RBC Bearings INC
Form S-1/A
March 29, 2006

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As filed with the Securities and Exchange Commission on March 29, 2006

Registration No. 333-132480

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

FORM S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

RBC BEARINGS INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

Delaware	**3562**	**95-4372080**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code number)	(I.R.S. Employer Identification No.)

One Tribology Center
Oxford, CT 06478
Telephone: (203) 267-7001
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Corporation Service Company
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Approximate date of commencement of proposed sale to the public:
As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. o

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Common Stock, par value $0.01 per share(2)	$159,859,074	$17,104.92(3)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Includes amount attributable to shares of Common Stock that may be purchased by the underwriters under an option to purchase additional shares.

(3) Previously paid.

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

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

Subject to Completion
Preliminary Prospectus dated March 29, 2006

PROSPECTUS

7,067,000 Shares

Common Stock

We are selling 1,071,471 shares and certain of our stockholders are selling 5,995,529 shares.

Our shares are quoted on the Nasdaq National Market under the symbol "ROLL." On March 28, 2006, the last sale price of our shares as reported on the Nasdaq National Market was $20.74 per share.

Investing in the common stock involves risks that are described in the "Risk Factors" section beginning on page 9 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$
Proceeds, before expenses, to the selling stockholders	$	$

The underwriters may also purchase up to an additional 1,060,050 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

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

The shares will be ready for delivery on or about , 2006.

Merrill Lynch & Co.

Sole Book-Running Manager

KeyBanc Capital Markets

Co-Lead Manager

Robert W. Baird & Co.

The date of this prospectus is , 2006.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

In this prospectus, unless the context otherwise requires, "Company," "RBCI," "we," "our" and "us" refer to RBC Bearings Incorporated and our subsidiaries; "RBCA" refers to Roller Bearing Company of America, Inc., our wholly-owned subsidiary and principal operating company; and "Whitney" refers to Whitney & Co., LLC. Our fiscal year consists of 52 or 53 weeks, ending on the Saturday closest to March 31; therefore, references to "fiscal 2005," "fiscal 2004," "fiscal 2003," "fiscal 2002" and "fiscal 2001" refer to our fiscal years ended April 2, 2005, April 3, 2004, March 29, 2003, March 30, 2002 and March 31, 2001, respectively. The term Senior Credit Facility refers, collectively, to our existing $55.0 million revolving credit facility, referred to as our Revolving Credit Facility, and our $150.0 million term loan, referred to as our Term Loan.

This prospectus contains our registered and unregistered trademarks, service marks and trade names including: "Aerocres," "Heim," "Pitchlign," "Quadlube," "RBC Bearings," "RBC Roller," "RBC Southwest Products," "Schaublin" and "Unibal." This prospectus also contains trademarks, service marks, copyrights and trade names of other companies.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. As a result, it does not contain all of the information that you should consider before investing in our common stock. You should read this entire prospectus, especially the section entitled "Risk Factors" and the consolidated financial statements and the related notes.

RBC Bearings Incorporated

We are a well known international manufacturer and marketer of highly engineered precision plain, roller and ball bearings. Bearings, which 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 highly technical or regulated bearing products for specialized markets that require sophisticated design, testing and manufacturing capabilities. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. We estimate that over one-fourth of our net sales are derived from products for which we are the sole supplier and the only manufacturer able to provide the required bearing solution. We believe that being the sole supplier for these products provides us with a competitive advantage due to the lengthy and rigorous certification processes and/or approvals required by a majority of these customers or government agencies, which typically take anywhere from six months to six years to complete, and due to our long track record with most of these customers of delivering high quality and uniquely designed and engineered products in a timely manner. We estimate that approximately two-thirds of our net sales during fiscal 2005 and during the nine month period ended December 31, 2005 were generated by products for which we hold the number one or two market position. 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 16 manufacturing facilities in three countries.

We design, manufacture and market a broad portfolio of bearing products. The following table provides a summary of our product segments:

Segment	Net Sales for the Nine Month Period Ended December 31, 2005	Representative Applications
Plain Bearings	$82,078 (41%)	Aircraft engine controls and landing gear Helicopter rotors and missile launchers Mining and construction equipment
Roller Bearings	$71,193 (36%)	Aircraft hydraulics Military and commercial truck chassis Packaging machinery and gear pumps
Ball Bearings	$33,239 (17%)	Radar and night vision systems Airframe control and actuation Semiconductor equipment
Other	$12,248 (6%)	Precision ground ball screws for robotic handling and missile guidance Collets for machine tools

Our End Markets

We serve a broad range of end markets where we can add value with our specialty, precision bearing applications. We classify our customers into two principal categories: diversified industrial and aerospace and defense.

Diversified Industrial (55% of net sales for the nine month period ended December 31, 2005). We manufacture bearing products for a wide range of diversified industrial markets, including construction and mining, oil and natural resource extraction, heavy truck, packaging and semiconductor machinery. Our diversified industrial products target specialized market applications in which our engineering and manufacturing capabilities provide us with unique competitive advantages. We believe opportunities exist for growth and margin expansion in this market as a result of increasing demand for industrial machinery, the introduction of new products and the expansion of aftermarket sales.

Aerospace and Defense (45% of net sales for the nine month period ended December 31, 2005). We manufacture bearing products for a wide range of aerospace applications, including commercial airframes, commercial aircraft engines and private aircraft applications. We supply bearings for many of the commercial aircraft currently operating world-wide and are the primary supplier for many of our product lines. Many of our aerospace bearing products are designed and certified during the original development of the aircraft being served, which often makes us the primary bearing supplier for the life of the aircraft. We believe that growth and margin expansion in this segment will be driven primarily by expanding our international presence, new aircraft builds and the refurbishment and maintenance of existing commercial aircraft. In addition, we manufacture bearing products used by the U.S. Department of Defense and certain foreign governments for use in fighter jets, troop transports, naval vessels, helicopters, gas turbine engines, armored vehicles, guided weaponry and satellites. Our bearing products are manufactured to conform to U.S. military specifications and are typically custom designed during the original product design phase which often makes us the sole or primary bearing supplier for the life of the product. We believe that our current installed base of bearing products and our sophisticated engineering and manufacturing capabilities position us to benefit from growing replacement part demand caused by increased equipment utilization as well as the introduction of new weapons and transport systems.

Our Competitive Strengths

Leading Market Positions. We compete in specialized markets where we believe we are often the only supplier with the manufacturing expertise, business plan and engineering resources required to provide the required bearing solution. We estimate that approximately two-thirds of our net sales during fiscal 2005 and during the nine month period ended December 31, 2005 were generated by products for which we hold the number one or two market position.

Diversified Revenue Base. We sell a wide array of bearing products to customers across many diverse end markets, each of which is influenced by different fundamental economic factors. Our products are sold to more than 6,700 customers, including original equipment manufacturers, or OEMs, and aftermarket distributors and service providers.

Large Installed Product Base with Recurring Aftermarket Revenue Stream. We provide bearings to a large and growing number of applications for which our products have been tested and certified. Our bearing products are approved for over 32,000 applications, many of which are part of aerospace, defense and industrial platforms that can be in service for as long as several decades, thereby requiring continuing aftermarket support. Aftermarket sales of replacement parts for existing equipment platforms represented approximately 56% of our net sales for fiscal 2005.

Proprietary Design and Manufacturing Capabilities. We believe that our design and manufacturing capabilities will allow us to maintain a leadership position as our customers continue to rely on us to develop new bearing solutions that can be manufactured cost effectively.

Disciplined Acquisition Program with History of Successful Integration. We have demonstrated expertise in acquiring and integrating bearing and precision-engineered component manufacturers that have complementary products or distribution channels and provide significant potential for margin enhancement. Since October 1992 we have completed 13 acquisitions which have significantly broadened our end markets, products, customer base and geographic reach. Most recently, in September 2005, we acquired the Southwest Products Company, a manufacturer of spherical bearings, journal bearings and push-pull controls for military weapon systems and military and commercial aerospace applications.

Experienced Management Team. Our management team possesses extensive managerial experience in the bearing industry, with our top five operating executives averaging over 20 years of bearing industry experience. We intend to retain and attract experienced professionals by leveraging our reputation as a premier provider of precision bearing solutions.

Our Growth Strategy

We intend to grow our business while continuing to focus on specialized markets for highly engineered bearing solutions. Key elements of our growth strategy include:

Continue to Develop Innovative Bearing Solutions. We intend to leverage our design and manufacturing expertise and our extensive customer relationships to continue to develop new products for markets where we believe there are substantial growth opportunities. Our ability to develop new custom engineered products strengthens existing customer relationships and creates new business opportunities for us.

Expand Customer Base and Penetrate End Markets. We continually seek opportunities to penetrate new customers, geographic locations and bearing platforms with existing products or profitable new product opportunities. We intend to continue to expand our sales force, customer base and end markets and have identified a number of attractive growth opportunities domestically and abroad, including current projects in semiconductor machinery, airframe controls and missile guidance systems. In addition, our OEM relationships, coupled with our design expertise, provide us with extensive cross-selling opportunities on platforms that we do not currently supply.

Increase Aftermarket Sales. We intend to increase the percentage of our revenues derived from the replacement market by continuing to implement several initiatives. First, we will continue to seek opportunities to increase our sales to key existing distributors as well as expand our base of third party customers. Second, our new product and new end market initiatives are focused on high-growth platforms, such as 300 millimeter semiconductor manufacturing systems and the U.S. government's Joint Strike Fighter program that we expect will be in service for long periods and therefore create significant demand for replacement parts. Additionally, we will seek opportunities to develop new products that can be used as replacement parts for existing platforms. We believe that increasing our aftermarket sales of replacement parts will further enhance the continuity and predictability of our revenues and increase our profitability.

