,354	\$ 24,450

All intersegment sales are eliminated in consolidation.

## **11. Derivative Instruments**

The Company utilizes forward contracts and average rate options to mitigate the impact of currency fluctuations on monetary assets and liabilities denominated in currencies other than the applicable functional currency as well as on forecasted transactions denominated in currencies other than the applicable functional currency. These are considered derivative instruments and are recorded as either assets or liabilities which are measured at fair value using models based on observable market inputs such as spot and forward rates and are classified as Level 2 on the valuation hierarchy. For instruments that are designated and qualify as cash flow hedges, the unrealized gains or losses are reported as a component of other comprehensive income (“OCI”) and are reclassified from accumulated other comprehensive income (“AOCI”) into earnings on the consolidated statement of operations when the hedged transaction affects earnings. As of December 31, 2011, the expected net impact of existing gains or losses to be reclassified from AOCI into earnings in the next twelve months is not material.

Notional amounts of the derivative financial instruments qualifying and designated as hedges were \$2,460 at December 31, 2011 and \$850 at April 2, 2011. These financial instruments have maturities that extend to October 2012. Unrealized losses (gains) related to derivative financial instruments were \$29 and \$(13) at December 31, 2011 and April 2, 2011, respectively.

## **ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Cautionary Statement As To Forward-Looking Information**

The information in this discussion contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which are subject to the “safe harbor” created by those sections. All statements other than statements of historical facts, included in this quarterly report on Form 10-Q regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management are “forward-looking statements” as the term is defined in the Private Securities Litigation Reform Act of 1995.

The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “would” and similar are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could

differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation: (a) the bearing industry is highly competitive, and this competition could reduce our profitability or limit our ability to grow; (b) the loss of a major customer could result in a material reduction in our revenues and profitability; (c) weakness in any of the industries in which our customers operate, as well as the cyclical nature of our customers' businesses generally, could materially reduce our revenues and profitability; (d) future reductions or changes in U.S. government spending could negatively affect our business; (e) fluctuating supply and costs of raw materials and energy resources could materially reduce our revenues, cash flow from operations and profitability; (f) our products are subject to certain approvals, and the loss of such approvals could materially reduce our revenues and profitability; (g) restrictions in our indebtedness agreements could limit our growth and our ability to respond to changing conditions; (h) work stoppages and other labor problems could materially reduce our ability to operate our business; (i) our business is capital intensive and may consume cash in excess of cash flow from our operations; (j) unexpected equipment failures, catastrophic events or capacity constraints may increase our costs and reduce our sales due to production curtailments or shutdowns; (k) we may not be able to continue to make the acquisitions necessary for us to realize our growth strategy; (l) the costs and difficulties of integrating acquired businesses could impede our future growth; (m) we depend heavily on our senior management and other key personnel, the loss of whom could materially affect our financial performance and prospects; (n) our international operations are subject to risks inherent in such activities; (o) currency translation risks may have a material impact on our results of operations; (p) we may be required to make significant future contributions to our pension plan; (q) we may incur material losses for product liability and recall related claims; (r) environmental regulations impose substantial costs and limitations on our operations, and environmental compliance may be more costly than we expect; (s) our intellectual property and other proprietary rights are valuable, and any inability to protect them could adversely affect our business and results of operations; in addition, we may be subject to infringement claims by third parties; (t) cancellation of orders in our backlog of orders could negatively impact our revenues; (u) if we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud; and (v) provisions in our charter documents may prevent or hinder efforts to acquire a controlling interest in us. Additional information regarding these and other risks and uncertainties is contained in our periodic filings with the SEC, including, without limitation, the risks identified under the heading "Risk Factors" set forth in the Annual Report on Form 10-K for the year ended April 2, 2011. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not intend, and undertake no obligation, to update or alter any forward-looking statement. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Quarterly Report.