Pursue Selective Acquisitions. We believe that there will continue to be consolidation within the bearing industry that may present us with acquisition opportunities, particularly within the industrial and aerospace markets. We regularly evaluate opportunities to acquire bearing and precision-engineered component manufacturers which have complementary products, customers or distribution

channels, provide significant potential for margin enhancement and further expand the breadth of our product portfolio.

Our Corporate Profile

RBC Bearings Incorporated is a Delaware corporation, and our principal executive offices are located at One Tribology Center, Oxford, CT 06478. Our telephone number is (203) 267-7001. Our website address is *www.rbcbearings.com*. Information on our website is not deemed to be a part of this prospectus.

Amendment or Replacement of Our Senior Credit Facility

In connection with this offering we expect to amend or replace our Senior Credit Facility to provide for lower borrowing costs. The amendment or replacement of the Senior Credit Facility is contingent upon the consummation of the primary portion of this offering, but this offering is not contingent upon the amendment or replacement of the Senior Credit Facility. We are in discussions with multiple lenders regarding alternatives for reducing borrowing costs under our Senior Credit Facility, including replacing or amending the facility. Based on discussions with lenders, we expect that after giving effect to the amendment or replacement of the Senior Credit Facility, we will reduce the interest rate on our LIBOR loans by at least 125 basis points. See "Description of Certain Indebtedness Senior Credit Facility."

The Offering

Common stock offered:	
By us	1,071,471 shares
By the selling stockholders	5,995,529 shares
Common stock outstanding after the offering	18,405,969 shares
Use of proceeds	We estimate that the net proceeds to us from this offering without exercise of the overallotment option will be approximately $20.0 million. We intend to use the net proceeds from this offering to prepay outstanding balances under our Term Loan under our Senior Credit Facility. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholders. See "Use of Proceeds."
Risk factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of the common stock.
Nasdaq National Market symbol	"ROLL"

The number of shares of our common stock that will be outstanding after this offering as shown above is based on 16,976,381 shares outstanding on March 29, 2006, adjusted to give effect to the exercise of warrants for cash by certain selling stockholders and this offering, and excludes:

- 1,966,119 shares of our common stock issuable upon the exercise of stock options under our stock option plans and warrants to purchase common stock that will be outstanding and unexercised after the consummation of this offering, at a weighted average exercise price of $7.94 per share; and

- 443,168 additional shares of our common stock reserved for future grants under our 2005 Long-Term Incentive Plan.

Unless otherwise specifically stated or the context otherwise requires, the information in this prospectus assumes no exercise of the underwriters' overallotment option in this offering to purchase from us an aggregate of 1,060,050 shares of our common stock. See "Use of Proceeds."

Summary Financial Data

The summary financial data for the fiscal years ended March 29, 2003, April 3, 2004 and April 2, 2005 have been derived from our historical consolidated financial statements audited by Ernst & Young LLP, independent registered public accounting firm. The summary financial data for the nine month periods ended January 1, 2005 and December 31, 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus, which in our opinion contain all adjustments necessary for a fair presentation of the consolidated financial data. Results for interim periods are not necessarily indicative of results that may be expected for a full fiscal year. Historical results are not necessarily indicative of the results expected in the future. See "Use of Proceeds" and "Prospectus Summary The Offering."

You should read the data presented below together with, and qualified by reference to, "Selected Consolidated Historical Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included elsewhere in this prospectus.

	Fiscal Year Ended			Nine Months Ended	
	March 29, 2003	April 3, 2004	April 2, 2005	January 1, 2005	December 31, 2005[6]
	(in thousands, except share and per share amounts)				
Statement of Operations Data:					
Net sales[1]	$ 172,860	$ 187,331	$243,016	$ 170,731	$198,758
Cost of sales	124,086	135,433	174,602	123,325	139,134
Gross margin	48,774	51,898	68,414	47,406	59,624
Selling, general and administrative[2]	26,647	28,107	32,749	23,261	32,325
Other, net	1,424	1,662	3,526	2,464	1,020
Operating income	20,703	22,129	32,139	21,681	26,279
Interest expense, net	21,023	20,380	19,669	14,335	12,582
Loss (gain) on early extinguishment of debt[3]	(780)		6,950	6,956	3,771
Other non-operating expense (income)	298	16	(355)	(98)	
Income before income taxes	162	1,733	5,875	488	9,926
Provision for (benefit from) income taxes	113	1,070	(1,385)	180	3,442
Net income	49	663	7,260	308	6,484
Preferred stock dividends	(1,313)	(2,144)	(2,280)	(1,693)	(893)
Participation rights of preferred stock in undistributed earnings			(1,142)	(687)	(630)
Net income (loss) available to common stockholders	$ (1,264)	$ (1,481)	$ 3,838	$ (2,072)	$ 4,961
Net income (loss) per common share:[4]					
Basic	$ (0.20)	$ (0.24)	$ 0.62	$ (0.33)	$ 0.43
Diluted	$ (0.20)	$ (0.24)	$ 0.35	$ (0.33)	$ 0.37
Weighted average common shares:[4]					
Basic	6,188,903	6,188,903	6,202,615	6,188,903	11,649,073
Diluted	6,188,903	6,188,903	10,854,584	6,188,903	13,307,181
Other Financial Data:					

	Fiscal Year Ended			Nine Months Ended	
EBITDA[5]	$ 29,224	$ 31,295	$ 41,279	$ 29,123	$ 33,417
Capital expenditures	6,522	4,951	9,526	6,604	7,772

	As of December 31, 2005[6]	
	Actual	As Adjusted
	(in thousands)	
Balance Sheet Data:		
Cash	$ 10,312	$ 10,312
Working capital	148,386	148,386
Total assets	271,424	271,424
Total debt	169,030	148,868
Total stockholders' equity	61,972	82,134

(1)

Net sales were $243.0 million in fiscal 2005 compared to $187.3 million in fiscal 2004, an increase of $55.7 million. Net sales in the compared periods included net sales of $19.3 million in fiscal 2005 and $6.1 million in fiscal 2004 for RBC-API, which was acquired in December 2003.

(2)

Selling, general and administrative expense for the nine months ended December 31, 2005 included non-recurring compensation expense of $5.2 million. See "Related Party Transactions Dr. Hartnett Settlement Bonus."

(3)

Loss on early extinguishment of debt of $7.0 million in fiscal 2005 included $4.3 million for non-cash write-off of deferred financing fees associated with retired debt, $1.8 million of redemption premium and $0.9 million of accrued interest for the 30-day call period related to the early extinguishment of $110.0 million of 9$^{5}/_{8}$% senior subordinated notes in July 2004. Loss on early extinguishment of debt of $3.8 million in the nine months ended December 31, 2005 included $1.6 million for non-cash write-off of deferred financing fees and unamortized bond discount associated with retired debt, $1.3 million of redemption premium associated with the retirement of all of our 13% discount debentures in September 2005, $0.5 million of prepayment fees related to the prepayment of all of the outstanding balance under our second lien term loan in August 2005 and $0.4 million in interest expense for the 30-day call period related to the early extinguishment of our 13% discount debentures.

(4)

Amounts shown for periods prior to August 15, 2005 include shares of both class A common stock and class B common stock, all of which were reclassified into common stock on a one-for-one basis in connection with our initial public offering as of such date.

(5)

EBITDA consists of net income (loss), plus interest expense, net, loss (gain) on early extinguishment of debt, provision for (benefit from) income taxes and depreciation and amortization. EBITDA is not a measure of operating performance under generally accepted accounting principles in the United States, or GAAP, and should not be considered as an alternative or substitute for GAAP profitability measures such as operating earnings (loss) from continuing operations, discontinued operations, extraordinary items and net income (loss). EBITDA as an operating performance measure has material limitations since it excludes, among other things, the statement of operations impact of depreciation and amortization expense, interest expense, net, loss (gain) on early extinguishment of debt and the provision for (benefit from) income taxes and therefore does not necessarily represent an accurate measure of profitability, particularly in situations where a company is highly leveraged or has a disadvantageous tax structure. We use a significant amount of capital assets and depreciation and amortization expense is a necessary element of our costs and ability to generate revenue and therefore its exclusion from EBITDA is a material limitation. We also have a significant amount of debt and interest expense is a necessary element of our costs and ability to generate revenue and therefore its exclusion from EBITDA is a material limitation. We generally incur significant U.S. federal, state and foreign income taxes each year and the provision for (benefit from) income taxes is a necessary element of the our costs and therefore its exclusion from EBITDA is a material limitation. As a result,

EBITDA should be evaluated in conjunction with net income (loss) for a more complete analysis of our profitability, as net income (loss) includes the financial statement impact of these items and is the most directly comparable GAAP operating performance measure to EBITDA. As EBITDA is not defined by GAAP, our definition of EBITDA may differ from and therefore may not be comparable to similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Because of the limitations that EBITDA has as an analytical tool, investors should not consider it in isolation or as a substitute for analysis of our operating results as reported under GAAP.

We use EBITDA as a supplementary non-GAAP operating performance measure to assist with our overall evaluation of our and our subsidiaries' operating performance (including the performance of subsidiary management) relative to outside peer group companies. In addition, we use EBITDA as an operating performance measure in financial presentations to our board of directors, stockholders, the banks participating in our credit facility and rating agencies, among others, as a supplemental non-GAAP operating measure to assist them in their evaluation of our performance. We are also active in mergers, acquisitions and divestitures and use EBITDA as an additional operating performance measure to assess our, our subsidiaries' and potential acquisition target enterprise value and to assist in the overall evaluation of our, our subsidiaries' and potential acquisition target performance on an internal basis and relative to peer group companies. We use EBITDA in conjunction with traditional GAAP operating performance measures as part of our overall assessment of potential valuation and relative performance and therefore do not place undue reliance on EBITDA as our only measure of operating performance. We believe EBITDA is useful for our management and investors as it is a commonly used analytical measurement for comparing company profitability, which eliminates the effects of financing, differing valuations of fixed and intangible assets and tax structure decisions. We believe that EBITDA is specifically relevant to us, due to the different degrees of leverage among our competitors. We have included EBITDA as a supplemental operating performance measure, which should be evaluated by investors in conjunction with the traditional GAAP performance measures for a complete evaluation of our operating performance. The following table provides a reconciliation of net income, the most directly comparable GAAP measure, to EBITDA.

	Fiscal Year Ended			**Nine Months Ended**	
	March 29, 2003	**April 3, 2004**	**April 2, 2005**	**January 1, 2005**	**December 31, 2005**
			(in thousands)		
Net income	$ 49	$ 663	$ 7,260	$ 308	$ 6,484
Add:					
Provision for (benefit from) income taxes	113	1,070	(1,385)	180	3,442
Interest expense, net	21,023	20,380	19,669	14,335	12,582
Loss (gain) on early extinguishment of debt	(780)		6,950	6,956	3,771
Depreciation and amortization	8,819	9,182	8,785	7,344	7,138
EBITDA	$ 29,224	$ 31,295	$ 41,279	$ 29,123	$ 33,417

(6)

Amounts for the nine month period ended December 31, 2005 reflect the consummation of our initial public offering in August 2005, which included: (1) the sale by us of 7,034,516 shares at the offering price of $14.50 per share, (2) the repayment of all of our $38.6 million in aggregate principal amount of 13% senior subordinated discount debentures due 2009, (3) the repayment of all outstanding indebtedness under our $45.0 million second lien term loan, (4) the addition of $40.0 million to our Term Loan and (5) the redemption of all of our then outstanding Class C and Class D preferred stock for an aggregate redemption price of $38.6 million. As adjusted amounts as of December 31, 2005 reflect this offering and the use of proceeds therefrom. See "Use of Proceeds" and "Capitalization."

RISK FACTORS

Our business, operating results or financial condition could be materially adversely affected by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. You should carefully consider these risks before investing in shares of our common stock.

Risk Factors Related to Our Company

The bearing industry is highly competitive, and this competition could reduce our profitability or limit our ability to grow.

The global bearing industry is highly competitive, and we compete with many U.S. and non-U.S. companies, some of which benefit from lower labor costs and fewer regulatory burdens than us. We compete primarily based on product qualifications, product line breadth, service and price. Certain competitors are larger than us or subsidiaries of larger entities and may be better able to manage costs than us or may have greater financial resources than we have. Due to the competitiveness in the bearing industry we may not be able to increase prices for our products to cover increases in our costs, or we may face pressure to reduce prices, which could materially reduce our revenues, gross margin and profitability. Competitive factors, including changes in market penetration, increased price competition and the introduction of new products and technology by existing and new competitors could result in a material reduction in our revenues and profitability.

The loss of a major customer could result in a material reduction in our revenues and profitability.

Our top ten customers generated 32% of our net sales during fiscal 2005 and 34% of our net sales during the nine month period ended December 31, 2005. Accordingly, the loss of one or more of those customers or a substantial decrease in such customers' purchases from us could result in a material reduction in our revenues and profitability.

In addition, the consolidation and combination of defense or other manufacturers may eliminate customers from the industry and/or put downward pricing pressures on sales of component parts. For example, the consolidation that has occurred in the defense industry in recent years has significantly reduced the overall number of defense contractors in the industry. In addition, if one of our customers is acquired or merged with another entity, the new entity may discontinue using us as a supplier because of an existing business relationship with the acquiring company or because it may be more efficient to consolidate certain suppliers within the newly formed enterprise. The significance of the impact that such consolidation may have on our business is difficult to predict because we do not know when or if one or more of our customers will engage in merger or acquisition activity. However, if such activity involved our material customers it could materially impact our revenues and profitability.

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.

The commercial aerospace, mining and construction equipment and other diversified industrial industries to which we sell our products are, to varying degrees, cyclical and tend to decline in response to overall declines in industrial production. Margins in those industries are highly sensitive to demand cycles, and our customers in those industries historically have tended to delay large capital projects, including expensive maintenance and upgrades, during economic downturns. As a result, our business is also cyclical, and the demand for our products by these customers depends, in part, on overall levels of industrial production, general economic conditions and business confidence levels. Downward economic cycles have affected our customers and reduced sales of our products resulting in reductions in our revenues and net earnings. Any future material weakness in demand in any of these industries could materially reduce our revenues and profitability.

In addition, many of our customers have historically experienced periodic downturns, which often have had a negative effect on demand for our products. For example, the severe downturn in 2001 in the aerospace industry resulted in deferrals or cancellations in aircraft orders, which reduced the volume and price of orders placed for products used to manufacture commercial aircraft, including our bearings and other individual parts and components we manufacture. Previous industry downturns have negatively affected, and future industry downturns may negatively affect, our net sales, gross margin and net income.

Future reductions or changes in U.S. government spending could negatively affect our business.

In fiscal 2005, 8% of our net sales were made directly, and we estimate that approximately an additional 11% of our net sales were made indirectly, to the U.S. government to support military or other government projects. Our failure to obtain new government contracts, the cancellation of government contracts or reductions in federal budget appropriations regarding our products could result in materially reduced revenue. In addition, the funding of defense programs also competes with non-defense spending of the U.S. government. Our business is sensitive to changes in national and international priorities and the U.S. government budgets. A shift in government defense spending to other programs in which we are not involved or future reductions in U.S. government defense spending generally could materially reduce our revenues, cash flow from operations and profitability. If we, or our prime contractors for which we are a subcontractor, fail to win any particular bid, or we are unable to replace lost business as a result of a cancellation, expiration or completion of a contract, our revenues or cash flow could be reduced.

Fluctuating supply and costs of raw materials and energy resources could materially reduce our revenues, cash flow from operations and profitability.

Our business is dependent on the availability and costs of energy resources and raw materials, particularly steel, generally in the form of stainless and chrome steel, which are commodity steel products. Raw materials represented approximately 30% of our overall costs for fiscal 2005 and the nine month period ended December 31, 2005, the majority of which consisted of steel and related products. The availability and prices of raw materials and energy sources may be subject to curtailment or change due to, among other things, new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and worldwide price levels. Although we currently maintain alternative sources for raw materials, our business is subject to the risk of price fluctuations and periodic delays in the delivery of certain raw materials. Disruptions in the supply of raw materials and energy resources could temporarily impair our ability to manufacture our products for our customers or require us to pay higher prices in order to obtain these raw materials or energy resources from other sources, which could thereby affect our net sales and profitability.

For example, we purchase steel at market prices, which during the past two years have increased to historical highs as a result of a relatively low level of supply and a relatively high level of demand. As a result, we are currently being assessed surcharges on certain of our purchases of steel, and under certain circumstances, we have experienced difficulty in identifying steel for purchase. If we are unable to purchase steel for our operations for a significant period of time, our operations would be disrupted, which could reduce or delay sales of our products, and, in turn, could result in a material reduction in our revenues, cash flow from operations and profitability. In addition, we may be unable to pass on the increased costs of raw materials to our customers, which could materially reduce our cash flow from operations and profitability.

We seek to pass through a significant portion of our additional costs to our customers through steel surcharges or price increases. However, even if we are able to pass these steel surcharges or price increases to our customers, there may be a time lag of up to 12 weeks or more between the time a cost increase goes into effect and our ability to implement surcharges or price increases, particularly for

orders already in our backlog. As a result our gross margin percentage may decline, and we may not be able to implement other price increases for our products. We cannot provide assurances that we will be able to continue to pass these additional costs on to our customers at all or on a timely basis or that our customers will not seek alternative sources of supply if there are significant or prolonged increases in the price of steel or other raw materials or energy resources.

We may not be able to address technological advances or maintain customer relationships which are necessary to remain competitive within our businesses.

We believe that our customers rigorously evaluate their suppliers on the basis of product quality, price competitiveness, technical expertise, new product innovation, reliability and timeliness of delivery, product design capability, manufacturing expertise, operational flexibility and customer service. Our success will depend on our ability to continue to meet our customers' changing specifications with respect to these criteria. We must remain committed to product research and development, advanced manufacturing techniques and service to remain competitive. We may not be able to address technological advances in metallurgy or in materials science or introduce new products that may be necessary to remain competitive within our businesses, or our competitors may develop products superior to our products. Furthermore, we may be unable to adequately protect any of our own technological developments to produce a sustainable competitive advantage.

Our products are subject to certain approvals, and the loss of such approvals could materially reduce our revenues and profitability.

Essential to servicing the aerospace market is the ability to obtain product approvals. We have in excess of 32,000 product approvals, which enable us to provide products used in virtually all domestic aircraft platforms presently in production or operation. Product approvals are typically issued by the Federal Aviation Administration, or FAA, to designated OEMs who are Production Approval Holders of FAA approved aircraft. These Production Approval Holders provide quality control oversight and generally limit the number of suppliers directly servicing the commercial aerospace aftermarket. Regulations enacted by the FAA provide for an independent process (the Parts Manufacturer Approval, or PMA, process), which enables suppliers who currently sell their products to the Production Approval Holders, to sell products to the aftermarket. We have received over 2,400 PMA application approvals to date. Our foreign sales may be subject to similar approvals. Although we have not lost any material product approvals in the past, we cannot assure you that we will not lose approvals for our products in the future. The loss of product approvals could result in lost sales and materially reduce our revenues and profitability.

Under certain circumstances, the U.S. government has the right to debar or suspend us from acting as a U.S. government contractor or subcontractor, and if we are suspended or debarred from acting as a government supplier for any reason, such an action would materially reduce our revenues and profitability.