## Overview

We are a well known international manufacturer of highly engineered precision plain, roller and ball bearings. Our precision solutions are integral to the manufacture and operation of most machines and mechanical systems, reduce wear to moving parts, facilitate proper power transmission and reduce damage and energy loss caused by friction. While we manufacture products in all major bearing categories, we focus primarily on the higher end of the bearing market where we believe our value added manufacturing and engineering capabilities enable us to differentiate ourselves from our competitors and enhance profitability. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. We have been providing bearing solutions to our customers since 1919. Over the past ten years, under the leadership of our current management team, we have significantly broadened our end markets, products, customer base and geographic reach. We currently operate 25 facilities of which 23 are manufacturing facilities in four countries.

Demand for bearings generally follows the market for products in which bearings are incorporated and the economy as a whole. Purchasers of bearings include industrial equipment and machinery manufacturers, producers of commercial and military aerospace equipment such as missiles and radar systems, agricultural machinery manufacturers, construction, mining and specialized equipment manufacturers and automotive and commercial truck manufacturers. The markets for our products are cyclical, and general market conditions could negatively impact our operating results. We have endeavored to mitigate the cyclicity of our product markets by entering into sole-source relationships and long-term purchase orders, through diversification across multiple market segments within the aerospace and defense and diversified industrial segments, by increasing sales to the aftermarket and by focusing on developing highly customized solutions.

## Outlook

Backlog, as of December 31, 2011, was \$215.7 million versus \$180.0 million as of January 1, 2011. Management believes that operating cash flows and available credit under the credit facilities will provide adequate resources to fund internal and external growth initiatives for the foreseeable future. We have \$59.7 million in cash as of December 31, 2011, of which \$32.7 million is foreign cash restricted to funding internal and external growth initiatives in our foreign entities.

## Results of Operations

The following table sets forth the various components of our consolidated statements of operations, expressed as a percentage of net sales, for the periods indicated that are used in connection with the discussion herein.

	Three Months Ended		Nine Months Ended	
	December 31, 2011	January 1, 2011	December 31, 2011	January 1, 2011
Statement of Operations Data:				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Gross margin	35.4	32.0	34.7	32.2
Selling, general and administrative	15.8	16.4	15.6	15.7
Other, net	0.5	0.6	0.4	0.2
Operating income	19.1	15.0	18.7	16.3
Interest expense, net	0.3	0.5	0.3	0.5
Other non-operating expense	—	0.5	0.2	0.5
Income before income taxes	18.8	14.0	18.2	15.3
Provision for income taxes	6.0	4.9	6.2	5.2
Net income	12.8	9.1	12.0	10.1

### *Three Month Period Ended December 31, 2011 Compared to Three Month Period Ended January 1, 2011*

*Net Sales.* Net sales for the three month period ended December 31, 2011 were \$95.1 million, an increase of \$13.8 million, or 17.0%, compared to \$81.3 million for the same period in the prior fiscal year. During the three month period ended December 31, 2011, we experienced a net sales increase in all four reportable segments, driven primarily by continued strong demand across our end markets in the diversified industrial sector, combined with acceleration of production in the aerospace and defense sector as the economic climate continues to show signs of improvement. Net sales to diversified industrial customers grew 18.0% in the three month period ended December 31, 2011 compared to the same period last fiscal year. This is mainly the result of continuing strong orders across our industrial end markets, specifically mining, oil and gas, and general industrial distribution. Net sales to aerospace and defense customers grew 16.1% in the three month period ended December 31, 2011 compared to the same period last fiscal year, mainly driven by build rates by major aircraft manufacturers combined with the continuing improvement in the business jet market and in the general aerospace aftermarket.

The Plain Bearings segment achieved net sales of \$46.8 million for the three month period ended December 31, 2011, an increase of \$6.9 million, or 17.3%, compared to \$39.9 million for the same period in the prior fiscal year. Net sales to aerospace and defense customers contributed \$3.4 million to the increase combined with an increase of \$3.5 million in net sales to diversified industrial customers.