In connection with our performance of government contracts, the federal government audits and reviews our performance, pricing practices and compliance with applicable laws, regulations and standards. It is possible that as a result of these audits, our revenues, cash flow or results of operations could be materially reduced as a result of lost sales or penalties. For example, the government could disallow certain costs that it originally reimbursed, and we may be required to refund cash already collected. It is also possible that a government audit, review or investigation could uncover improper or illegal activities that would subject us to civil, criminal and/or administrative sanctions, including, but not limited to, termination of contracts, reimbursement of payments received, fines, forfeiture of profits and suspension or debarment from doing business with federal government agencies. If any allegations of impropriety were made against us, whether or not true, our reputation could be adversely affected. If we were suspended or debarred from contracting with the federal government, or any specific agency, if our reputation was impaired or if the government ceased or significantly decreased the

amount of business it does with us, our revenues and cash flow could be reduced. As a government contractor, we are also subject to various federal laws, regulations and standards. New laws, regulations or standards or changes to existing laws, regulations or standards could subject us to additional costs of compliance or liabilities and could result in material reductions to our results of operations, cash flow or revenues.

We have outstanding debt, and may incur additional debt in the future for acquisitions or other purposes, which could materially impact our business.

As of December 31, 2005 we had total indebtedness of $169.0 million. After giving effect to this offering and the use of estimated net proceeds therefrom, our total outstanding debt would have been approximately $148.9 million. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

To service our debt, we will require a significant amount of cash. Our ability to generate cash, make scheduled payments or to refinance our obligations depends on our successful financial and operating performance. Our financial and operating performance, cash flow and capital resources depend upon prevailing economic conditions and certain financial, business and other factors, many of which are beyond our control.

We may incur additional indebtedness in the future for acquisitions and other purposes, and the significant debt servicing costs associated with that indebtedness could have significant effects on our operations, including:

- limit our ability to obtain additional financing to operate our business;
- require us to dedicate a substantial portion of our cash flow to payments on our debt, reducing our ability to use our cash flow to fund working capital, capital expenditures and other general operational requirements;
- limit our flexibility to plan for and react to changes in our business or industry;
- place us at a competitive disadvantage relative to some of our competitors that have less debt than us; and
- increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates or a downturn in our business or the economy.

The occurrence of any one of these events could materially impact our business, financial condition, results of operations and ability to grow our business.

Restrictions in our indebtedness agreements could limit our growth and our ability to respond to changing conditions.

The Senior Credit Facility and our Swiss franc 14.0 million Swiss credit facility (approximately $4.8 million outstanding as of December 31, 2005), or Swiss Credit Facility, contain a number of restrictive covenants that limit our ability, among other things, to:

- incur additional indebtedness and issue preferred stock and guarantee indebtedness;
- create liens on our assets;
- pay dividends or make other equity distributions;
- purchase or redeem capital stock;
- create restrictions on payments of dividends or other amounts to us by our restricted subsidiaries;

make investments;

merge, consolidate or sell assets;

engage in activities unrelated to our current business;

engage in transactions with our affiliates; and

sell or issue capital stock of certain subsidiaries.

In addition, the Senior Credit Facility contains other financial covenants requiring us to maintain a minimum fixed charge coverage ratio and maximum senior leverage ratios and to satisfy certain other financial conditions. Our Senior Credit Facility prohibits us from incurring capital expenditures of more than $15 million per year. These restrictions could limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general or otherwise conduct necessary corporate activities.

As of December 31, 2005, we had no outstanding borrowings and letters of credit of $20.6 million under our $55.0 million Revolving Credit Facility. Under the Revolving Credit Facility, we had borrowing availability of $34.4 million as of December 31, 2005. Under the revolving credit facility under our Swiss Credit Facility, or Swiss Revolver, we had borrowing availability of approximately $3.0 million (4.0 million SFr) as of December 31, 2005.

If we amend or replace our Senior Credit Facility in connection with this offering, we expect that we will be subject to substantially similar restrictive covenants as described above. See "Description of Certain Indebtedness Senior Credit Facility."

Work stoppages and other labor problems could materially reduce our ability to operate our business.

As of December 31, 2005, approximately 26% of our hourly employees in the U.S. and abroad were represented by labor unions. While we believe our relations with our employees are satisfactory, a lengthy strike or other work stoppage at any of our facilities, particularly at some of our larger facilities, could materially reduce our ability to operate our business. We most recently experienced a four-month work stoppage in calendar years 2003-2004 at our Nice Bearings facility. This strike did not materially impact our operations, but we cannot assure you that a work stoppage at one or more of our facilities will not materially impair our ability to operate our business in the future. In addition, any attempt by our employees not currently represented by a union to join a union could result in additional expenses, including with respect to wages, benefits and pension obligations. We currently have four collective bargaining agreements, one agreement covering approximately 53 employees will expire in June 2007, one agreement covering approximately 38 employees will expire in October 2009, one agreement covering approximately 72 employees will expire in January 2008 and one agreement covering approximately 113 employees will expire in June 2008. In February 2006 we entered into a shutdown agreement which effectively terminated one collective bargaining agreement covering approximately 43 employees. We expect that the facility will be shutdown in the first quarter of fiscal 2007. We expect that such shutdown will not be material to our operations or financial results.

Negotiations for the extension of these agreements may result in modifications to the terms of these agreements, and these modifications could cause us to incur increased costs relating to our labor force.

In addition, work stoppages at one or more of our customers or suppliers, including suppliers of transportation services, many of which have large unionized workforces, for labor or other reasons could also cause disruptions to our business that we cannot control, and these disruptions may materially reduce our revenues and profitability.

Our business is capital intensive and may consume cash in excess of cash flow from our operations.

Our ability to remain competitive, sustain our growth and expand our operations largely depends on our cash flow from operations and our access to capital. We intend to fund our cash needs through operating cash flow and borrowings under our Senior Credit Facility. We may require additional equity or debt financing to fund our growth and debt repayment obligations. In addition, we may need

additional capital to fund future acquisitions. Our business may not generate sufficient cash flow, and we may not be able to obtain sufficient funds to enable us to pay our debt obligations and capital expenditures or we may not be able to refinance on commercially reasonable terms, if at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity."

Unexpected equipment failures, catastrophic events or capacity constraints may increase our costs and reduce our sales due to production curtailments or shutdowns.

Our manufacturing processes are dependent upon critical pieces of equipment, such as furnaces, continuous casters and rolling equipment, as well as electrical equipment, such as transformers, and this equipment may, on occasion, be out of service as a result of unanticipated failures. In addition to equipment failures, our facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions, earthquakes or violent weather conditions. In the future, we may experience material plant shutdowns or periods of reduced production as a result of these types of equipment failures or catastrophes. Interruptions in production capabilities will inevitably increase our production costs and reduce sales and earnings for the affected period.

Certain of our facilities are operating at a single shift with light second and third shifts, and additional demand may require additional shifts and/or capital investments at these facilities. We cannot assure you that we will be able to add additional shifts as needed in a timely way and production constraints may result in lost sales. In certain markets we refrain from making additional capital investments to expand capacity where we believe market expansion in a particular end market is not sustainable or otherwise does not justify the expansion or capital investment. Our assumptions and forecasts regarding market conditions in these end markets may be erroneous and may result in lost earnings, potential sales going to competitors and inhibit our growth.

The occurrence of extraordinary events, such as a major terrorist attack in the U.S., may adversely affect our business, resulting in a decrease in our revenues.

Future terrorist attacks cannot be predicted, and their occurrence can be expected to negatively affect the economy of the U.S. and other countries in which we do business. Such attacks may have a material impact on the markets in which we operate, particularly commercial aerospace, as increased terrorist activity around the world is likely to cause a reduction in air travel. For example, in the period following September 11, 2001, aircraft orders declined significantly and materially reduced our sales to the aerospace market. Similar effects are likely to result if there is a significant increase in terrorist activity around the world, particularly if commercial airliners are again involved in one or more major terrorist incidents. Other kinds of significant terror incidents may also impair our ability to conduct our manufacturing and other business activities for extended periods depending on the nature and severity of the event.

We may not be able to continue to make the acquisitions necessary for us to realize our growth strategy.

The acquisition of businesses that complement or expand our operations has been and continues to be an important element of our business strategy. We cannot assure you that we will be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms in the future. Our inability to acquire businesses, or to operate them profitably once acquired, could have a material adverse effect on our business, financial position, cash flow and growth.

The costs and difficulties of integrating acquired businesses could impede our future growth.

We cannot assure you that any future acquisition will enhance our financial performance. Our ability to effectively integrate any future acquisitions will depend on, among other things, the adequacy of our implementation plans, the ability of our management to oversee and operate effectively the combined operations and our ability to achieve desired operating efficiencies and sales goals. The

integration of any acquired businesses might cause us to incur unforeseen costs, which would lower our future earnings and would prevent us from realizing the expected benefits of these acquisitions.

Even if we are able to integrate future acquired businesses with our operations successfully, we cannot assure you that we will realize all of the cost savings, synergies or revenue enhancements that we anticipate from such integration or that we will realize such benefits within the expected time frame.

We depend heavily on our senior management and other key personnel, the loss of whom could materially affect our financial performance and prospects.

Our business is managed by a small number of key executive officers, including Dr. Michael J. Hartnett. Our future success will depend on, among other things, our ability to keep the services of these executives and to hire other highly qualified employees at all levels. Dr. Hartnett is the only member of our senior management team with a long-term employment contract. The remainder of our key executives are at-will employees.

We compete with other potential employers for employees, and we may not be successful in hiring and retaining executives and other skilled employees that we need. Our ability to successfully execute our business strategy, market and develop our products and serve our customers could be adversely affected by a shortage of available skilled employees or executives.

Our international operations are subject to risks inherent in such activities.

We have established operations in certain countries outside the U.S., including Mexico, France and Switzerland. Of our 18 facilities, 4 are located outside the U.S., including 2 manufacturing facilities.

Approximately 21% of our net sales were derived directly or indirectly from sales outside the U.S. during fiscal year 2005 and during the nine month period ended December 31, 2005. We expect that this proportion is likely to increase as we seek to increase our penetration of foreign markets, including through acquisitions, particularly within the aerospace and defense markets. Our foreign operations are subject to the risks inherent in such activities such as: currency devaluations, logistical and communications challenges, costs of complying with a variety of foreign laws and regulations, greater difficulties in protecting and maintaining our rights to intellectual property, difficulty in staffing and managing geographically diverse operations, acts of terrorism or war or other acts that may cause social disruption which are difficult to quantify or predict and general economic conditions in these foreign markets. We are not aware of any proposed material regulatory changes, but our international operations may be negatively impacted by changes in government policies, such as changes in laws and regulations (or the interpretation thereof), restrictions on imports and exports, sources of supply, duties or tariffs, the introduction of measures to control inflation and changes in the rate or method of taxation. To date we have not experienced significant difficulties with the foregoing risks associated with our international operations, however, as the size of our international operations has continued to grow, we expect these risks to become increasingly important to our business operations.

Currency translation risks may have a material impact on our results of operations.

Our Swiss operations utilize the Swiss franc as the functional currency and our French operations utilize the Euro as the functional currency. Foreign currency transaction gains and losses are included in earnings. 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. While we monitor exchange rates, we currently do not have exchange rate hedges in place to reduce the risk of an adverse currency exchange movement. Although currency fluctuations have not had a material impact on our financial performance in the past, such fluctuations may affect our financial performance in the future. The impact of future

exchange rate fluctuations on our results of operations cannot be accurately predicted. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Foreign Currency Exchange Rates."

Our pension plans are underfunded, and we may be required to make significant future contributions to the plans.

As of December 31, 2005, we maintained noncontributory defined benefit pension plans covering substantially all of our union employees in our Heim division plant in Fairfield, Connecticut, our Nice subsidiary plant in Kulpsville, Pennsylvania, our Bremen subsidiary plant in Plymouth, Indiana and our Tyson subsidiary plant in Glasgow, Kentucky. As of April 2, 2005, our plans were underfunded by $3.4 million, which is the amount by which the accumulated benefit obligations exceed the sum of the fair market value of plans' assets. We are required to make cash contributions to our pension plans to the extent necessary to comply with minimum funding requirements imposed by employee benefit and tax laws. The amount of any such required contributions is determined based on annual actuarial valuation of the plans as performed by the plan's actuaries. The amount of future contributions will depend upon asset returns, then-current discount rates and a number of other factors, and, as a result, the amount we may elect or be required to contribute to our pension plans in the future may increase significantly. Additionally, there is a risk that if the Pension Benefit Guaranty Corporation concludes that its risk with respect to our pension plan may increase unreasonably if the plan continues to operate, if we are unable to satisfy the minimum funding requirement for the plans or if the plans become unable to pay benefits, then the Pension Benefit Guaranty Corporation could terminate the plans and take control of their assets. In such event, we may be required to make an immediate payment to the Pension Benefit Guaranty Corporation of all or a substantial portion of the underfunding as calculated by the Pension Benefit Guaranty Corporation based upon its own assumptions. The underfunding calculated by the Pension Benefit Guaranty Corporation could be substantially greater than the underfunding we have calculated because, for example, the Pension Benefit Guaranty Corporation may use a significantly lower discount rate. If such payment is not made, then the Pension Benefit Guaranty Corporation could place liens on a material portion of our assets and the assets of any members of our controlled group. Such action could result in a material increase in our pension related expenses and a corresponding reduction in our cash flow and net income. For additional information concerning our pension plans and plan liabilities, see Note 9 to our unaudited consolidated financial statements for the nine months ended December 31, 2005 and Note 13 to our consolidated financial statements for the fiscal year ended April 2, 2005 attached to this prospectus.

We may incur material losses for product liability and recall related claims.

We are subject to a risk of product and recall related liability in the event that the failure of any of our products results in personal injury or death, property damage or does not conform to our customers' specifications. In particular, our products are installed in a number of types of vehicle fleets, including airplanes, trains, automobiles, heavy trucks and farm equipment, many of which are subject to government ordered as well as voluntary recalls by the manufacturer. If one of our products is found to be defective, causes a fleet to be disabled or otherwise results in a product recall, significant claims may be brought against us. Although we have not had any material product liability or recall related claims made against us, and we currently maintain product liability insurance coverage for product liability, although not for recall related claims, we cannot assure you that product liability or recall related claims, if made, would not exceed our insurance coverage limits or would be covered by insurance which, in turn, may result in material losses related to these claims, increased future insurance costs and a corresponding reduction in our cash flow and net income.

Environmental regulations impose substantial costs and limitations on our operations, and environmental compliance may be more costly than we expect.

We are subject to various federal, state and local environmental laws and regulations, including those governing discharges of pollutants into the air and water, the storage, handling and disposal of wastes and the health and safety of employees. These laws and regulations could subject us to material costs and liabilities, including compliance costs, civil and criminal fines imposed for failure to comply with these laws and regulations and litigation costs. We also may be liable under the federal Comprehensive Environmental Response, Compensation, and Liability Act, or similar state laws, for the costs of investigation and clean-up of contamination at facilities currently or formerly owned or operated by us or at other facilities at which we have disposed of hazardous substances. In connection with such contamination, we may also be liable for natural resource damages, government penalties and claims by third parties for personal injury and property damage. Compliance with these laws and regulations may prove to be more limiting and costly than we anticipate. New laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs or become the basis for new or increased liabilities that could cause a material increase in our environmental related compliance costs and a corresponding reduction in our cash flow and net income. Investigation and remediation of contamination at some of our sites is ongoing. Actual costs to clean-up these sites may exceed our current estimates. Although we have indemnities for certain pre-closing environmental liabilities from the prior owners in connection with our acquisition of several of our facilities, we cannot assure you that the indemnities will be adequate to cover known or newly discovered pre-closing liabilities.

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.

Our ability to compete effectively is dependent upon our ability to protect and preserve the intellectual property and other proprietary rights and materials owned, licensed or otherwise used by us. We have numerous U.S. and foreign patents, U.S. trademark registrations and U.S. copyright registrations. Our issued patents are expected to expire by their own terms at various dates and most such patents will not expire for at least 5 years. We also have U.S. trademark and patent applications pending. We cannot assure you that our pending trademark and patent applications will result in trademark registrations and issued patents, and our failure to secure rights under these applications may limit our ability to protect the intellectual property rights that these applications were intended to cover. Although we have attempted to protect our intellectual property and other proprietary rights both in the United States and in foreign countries through a combination of patent, trademark, copyright and trade secret protection and non-disclosure agreements, these steps may be insufficient to prevent unauthorized use of our intellectual property and other proprietary rights, particularly in foreign countries where the protection available for such intellectual property and other proprietary rights may be limited. To date we are not currently engaged in and have not had any material infringement or other claims pertaining to our intellectual property brought by us or against us in recent years. We cannot assure you that any of our intellectual property rights will not be infringed upon or that our trade secrets will not be misappropriated or otherwise become known to or independently developed by competitors. We may not have adequate remedies available for any such infringement or other unauthorized use. We cannot assure you that any infringement claims asserted by us will not result in our intellectual property being challenged or invalidated, that our intellectual property will be held to be of adequate scope to protect our business or that we will be able to deter current and former employees, contractors or other parties from breaching confidentiality obligations and misappropriating trade secrets. In addition, we may become subject to claims against us which could require us to pay damages or limit our ability to use certain intellectual property and other proprietary rights found to be in violation of a third party's rights, and, in the event such litigation is

successful, we may be unable to use such intellectual property and other proprietary rights at all or on reasonable terms. Regardless of its outcome, any litigation, whether commenced by us or third parties, could be protracted and costly and could result in increased litigation related expenses, the loss of intellectual property rights or payment of money or other damages, which may result in lost sales and reduced cash flow and decrease our net income. See "Business Intellectual Property."

Cancellation of orders in our backlog of orders could negatively impact our revenues.

As of December 31, 2005, we had an order backlog of $152.6 million, which we estimate will be fulfilled within the next 12 months. However, orders included in our backlog are subject to cancellation, delay or other modifications by our customers prior to fulfillment. For these reasons, we cannot assure you that orders included in our backlog will ultimately result in the actual receipt of revenues from such orders.

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.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. We are in the process of instituting changes to our internal procedures to satisfy the requirements of the Sarbanes-Oxley Act of 2002, which require management and our auditors to evaluate and assess the effectiveness of our internal controls by March 31, 2007. Implementing these changes may take a significant amount of time and may require specific compliance training of our directors, officers and other personnel. To date we have not detected any material weakness or significant deficiencies in our internal control over financial reporting. However, we are continuing to evaluate and, where appropriate, enhance our policies, procedures and internal controls. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we could be subject to regulatory scrutiny, civil or criminal penalties or shareholder litigation. In addition, failure to maintain adequate internal controls could result in financial statements that do not accurately reflect our financial condition. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock. We cannot assure you that we will be able to complete the work necessary to fully comply with the requirements of the Sarbanes-Oxley Act or that management or our auditors will conclude that our internal controls are effective.

We face new challenges and increased costs as a public company.

Prior to our initial public offering in August 2005, our management team had historically operated our business as a privately held company. We expect that the obligations of being a public company, including substantial public reporting and investor relations obligations, will require significant legal, accounting and other additional expenditures, as well as stock exchange listing requirements, which will place additional demands on our management and may require the hiring of additional personnel. These obligations and related expenses have increased our operating expenses since our initial public offering and will continue to do so and could divert our management's attention from our operations. These new rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot accurately predict the amount of additional costs we may incur or the timing of such costs. For the nine month period ended December 31, 2005, we estimate that we have incurred approximately $0.9 million of additional costs in connection with our operation as a public company. We can provide no assurance that such costs may not increase significantly in the future, particularly in

connection with the work required for our accountants to certify the adequacy of our internal controls over financial reporting.