The Roller Bearings segment achieved net sales of \$30.6 million for the three month period ended December 31, 2011, an increase of \$5.6 million, or 22.6%, compared to \$25.0 million for the same period in the prior fiscal year. Of this increase, net sales to the diversified industrial sector contributed \$4.0 million combined with a \$1.6 million increase in net sales, mainly to aerospace customers.

The Ball Bearings segment achieved net sales of \$10.0 million for the three month period ended December 31, 2011, an increase of \$0.4 million, or 4.2%, compared to \$9.6 million for the same period in the prior fiscal year. Net sales to the aerospace sector grew \$0.5 million offset by a decline of \$0.1 million in net sales to the diversified industrial sector.

The Other segment, which is focused mainly on the sale of machine tool collets and precision mechanical components, achieved net sales of \$7.7 million for the three month period ended December 31, 2011, an increase of \$0.9 million, or 13.3%, compared to \$6.8 million for the same period last fiscal year. This increase was primarily related to machining of aircraft components for the commercial and defense aerospace market.

*Gross Margin.* Gross margin was \$33.6 million, or 35.4% of net sales, for the three month period ended December 31, 2011, versus \$26.0 million, or 32.0% of net sales, for the comparable period in fiscal 2011. The increase in our gross margin as a percentage of net sales was primarily the result of improvement in overall volume and the benefits of manufacturing improvements.

*Selling, General and Administrative.* SG&A expenses increased by \$1.7 million, or 12.6%, to \$15.0 million for the three month period ended December 31, 2011 compared to \$13.3 million for the same period in fiscal 2011. As a percentage of net sales, SG&A was 15.8% for the three month period ended December 31, 2011 compared to 16.4% for the three month period ended January 1, 2011. The increase of \$1.7 million was primarily attributable to personnel-related cost increases.

*Other, net.* Other, net was expense of \$0.4 million for the three month periods ended December 31, 2011 and January 1, 2011. For the three month period ended December 31, 2011, other, net consisted of \$0.4 million of amortization of intangibles and \$0.1 million of bad debt expense offset by miscellaneous income of \$0.1 million. For the three month period ended January 1, 2011, other, net consisted of \$0.3 million of amortization of intangibles and \$0.1 million of other costs.

*Operating Income.* The increase in operating income in all four reportable segments was driven primarily by an increase in volume, especially in the diversified industrial sector, as the economic climate continues to show signs of improvement.

Operating income was \$18.2 million, or 19.1% of net sales, for the three month period ended December 31, 2011 compared to \$12.2 million, or 15.0% of net sales, for the three month period ended January 1, 2011. Operating income for the Plain Bearings segment was \$13.0 million for the three month period ended December 31, 2011, or 27.8% of net sales, compared to \$9.9 million for the same period last fiscal year, or 24.9% of net sales. Our Roller Bearings segment achieved an operating income for the three month period ended December 31, 2011 of \$10.1 million, or 33.1% of net sales, compared to \$7.0 million, or 28.0% of net sales, for the three month period ended January 1, 2011. Our Ball Bearings segment reported operating income of \$0.9 million, or 9.1% of net sales, for the three month period ended December 31, 2011, compared to operating income of \$0.8 million, or 8.8% of net sales, for the same period in fiscal 2011. Our Other segment achieved operating income of \$2.1 million, or 27.8% of net sales, for the three month period ended December 31, 2011, compared to \$1.4 million, or 20.1% of net sales, for the same period in fiscal 2011.

*Interest Expense, net.* Interest expense, net decreased by \$0.2 million to \$0.2 million in the three month period ended December 31, 2011, compared to \$0.4 million in the same period last fiscal year.