Risk Factors Related to our Common Stock

Provisions in our charter documents and under Delaware law may prevent or frustrate attempts by our stockholders to change our management and hinder efforts to acquire a controlling interest in us.

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- a classified board of directors;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings; and
- the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval.

The affirmative vote of the holders of at least $66^2/_3$% of our shares entitled to vote is necessary to amend or repeal the above provisions of our certificate of incorporation. In addition, absent approval of our board of directors, many of our bylaw provisions may only be amended or repealed by the affirmative vote of the holders of at least $66^2/_3$% of our shares entitled to vote.

Our certificate of incorporation authorizes the issuance of "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. Accordingly, the board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could materially adversely affect the voting power or other rights of the holders of our common stock, including purchasers in this offering. Holders of the common stock will not have preemptive rights to subscribe for a pro rata portion of any capital stock which may be issued by us. In the event of issuance, such preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of RBCI. Although we have no present intention to issue any new shares of preferred stock, we may do so in the future.

In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns, or within the last three years has owned, 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Accordingly, Section 203 may discourage, delay or prevent a change in control of our company.

If there are substantial sales of our common stock, our stock price could decline.

If our existing stockholders sell a large number of shares of our common stock or the public market perceives that existing stockholders might sell shares of our common stock, the market price of our common stock could decline significantly. All of our directors, executive officers and the selling stockholders will have executed 90-day lock-up agreements for their shares prior to the completion of this offering. Our other stockholders, including employee holders of warrants, options and restricted stock will not be executing lock-up agreements. The shares will be eligible for sale pursuant to Rule 144 or otherwise subject to the expiration of the lock-up agreements for those persons who are executing such agreements. See "Shares Eligible for Future Sale."

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements." All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; future growth rates in the markets we serve; increases in foreign sales; supply and cost of raw materials, any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words "may," "estimate," "intend," "continue," "believe," "expect" or "anticipate" and other similar words.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed in this prospectus. Factors that could cause our actual results, performance and achievements or industry results to differ materially from estimates or projections contained in forward-looking statements include, among others, the following:

- weakness and cyclicality in any of the industries in which our customers operate;
- changes in marketing, product pricing and sales strategies or developments of new products by us or our competitors;
- future reductions in U.S. governmental spending or changes in governmental programs, particularly military equipment procurement programs;
- suspension or debarment from acting as a government supplier;
- our ability to obtain and retain product approvals;
- supply and costs of raw materials, particularly steel, and energy resources and our ability to pass through these costs on a timely basis;
- our ability to address technological advances in metallurgy or in material advances and introduce new products to remain competitive;
- our ability to acquire and integrate complementary businesses;
- unexpected equipment failures, catastrophic events or capacity constraints;
- development of new litigation;
- our ability to attract and retain our management team and other highly-skilled personnel;
- increases in interest rates;
- work stoppages and other labor problems for us and our customers or suppliers;

contractual limitations on our ability to expand our business;

regulatory developments in the U.S. and foreign countries;

developments or disputes concerning patents or other proprietary rights;

actual or anticipated changes in our earnings, fluctuations in our operating results or the failure to meet the expectations of financial market analysts and investors;

changes in accounting standards, policies, guidance, interpretation or principles;

- risks associated with operating internationally, including currency translation risks;
- the operating and stock performance of comparable companies;
- acts of terrorism or major catastrophic events;
- investors' perceptions of us and our industry; and
- general economic, geopolitical, industry and market conditions.

Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this prospectus, including under the headings "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and in our "Summary Financial Data" and related notes. We do not intend, and undertake no obligation, to update any forward-looking statement. The Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act do not protect forward-looking statements we make in connection with this offering.

Before deciding whether to invest in our common shares, you should carefully consider the matters set forth under the heading "Risk Factors" and all other information contained in this prospectus. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering without exercise of the overallotment option, after deducting the underwriting discount and estimated expenses of the offering, will be approximately $20.0 million. If the underwriters' overallotment option is exercised in full, we estimate that we will receive net proceeds of approximately $40.9 million. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholders.

We intend to use the full amount of the net proceeds from this offering described above to prepay outstanding balances under our Term Loan, which were $147.6 million as of December 31, 2005. For a description of our Term Loan under our Senior Credit Facility, including interest rates and maturity with respect thereto, see "Description of Certain Indebtedness Senior Credit Facility" and "Capitalization." Any amounts borrowed under the Senior Credit Facility in the prior year were used to refinance or repay our then existing indebtedness.

INDUSTRY AND MARKET DATA

The data included in this prospectus regarding markets, product categories, ranking and percentage of our sales to the aftermarket, including, but not limited to, the size of certain markets, product categories and sales volumes and our position and the positions of our competitors within these markets and product categories, are based on our estimates and definitions, which have been derived from management's knowledge and experience in the areas in which the relevant businesses operate. Estimates for the anticipated rate of growth for the bearing industry have been obtained from a report titled *Freedonia Focus on Bearings* published in November 2004 by The Freedonia Group, Inc. and obtained by us after a payment by us to The Freedonia Group, Inc. of a licensing fee. We believe that these sources, in each case, provide reasonable estimates. However, market share data is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market shares. In addition, consumption patterns and customer preferences can and do change. In addition, we may define our markets in a way that may be different from how our competitors or others define their markets. References herein to our being a leader in a certain market or product category refer to our having a leading position based on sales in fiscal 2005 of bearing products in such market or product category, unless the context otherwise requires.

PRICE RANGE OF OUR COMMON STOCK

Our common stock is quoted on the Nasdaq National Market under the symbol "ROLL." The following table shows the high and low sales prices of our common stock as reported by the Nasdaq National Market during the periods indicated:

	High	Low
Fiscal year ended April 1, 2006		
Second Quarter (beginning on August 10, 2005)	$ 17.68	$ 14.60
Third Quarter	18.27	14.20
Fourth Quarter (through March 28, 2006)	22.24	16.23

The last reported sale price of our common stock on the Nasdaq National Market on March 28, 2006 was $20.74 per share. As of March 13, 2006, there were 11 holders of record of our common stock.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and do not expect to pay cash dividends for the foreseeable future. Our current policy is to retain all of our earnings to finance future growth. In addition, covenants in our credit facilities restrict our ability to pay dividends. Any future declaration of dividends will be determined by our board of directors, based upon our earnings, capital requirements, financial condition, debt covenants, tax consequences and other factors deemed relevant by our board of directors.

CAPITALIZATION

The following table sets forth our cash and capitalization as of December 31, 2005 on an actual basis and as adjusted to give effect to:

- this offering at an assumed public offering price of $20.74 per share, based on the last reported sale price of our common stock on the Nasdaq National Market on March 28, 2006, after deducting the underwriting discount and estimated offering expenses payable by us; and

- the prepayment of outstanding balances under our Term Loan.

This table should be read in conjunction with "Use of Proceeds," "Summary Financial Data," "Selected Consolidated Historical Financial Data" and the historical financial statements and related notes thereto included elsewhere in this prospectus. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" and "Description of Certain Indebtedness."

	December 31, 2005	
	Actual	As Adjusted[3]
	(in thousands)	
Cash	$ 10,312	$ 10,312
Debt:		
Senior Credit Facility[1]	$ 147,625	$ 127,463
Other debt[2]	21,405	21,405
Total debt	169,030	148,868
Stockholders' equity:		
Common stock	166	180
Additional paid-in capital	98,206	118,354
Deferred compensation	(158)	(158)
Accumulated other comprehensive loss	(3,532)	(3,532)
Accumulated deficit	(32,710)	(32,710)
Total stockholders' equity	61,972	82,134
Total capitalization	$ 231,002	$ 231,002

(1) The amount shown for the Senior Credit Facility excludes $20.6 million of letters of credit drawn under our $25.0 million letter of credit subfacility under our Revolving Credit Facility.

(2) Other debt consists of $4.8 million outstanding under the Swiss Term Loan and $16.7 million aggregate principal amount of our industrial revenue bonds.

(3) As adjusted amounts reflect the exercise of warrants to purchase common stock for cash and subsequent sale of 358,117 shares of common stock received upon such exercise by the selling stockholders in connection with this offering.

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SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

The following table sets forth our selected consolidated historical financial and other data as of the dates and for the periods indicated. The selected financial data as of and for the years ended March 30, 2002, March 29, 2003, April 3, 2004 and April 2, 2005 have been derived from our historical consolidated financial statements audited by Ernst & Young LLP, independent registered public accounting firm. The selected financial data as of and for the fiscal year ended March 31, 2001 have been derived from our historical consolidated financial statements. The selected financial data for the nine month periods ended January 1, 2005 and December 31, 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus, which in our opinion contain all adjustments necessary for a fair presentation of the consolidated financial data. Results for interim periods are not necessarily indicative of results that may be expected for a full fiscal year. Historical results are not necessarily indicative of the results expected in the future. You should read the data presented below together with, and qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included elsewhere in this prospectus.

	Fiscal Year Ended					Nine Months Ended	
	March 31, 2001	**March 30, 2002**	**March 29, 2003**	**April 3, 2004**	**April 2, 2005**	**January 1, 2005**	**December 31, 2005[6]**
	(in thousands, except share and per share amounts)						
Statement of Operations Data:							
Net sales[1]	$176,435	$168,331	$172,860	$187,331	$243,016	$170,731	$198,758
Cost of sales	116,245	114,575	124,086	135,433	174,602	123,325	139,134
Gross margin	60,190	53,756	48,774	51,898	68,414	47,406	59,624
Selling, general and administrative[2]	27,043	25,641	26,647	28,107	32,749	23,261	32,325
Other, net	776	937	1,424	1,662	3,526	2,464	1,020
Operating income	32,371	27,178	20,703	22,129	32,139	21,681	26,279
Interest expense, net	23,335	23,440	21,023	20,380	19,669	14,335	12,582
Financing costs	3,600						
Loss (gain) on early extinguishment of debt[3]			(780)		6,950	6,956	3,771
Other non-operating expense (income)	16	17	298	16	(355)	(98)	
Income before income taxes	5,420	3,721	162	1,733	5,875	488	9,926
Provision for (benefit from) income taxes	2,326	2,052	113	1,070	(1,385)	180	3,442
Income before extraordinary gain	3,094	1,669	49	663	7,260	308	6,484
Extraordinary gain, net	521						
Net income	3,615	1,669	49	663	7,260	308	6,484
Preferred stock dividends			(1,313)	(2,144)	(2,280)	(1,693)	(893)
Participation rights of preferred stock in undistributed earnings					(1,142)	(687)	(630)
Net income (loss) available to common stockholders	$ 3,615	$ 1,669	$ (1,264)	$ (1,481)	$ 3,838	$ (2,072)	$ 4,961
Net income (loss) per common share:[4]							
Basic	$ 1.04	$ 0.27	$ (0.20)	$ (0.24)	$ 0.62	$ (0.33)	$ 0.43
Diluted	$ 0.41	$ 0.19	$ (0.20)	$ (0.24)	$ 0.35	$ (0.33)	$ 0.37
Weighted average common shares:[4]							
Basic	3,462,680	6,188,903	6,188,903	6,188,903	6,202,615	6,188,903	11,649,073
Diluted	8,820,763	8,891,645	6,188,903	6,188,903	10,854,584	6,188,903	13,307,181
Other Financial Data:							
EBITDA[5]	$ 37,917	$ 36,266	$ 29,224	$ 31,295	$ 41,279	$ 29,123	$ 33,417

	Fiscal Year Ended					Nine Months Ended	
Capital expenditures	6,619	5,941	6,522	4,951	9,526	$ 6,604	7,772

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	As of					As of December 31, 2005[6]	
	March 31, 2001	March 30, 2002	March 29, 2003	April 3, 2004	April 2, 2005	Actual	As Adjusted
	(in thousands)						
Balance Sheet Data:							
Cash	$ 4,071	$ 7,185	$ 3,553	$ 3,250	$ 2,635	$ 10,312	$ 10,312
Working capital	56,980	70,957	89,411	105,550	120,656	148,386	148,386
Total assets	209,372	219,376	232,356	234,746	250,169	271,424	271,424
Total debt	218,249	226,713	210,933	215,224	220,079	169,030	148,868
Total stockholders' equity (deficit)	(38,134)	(37,567)	(17,649)	(16,285)	(7,759)	61,972	82,134

(1) Net sales were $168.3 million in fiscal 2002 compared to $176.4 million in fiscal 2001, a decrease of $8.1 million, or 4.6%. Net sales related to the RBC Oklahoma acquisition, which was effective on August 20, 2001, were $3.7 million in fiscal 2002. Net sales, excluding the RBC Oklahoma acquisition, decreased $11.8 million or 6.7% from fiscal 2001, primarily due to softness in the OEM heavy truck market, the industrial aftermarkets and the aerospace market after September 11, 2001.

Net sales were $172.9 million in fiscal 2003 compared to $168.3 million in fiscal 2002, an increase of $4.6 million, or 2.7%. Net sales in the compared periods included net sales totaling $2.1 million in fiscal 2003 for RBC France, which was acquired in December 2002, and $5.2 million in fiscal 2003 and $3.7 million in fiscal 2002 generated by RBC Oklahoma, which was acquired effective August 2001. Excluding RBC France and RBC Oklahoma's sales, our net sales increased $1.0 million or 0.6% from period to period.

Net sales were $243.0 million in fiscal 2005 compared to $187.3 million in fiscal 2004, an increase of $55.7 million. Net sales in the compared periods included net sales of $19.3 million in fiscal 2005 and $6.1 million in fiscal 2004 for RBC-API, which was acquired in December 2003.

(2) Selling, general and administrative expense for the nine months ended December 31, 2005 included non-recurring compensation expense of $5.2 million. See "Related Party Transactions Dr. Hartnett Settlement Bonus."

(3) Loss on early extinguishment of debt of $7.0 million in fiscal 2005 included $4.3 million for non-cash write-off of deferred financing fees associated with retired debt, $1.8 million of redemption premium and $0.9 million of accrued interest for the 30-day call period related to the early extinguishment of $110.0 million of 9$^{5}/_{8}$% senior subordinated notes in July 2004. Loss on early extinguishment of debt of $3.8 million in the nine months ended December 31, 2005 included $1.6 million for non-cash write-off of deferred financing fees and unamortized bond discount associated with retired debt, $1.3 million of redemption premium associated with the retirement of all of our 13% discount debentures in September 2005, $0.5 million of prepayment fees related to the repayment of all of the outstanding balance under our second lien term loan in August 2005 and $0.4 million in interest expense for the 30-day call period related to the early extinguishment of our 13% discount debentures.

(4) Amounts shown for periods prior to August 15, 2005 include shares of both class A common stock and class B common stock, all of which were reclassified into common stock on a one-for-one basis in connection with our initial public offering as of such date.

(5) EBITDA consists of net income (loss), plus interest expense, net, loss (gain) on early extinguishment of debt, provision for (benefit from) income taxes and depreciation and amortization. EBITDA is not a measure of operating performance under generally accepted accounting principles in the United States, or GAAP, and should not be considered as an alternative or substitute for GAAP profitability measures such as operating earnings (loss) from continuing operations, discontinued operations, extraordinary items and net income (loss). EBITDA as an operating performance measure has material limitations since it excludes, among other things, the statement of operations impact of depreciation and amortization expense, interest expense, loss (gain) on early extinguishment of debt and the provision for (benefit from) income taxes and therefore does not necessarily represent an accurate measure of profitability, particularly in situations where a company is highly leveraged or has a disadvantageous tax structure. We use a significant amount of capital assets and depreciation and amortization expense is a necessary element of our costs and ability to generate revenue and therefore its exclusion from EBITDA is a material limitation. We also have a significant amount of debt and interest expense is a necessary element of our costs and ability to generate revenue and therefore its exclusion from EBITDA is a material limitation. We generally incur significant U.S. federal, state and foreign income taxes each year and the provision for (benefit from) income taxes is a necessary element of the our costs and therefore its exclusion from EBITDA is a material limitation. As a result, EBITDA should be evaluated in conjunction with net income (loss) for a more complete analysis of our profitability, as net income (loss) includes the financial statement impact of these items and is the most directly comparable GAAP operating performance measure to EBITDA. As EBITDA is not defined by GAAP, our definition of EBITDA may differ from and therefore may not be comparable to similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Because of the limitations that EBITDA has as an analytical tool, investors should not consider it in isolation or as a substitute for analysis of our operating results as reported under GAAP.

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We use EBITDA as a supplementary non-GAAP operating performance measure to assist with our overall evaluation of our and our subsidiaries' operating performance (including the performance of subsidiary management) relative to outside peer group companies. In addition, we use EBITDA as an operating performance measure in financial presentations to our board of directors, stockholders, the banks participating in our credit facility and rating agencies, among others, as a supplemental non-GAAP operating measure to assist them in their evaluation of our performance. We are also active in mergers, acquisitions and divestitures and use EBITDA as an additional operating performance measure to assess our, our subsidiaries' and potential acquisition target enterprise value and to assist in the overall evaluation of our, our subsidiaries' and potential acquisition target performance on an internal basis and relative to peer group companies. We use EBITDA in conjunction with traditional GAAP operating performance measures as part of our overall assessment of potential valuation and relative performance and therefore do not place undue reliance on EBITDA as our only measure of operating performance. We believe EBITDA is useful for our management and investors as it is a commonly used analytical measurement for comparing company profitability, which eliminates the effects of financing, differing valuations of fixed and intangible assets and tax structure decisions. We believe that EBITDA is specifically relevant to us, due to the different degrees of leverage among our competitors. We have included EBITDA as a supplemental operating performance measure, which should be evaluated by investors in conjunction with the traditional GAAP performance measures for a complete evaluation of our operating performance. The following table provides a reconciliation of net income, the most directly comparable GAAP measure, to EBITDA.

	Fiscal Year Ended					Nine Months Ended	
	March 31, 2001	**March 30, 2002**	**March 29, 2003**	**April 3, 2004**	**April 2, 2005**	**January 1, 2005**	**December 31, 2005**
	(in thousands)						
Net income	$ 3,615	$ 1,669	$ 49	$ 663	$ 7,260	$ 308	$ 6,484
Add:							
Provision for (benefit from) income taxes	2,326	2,052	113	1,070	(1,385)	180	3,442
Interest expense, net	23,335	23,440	21,023	20,380	19,669	14,335	12,582
Loss (gain) on early extinguishment of debt			(780)		6,950	6,956	3,771
Depreciation and amortization	8,641	9,105	8,819	9,182	8,785	7,344	7,138
EBITDA	$ 37,917	$ 36,266	$ 29,224	$ 31,295	$ 41,279	$ 29,123	$ 33,417

(6) Amounts for the nine month period ended December 31, 2005 reflect the consummation of our initial public offering in August 2005, which included: (1) the sale by us of 7,034,516 shares at the offering price of $14.50 per share, (2) the repayment of all of our $38.6 million in aggregate principal amount of 13% senior subordinated discount debentures due 2009, (3) the repayment of all outstanding indebtedness under our $45.0 million second lien term loan, (4) the addition of $40.0 million to our Term Loan and (5) the redemption of all of our then outstanding Class C and Class D preferred stock for an aggregate redemption price of $38.6 million. As adjusted amounts as of December 31, 2005 reflect this offering and the use of proceeds therefrom. See "Use of Proceeds" and "Capitalization."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the "Selected Consolidated Historical Financial Data," "Description of Certain Indebtedness" and our consolidated financial statements and the related notes included elsewhere in this prospectus. This prospectus contains, in addition to historical information, forward-looking statements that include risks, uncertainties and assumptions. See "Disclosure Regarding Forward-Looking Statements" for information about our presentation of forward-looking information in this prospectus. Factors that could cause such differences include those described under "Risk Factors."