*Other Non-Operating Expense.* We received approximately \$0.1 million and \$0.2 million in the three month periods ended December 31, 2011 and January 1, 2011, respectively, in payments under the Continued Dumping and Subsidy Offset Act (CDSOA) which distributes antidumping duties paid by overseas companies to domestic firms hurt by unfair trade. We also incurred a foreign exchange loss of \$0.1 million for the three month period ended December 31, 2011 compared to a loss of \$0.7 million in the same period last fiscal year.

*Income Before Income Taxes.* Income before taxes increased by \$6.5 million, to \$17.9 million for the three month period ended December 31, 2011 compared to \$11.4 million for the three month period ended January 1, 2011.

*Income Taxes.* Income tax expense for the three month period ended December 31, 2011 was \$5.8 million compared to \$4.0 million for the three month period ended January 1, 2011. Our effective income tax rate for the three month period ended December 31, 2011 was 32.1% compared to 35.1% for the three month period ended January 1, 2011. In addition to discrete items, the effective income tax rates are different from the U.S. statutory rate due to a special manufacturing deduction in the U.S. and foreign income taxed at lower rates which decrease the rate, and state income taxes and an officers' compensation adjustment which increase the rate.

The effective income tax rate for the three month period ended December 31, 2011 of 32.1% includes discrete items in the amount of \$0.4 million. The effective income tax rate for the three month period ended December 31, 2011 without these discrete items would have been 34.5%.

*Net Income.* Net income increased by \$4.8 million to \$12.2 million for the three month period ended December 31, 2011 compared to \$7.4 million for the three month period ended January 1, 2011.

***Nine month period Ended December 31, 2011 Compared to Nine month period Ended January 1, 2011***

*Net Sales.* Net sales for the nine month period ended December 31, 2011 were \$286.2 million, an increase of \$39.5 million, or 16.0%, compared to \$246.7 million for the same period in the prior fiscal year. During the nine month period ended December 31, 2011, we experienced a net sales increase in all four reportable segments, driven primarily by stronger demand across our end markets in both the diversified industrial sector and aerospace and defense sectors as the economic climate continues to show signs of improvement. Net sales to diversified industrial customers grew 15.9% in the nine month period ended December 31, 2011 compared to the same period last fiscal year. This is mainly the result of strong orders in construction, mining, energy and the general industrial markets. Net sales to aerospace and defense customers grew 16.2% in the nine month period ended December 31, 2011 compared to the same period last fiscal year, mainly driven by build rates by major aircraft manufacturers combined with the continuing improvement in the business jet market and in the general aerospace aftermarket.

The Plain Bearings segment achieved net sales of \$143.5 million for the nine month period ended December 31, 2011, an increase of \$20.0 million, or 16.2%, compared to \$123.5 million for the same period in the prior fiscal year. Net sales to aerospace and defense customers contributed \$13.4 million to the increase combined with an increase of \$6.6 million in net sales to diversified industrial customers.

The Roller Bearings segment achieved net sales of \$88.7 million for the nine month period ended December 31, 2011, an increase of \$15.4 million, or 21.1%, compared to \$73.3 million for the same period in the prior fiscal year. Of this increase, net sales to the diversified industrial sector contributed \$11.3 million combined with a \$4.1 million increase in net sales, mainly to aerospace customers.

The Ball Bearings segment achieved net sales of \$30.9 million for the nine month period ended December 31, 2011, an increase of \$0.4 million, or 1.3%, compared to \$30.5 million for the same period in the prior fiscal year. This increase was primarily attributable to the aerospace and defense sector.

The Other segment, which is focused mainly on the sale of machine tool collets and precision mechanical components, achieved net sales of \$23.0 million for the nine month period ended December 31, 2011, an increase of \$3.6 million, or 18.7%, compared to \$19.4 million for the same period last fiscal year. This increase was primarily attributable to strong performance of the collet business in Europe.

*Gross Margin.* Gross margin was \$99.4 million, or 34.7% of net sales, for the nine month period ended December 31, 2011, versus \$79.5 million, or 32.2% of net sales, for the comparable period in fiscal 2011. The increase in our gross margin as a percentage of net sales was primarily the result of improvement in overall volume and the benefits of manufacturing improvements.

*Selling, General and Administrative.* SG&A expenses increased by \$6.0 million, or 15.4%, to \$44.8 million for the nine month period ended December 31, 2011 compared to \$38.8 million for the same period in fiscal 2011. As a percentage of net sales, SG&A was 15.6% for the nine month period ended December 31, 2011 compared to 15.7% for the nine month period ended January 1, 2011. The increase of \$6.0 million was primarily attributable to personnel-related cost increases.

*Other, net.* Other, net for the nine month period ended December 31, 2011 was expense of \$1.0 million, an increase of \$0.5 million, compared to expense of \$0.5 million for the same period last fiscal year. For the nine month period ended December 31, 2011, other, net consisted of \$1.1 million of amortization of intangibles and \$0.2 million of bad debt expense offset by a gain on sale of assets of \$0.2 million and miscellaneous income of \$0.1 million. For the nine month period ended January 1, 2011, other, net consisted of a net gain of \$1.1 million on the sale of assets offset by \$1.0 million of amortization of intangibles, \$0.4 million of bad debt expense and \$0.2 million of restructuring costs.

*Operating Income.* The increase in operating income in all four of our reportable segments was driven primarily by an increase in volume, especially in the diversified industrial sector, as the economic climate continues to show signs of improvement.

Operating income was \$53.6 million, or 18.7% of net sales, for the nine month period ended December 31, 2011 compared to \$40.1 million, or 16.3% of net sales, for the nine month period ended January 1, 2011. Operating income for the Plain Bearings segment was \$40.7 million for the nine month period ended December 31, 2011, or 28.4% of net sales, compared to \$33.6 million for the same period last fiscal year, or 27.2% of net sales. Our Roller Bearings segment achieved an operating income for the nine month period ended December 31, 2011 of \$28.1 million, or 31.7% of net sales, compared to \$20.4 million, or 27.8% of net sales, for the nine month period ended January 1, 2011. Our Ball Bearings segment reported operating income of \$2.8 million, or 8.9% of net sales, for the nine month period ended December 31, 2011, compared to operating income of \$2.3 million, or 7.4% of net sales, for the same period in fiscal 2011. Our Other segment achieved operating income of \$6.0 million, or 25.9% of net sales, for the nine month period ended December 31, 2011, compared to \$4.3 million, or 22.2% of net sales, for the same period in fiscal 2011.

*Interest Expense, net.* Interest expense, net decreased by \$0.3 million to \$0.9 million in the nine month period ended December 31, 2011, compared to \$1.2 million in the same period last fiscal year.

*Other Non-Operating Expense.* We received approximately \$0.1 million and \$0.2 million in the nine month periods ended December 31, 2011 and January 1, 2011, respectively, in payments under the Continued Dumping and Subsidy Offset Act (CDSOA) which distributes antidumping duties paid by overseas companies to domestic firms hurt by unfair trade. We also incurred a foreign exchange loss of \$0.6 million for the nine month period ended December 31, 2011 compared to a loss of \$1.5 million in the same period last fiscal year.

*Income Before Income Taxes.* Income before taxes increased by \$14.4 million, to \$52.1 million for the nine month period ended December 31, 2011 compared to \$37.7 million for the nine month period ended January 1, 2011.

*Income Taxes.* Income tax expense for the nine month period ended December 31, 2011 was \$17.6 million compared to \$12.7 million for the nine month period ended January 1, 2011. Our effective income tax rate for the nine month period ended December 31, 2011 was 33.8% compared to 33.7% for the nine month period ended January 1, 2011. In addition to discrete items, the effective income tax rates are different from the U.S. statutory rate due to a special manufacturing deduction in the U.S. and foreign income taxed at lower rates which decrease the rate, and state income taxes and an officers' compensation adjustment which increase the rate.

The effective income tax rate for the nine month period ended December 31, 2011 of 33.8% includes discrete items in the amount of \$0.4 million. The effective income tax rate for the nine month period ended December 31, 2011 without these discrete items would have been 34.5%.

The effective income tax rate for the nine month period ended January 1, 2011 of 33.7% includes the reversal of unrecognized tax benefits associated with the conclusion of our IRS audit. A U.S. federal income tax examination by the Internal Revenue Service for the years ended March 31, 2007 and March 31, 2008 was completed during fiscal 2011. The effective income tax rate for the nine month period ended January 1, 2011 without this discrete item would have been 35.2%.

*Net Income.* Net income increased by \$9.5 million to \$34.5 million for the nine month period ended December 31, 2011 compared to \$25.0 million for the nine month period ended January 1, 2011.

## **Liquidity and Capital Resources**

### ***Liquidity***

On November 30, 2010, we and RBCA entered into a new credit agreement (the “JP Morgan Credit Agreement”) and related security and guaranty agreements with certain banks, J.P. Morgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Chase Bank, N.A. and KeyBank National Association as Co-Lead Arrangers and Joint Lead Book Runners. The JP Morgan Credit Agreement provides RBCA with a \$150.0 million five-year senior secured revolving credit facility which can be increased by up to \$100.0 million, in increments of \$25.0 million, under certain circumstances and subject to certain conditions (including the receipt from one or more lenders of the additional commitment).

Amounts outstanding under the JP Morgan Credit Agreement generally bear interest at the prime rate, or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on our consolidated ratio of net debt to adjusted EBITDA, measured at the end of each quarter. Currently, our margin is 0.5% for prime rate loans and 1.5% for LIBOR rate loans.

The JP Morgan Credit Agreement requires us to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA, not to exceed 3.25 to 1; and (2) a consolidated fixed charge coverage ratio not to exceed 1.5 to 1. As of December 31, 2011, we were in compliance with all such covenants.

The JP Morgan Credit Agreement allows us to, among other things, make distributions to shareholders, repurchase our stock, incur other debt or liens, or acquire or dispose of assets provided that we comply with certain requirements and limitations of the credit agreement. Our obligations under the JP Morgan Credit Agreement are secured by a pledge of substantially all of our and RBCA’s assets and a guaranty by us of RBCA’s obligations.

Approximately \$5.8 million of the JP Morgan Credit Agreement is being utilized to provide letters of credit to secure RBCA’s obligations relating to certain insurance programs. As of December 31, 2011, RBCA had the ability to borrow up to an additional \$144.2 million under the JP Morgan Credit Agreement.



On October 27, 2008, Schaublin entered into a new bank credit facility with Credit Suisse which replaced the prior bank credit facility of December 8, 2003 and its amendment of November 8, 2004. This facility provides for up to 4.0 million Swiss francs, or \$4.3 million, of revolving credit loans and letters of credit. Borrowings under this facility bear interest at Credit Suisse's prevailing prime bank rate. As of December 31, 2011, there were no borrowings under the Swiss Credit Facility.

Our ability to meet future working capital, capital expenditures and debt service requirements will depend on our future financial performance, which will be affected by a range of economic, competitive and business factors, particularly interest rates, cyclical changes in our end markets and prices for steel and our ability to pass through price increases on a timely basis, many of which are outside of our control. In addition, future acquisitions could have a significant impact on our liquidity position and our need for additional funds.

From time to time we evaluate our existing facilities and operations and their strategic importance to us. If we determine that a given facility or operation does not have future strategic importance, we may sell, partially or completely, relocate production lines, consolidate or otherwise dispose of those operations. Although we believe our operations would not be materially impaired by such dispositions, relocations or consolidations, we could incur significant cash or non-cash charges in connection with them.

## ***Cash Flows***

### *Nine month period Ended December 31, 2011 Compared to the Nine month period Ended January 1, 2011*

In the nine month period ended December 31, 2011, we generated cash of \$32.0 million from operating activities compared to \$40.4 million for the nine month period ended January 1, 2011. The decrease of \$8.4 million was mainly the result of a decrease in net operating assets and liabilities of \$19.8 million offset by an increase in net income of \$9.5 million and an increase in non-cash charges of \$1.9 million. The decrease of \$19.8 million in operating assets and liabilities was mainly the result of an investment in inventory and, to a lesser extent, an increase in accounts receivable. The change in inventory (\$15.4 million) was necessary to support increased demand evidenced by an increase in backlog across all markets and is therefore realizable. Inventory turnover for the nine month period ended December 31, 2011 increased to 1.9 as compared to 1.6 in the prior year period. The change in accounts receivable (\$4.4 million) was mainly a function of the increase in sales as days sales outstanding increased by 1 day to 61 in fiscal 2012 from 60 in fiscal 2011.

Cash provided by (used for) investing activities for the nine month period ended December 31, 2011 included \$11.3 million related to capital expenditures offset by proceeds of \$3.9 million from the sale or maturity of short-term investments and \$0.1 million proceeds from the sale of assets. In the nine month period ended January 1, 2011, investing activities included \$7.3 million of capital expenditures and \$0.8 million, net, for the purchase of short-term investments. This was offset by \$2.4 million of proceeds from the sale of current assets.

Financing activities used \$28.3 million in the nine month period ended December 31, 2011 compared to \$5.9 million for the nine month period ended January 1, 2011, primarily for debt reduction. The nine month period ended December 31, 2011 included the \$30.0 million repayment on our credit facility, \$0.6 million from the repurchase of common stock and \$0.2 million in other miscellaneous payments. This was offset by \$1.7 million from the exercise of stock options and \$0.8 million in excess tax benefits from stock-based compensation.

## ***Capital Expenditures***

Our capital expenditures were \$11.3 million for the nine month period ended December 31, 2011. We expect to make capital expenditures of approximately \$14.0 to \$16.0 million during fiscal 2012 in connection with our existing business. We intend to fund our fiscal 2012 capital expenditures principally through existing cash, internally generated funds and borrowings under our JP Morgan Credit Agreement. We may also make substantial additional capital expenditures in connection with acquisitions.

## **Obligations and Commitments**

As of December 31, 2011, there were no material changes in capital lease, operating lease or pension and postretirement obligations as compared to such obligations and liabilities as of April 2, 2011. In the nine month period ended December 31, 2011, we repaid \$30.0 million on our JP Morgan credit facility.

## **Other Matters**

### *Critical Accounting Estimates*

Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. We believe the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 to the Consolidated Financial Statements in our fiscal 2011 Annual Report, incorporated by reference in our fiscal 2011 Form 10-K, describe the significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in our critical accounting estimates during the first nine months of fiscal 2012.

### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which arise during the normal course of business from changes in interest rates and foreign currency exchange rates.

*Interest Rates.* Outstanding balances under our JP Morgan Credit Agreement generally bear interest at the prime rate or LIBOR (the London inter-bank offered rate for deposits in U.S. dollars for the applicable LIBOR period) plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on our consolidated ratio of net debt to adjusted EBITDA from time to time. As of December 31, 2011, our margin is 0.5% for prime rate loans (prime rate at December 31, 2011 was 3.25%) and 1.5% for LIBOR rate loans (one month LIBOR rate at December 31, 2011 was 0.2963%).

We currently have no debt outstanding under the credit agreement. If we do incur debt in the future, we would evaluate the impact of interest rate changes on our net income and cash flow and take appropriate action to limit our exposure.

*Foreign Currency Exchange Rates.* As a result of our operations in Europe, we are exposed to risk associated with fluctuating currency exchange rates between the U.S. dollar, the Euro, the Swiss Franc and the British Pound Sterling. Our Swiss operations utilize the Swiss Franc as the functional currency, our French operations utilize the Euro as the functional currency and our English operations utilize the British Pound Sterling as the functional currency. Foreign currency transaction gains and losses are included in earnings. Approximately 15% of our net sales were denominated in foreign currencies in the first nine months of fiscal 2012 compared to 13% in the same period in fiscal 2011. We expect that this proportion is likely to increase as we seek to increase our penetration of foreign markets, particularly within the aerospace and defense markets. Foreign currency transaction exposure arises primarily from the transfer of foreign currency from one subsidiary to another within the group, and to foreign currency denominated trade receivables. Unrealized currency translation gains and losses are recognized upon translation of the foreign subsidiaries' balance sheets to U.S. dollars. Because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our earnings. We periodically enter into derivative financial instruments such as forward exchange contracts to reduce the effect of fluctuations in exchange rates on certain third-party sales transactions denominated in non-functional currencies. Based on the accounting guidance related to derivatives and hedging activities, we record derivative financial instruments at fair value. For derivative financial instruments designated and qualifying as cash flow hedges, the effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income ("AOCI"), and is reclassified into earnings when the hedged transaction affects earnings. As of December 31, 2011, the net impact of existing gains or losses expected to be reclassified from AOCI into earnings over the next twelve months is not material.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

#### ITEM 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of December 31, 2011. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2011, our disclosure controls and procedures were (1) designed to ensure that information relating to our Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported to our Chief Executive Officer and Chief Financial Officer within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, and (2) effective, in that they 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.

#### Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the nine month period ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Part II - OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we are involved in litigation and administrative proceedings which arise in the ordinary course of our business. We do not believe that any litigation or proceeding in which we are currently involved, either individually or in the aggregate, is likely to have a material adverse effect on our business, financial condition, operating results, cash flow or prospects.

ITEM 1A. Risk Factors

There have been no material changes to our risk factors and uncertainties during the nine month period ended December 31, 2011. For a discussion of the Risk Factors, refer to Part I, Item 2, "Cautionary Statement As To Forward-Looking Information," contained in this report and Part I, Item 1A, "Risk Factors," contained in the Company's Annual Report on Form 10-K for the period ended April 2, 2011.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

**Unregistered Sales of Equity Securities**

None.

**Use of Proceeds**

Not applicable.

**Issuer Purchases of Equity Securities**

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On June 15, 2007, our board of directors authorized us to repurchase up to \$10.0 million of our common stock from time to time on the open market, through block trades, or in privately negotiated transactions depending on market conditions, alternative uses of capital and other factors. Purchases may be commenced, suspended or discontinued at any time without prior notice. The new program, which does not have an expiration date, replaced a \$7.5 million program that expired on March 31, 2007.

Total share repurchases for the three months ended December 31, 2011 are as follows:

Period	Total number of shares Purchased	Average price paid per share	Number of shares purchased as part of the publicly announced program	Approximate dollar value of shares still available to be purchased under the program (000's)
10/02/2011–10/29/2011	8	\$ 39.18	8	\$ 5,316
10/30/2011–11/26/2011	10,102	40.29	10,102	4,909
11/27/2011–12/31/2011	-	-	-	\$ 4,909
Total	10,110	\$ 40.26	10,110	



**ITEM 6. Exhibits**

Exhibit Number	Exhibit Description
31.01	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).
31.02	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).
32.01	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*
32.02	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*

\* This certification accompanies this Quarterly Report on Form 10-Q, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

RBC Bearings Incorporated  
(Registrant)

By:/s/ Michael J. Hartnett  
Name: Michael J. Hartnett  
Title: Chief Executive Officer  
Date: February 8, 2012

By:/s/ Daniel A. Bergeron  
Name: Daniel A. Bergeron  
Title: Chief Financial Officer  
Date: February 8, 2012

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