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 estimate that approximately two-thirds of our net sales during fiscal 2005 and during the nine month period ended December 31, 2005 were generated by products for which we hold the number one or two market position. 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 16 manufacturing facilities in three 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 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 cyclicality 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.

During fiscal 2005 and through the first nine months of fiscal 2006, the world economy continued to emerge from the slowdown experienced from 2000 to 2003, and we experienced favorable conditions across our two major markets: diversified industrial and aerospace and defense. In particular the economy of our diversified industrial market has been driven by strong requirements in non-residential construction, mining and the oil and gas sectors. These conditions have resulted in robust demand for bearings for both OEM and replacement markets. In the aerospace market a very strong recovery began, and we believe it is at its early to mid-stages. Expansion of the commercial aircraft sector, in response to increased passenger demand and the need of the carriers to upgrade the worldwide fleet, drove increased build schedules at Boeing and Airbus. In addition, demand for corporate aircraft remained strong in fiscal 2005 and through the first nine months of fiscal 2006. The defense sector continued to replace and develop its weapons and cargo platforms. This sector demonstrated increased requirements for replacement bearings for combat systems strained by extensive use in harsh environments over the past 4 years. For the nine month period ended December 31, 2005, approximately 21% of our revenues were derived from sales directly or indirectly outside the U.S. We expect this component of our business to increase in response to our emphasis on continued penetration of foreign markets, particularly those in aerospace and defense.

Approximately 30% of our costs are attributable to raw materials, a majority of which are related to steel and related products. During the past two years, steel prices have increased to historically high levels, responding to unprecedented levels of world demand. To date, we have generally been able to pass through these costs to our customers through price increases and the assessment of surcharges, although there can be a time lag of up to 12 weeks or more.

Competition in specialized bearing markets is based on engineering design, brand, lead times and reliability of product and service. These markets are generally not as price sensitive as the markets for standard bearings.

We have demonstrated expertise in acquiring and integrating bearing and precision-engineered component manufacturers that have complementary products or distribution channels and provide significant potential for margin enhancement. We have consistently increased the profitability of acquired businesses through a process of methods and systems improvement coupled with the introduction of complementary and proprietary new products. Since October 1992 we have completed 13 acquisitions which have significantly broadened our end markets, products, customer base and geographic reach.

Sources of Revenue

Revenue is generated primarily from sales of bearings to the diversified industrial market and the aerospace and defense markets. Sales are often made pursuant to sole-source relationships, long-term agreements and purchase orders with our clients. We recognize revenues principally from the sale of products at the point of passage of title, which is at the time of shipment. In certain instances, however, we recognize revenues under the contract method of accounting.

Sales to the diversified industrial market accounted for 55% of our net sales for the nine month period ended December 31, 2005. Sales to the aerospace and defense markets accounted for 45% of our net sales for the same period. We anticipate that sales to the aerospace and defense markets will increase as a percentage of our net sales.

Aftermarket sales of replacement parts for existing equipment platforms represented approximately 56% of our net sales for fiscal 2005. We continue to develop our OEM relationships which have established us as a leading supplier on many important aerospace and defense platforms. Over the past several years, we have experienced increased demand from the replacement parts market, particularly within the aerospace and defense sectors; one of our business strategies has been to increase the proportion of sales derived from this segment. We believe these activities increase the stability of our revenue base, strengthen our brand identity and provide multiple paths for revenue growth.

Approximately 21% of our net sales were derived from sales directly or indirectly outside the U.S. for fiscal 2005 and for the first nine months of fiscal 2006, an increase from 19% from fiscal 2004. We expect that this proportion will increase as we seek to increase our penetration of foreign markets, particularly within the aerospace and defense sectors. In fiscal 2005 and for the nine month period ended December 31, 2005, our top ten customers, four of which were OEMs and the remaining six were distributors, generated 32% and 34% of our net sales, respectively. Out of the 34% of net sales generated by our top ten customers during the nine month period ended December 31, 2005, 22% of net sales was generated by our top four customers. No single customer was responsible for generating more than 6% of our net sales for the same period.

Cost of Revenues

Cost of sales includes employee compensation and benefits, materials, outside processing, depreciation of manufacturing machinery and equipment, supplies and manufacturing overhead.

During fiscal 2005 and during the first nine months of fiscal 2006, our gross margin was impacted by rising raw material prices, in particular, steel and related products. In response, we have, to date, managed to pass on the majority of these price increases of raw materials to our customers through steel surcharges assessed on, or price increases of, our bearing products. However, we have from time to time experienced a time lag of up to 12 weeks or more in our ability to pass through steel surcharges to our customers, which has negatively impacted our gross margin. We will continue to pass on raw material price increases as competitive conditions allow.

We have not been significantly impacted by recent increases in energy prices because energy costs, the most significant component of which is natural gas used in heat treating operations, represent less than 4% of our overall costs.

We monitor gross margin performance through a process of monthly operation management reviews. We will develop new products to target certain markets allied to our strategies by first understanding volume levels and product pricing and then constructing manufacturing strategies to achieve defined margin objectives. We only pursue product lines where we believe that the developed manufacturing process will yield the targeted margins. Management monitors gross margins of all product lines on a monthly basis to determine which manufacturing processes or prices should be adjusted.

Selling, General and Administrative Expenses

Selling, general and administrative, or SG&A, expenses relate primarily to the compensation and associated costs of selling, general and administrative personnel, professional fees, insurance, facility costs and information technology. We expect SG&A expenses will increase in absolute terms as we increase our sales efforts and incur increased costs related to the anticipated growth of our business and the additional costs associated with operating as a public company.

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:

	Fiscal Year Ended			**Nine Months Ended**	
	March 29, 2003	**April 3, 2004**	**April 2, 2005**	**January 1, 2005**	**December 31, 2005**
Statement of Operations Data:					
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Gross margin	28.2	27.7	28.2	27.8	30.0
Selling, general and administrative	15.4	15.0	13.5	13.6	16.3
Other, net	0.8	0.9	1.5	1.5	0.5
Operating income	12.0	11.8	13.2	12.7	13.2
Interest expense, net	12.2	10.9	8.1	8.4	6.3
Loss (gain) on early extinguishment of debt	(0.5)		2.9	4.1	1.9
Other non-operating expense (income)	0.2	0.0	(0.2)	(0.1)	
Income before income taxes	0.1	0.9	2.4	0.3	5.0
Provision for (benefit from) income taxes	0.1	0.6	(0.6)	0.1	1.7
Net income	0.0	0.3	3.0	0.2	3.3

Segment Information

We have four reportable product segments: Plain Bearings, Roller Bearings, Ball Bearings and Other. Other consists primarily of precision ball screws and machine tool collets. The following table shows our net sales and operating income with respect to each of our reporting segments plus Corporate for the last three fiscal years and for the nine months ended January 1, 2005 and December 31, 2005:

	Fiscal Year Ended			Nine Months Ended	
	March 29, 2003	April 3, 2004	April 2, 2005	January 1, 2005	December 31, 2005
	(in thousands)				
Net External Sales					
Plain	$ 67,448	$ 77,578	$ 93,250	$ 66,650	$ 82,078
Roller	60,788	63,106	92,281	64,643	71,193
Ball	34,038	35,801	41,881	28,357	33,239
Other	10,586	10,846	15,604	11,081	12,248
Total	$ 172,860	$ 187,331	$ 243,016	$ 170,731	$ 198,758
Operating Income					
Plain	$ 16,782	$ 18,573	$ 22,647	$ 16,278	$ 21,441
Roller	8,459	11,259	17,030	10,550	16,660
Ball	7,009	6,676	9,070	5,619	7,747
Other	1,779	378	797	860	1,232
Corporate	(13,326)	(14,757)	(17,405)	(11,626)	(20,801)
Total	$ 20,703	$ 22,129	$ 32,139	$ 21,681	$ 26,279

Geographic Information

The following table summarizes our net sales, by destination, for the periods shown:

	Fiscal Year Ended			Nine Months Ended	
	March 29, 2003	April 3, 2004	April 2, 2005	January 1, 2005	December 31, 2005
	(in thousands)				
Geographic Revenues					
Domestic	$ 155,579	$ 166,763	$ 215,381	$ 151,158	$ 177,003
Foreign	17,281	20,568	27,635	19,573	21,755
Total	$ 172,860	$ 187,331	$ 243,016	$ 170,731	$ 198,758

For additional information concerning our business segments, see note 10 to our interim unaudited financial statements for the quarterly period ended December 31, 2005 and Note 20 to our Consolidated Financial Statements for the fiscal year ended April 2, 2005.

Nine Month Period Ended December 31, 2005 Compared to Nine Month Period Ended January 1, 2005

Net Sales. Net sales for the nine month period ended December 31, 2005 were $198.8 million, an increase of $28.1 million, or 16.5%, compared to $170.7 million for the comparable period in fiscal 2005. During the nine month period ended December 31, 2005, we experienced net sales growth in each of our four segments, driven by strong demand across end markets as well as continued efforts to supply new products to existing and new customers. Overall, net sales to diversified industrial customers grew 8.1% in the nine month period of fiscal 2006 compared

to the same period last year. This was principally driven by aftermarket and OEM demand in construction, mining, semiconductor and general

industrial applications. Net sales to aerospace and defense customers grew 28.8% in the nine month period of fiscal 2006 compared to the same period last year, driven mainly by commercial and military aerospace aftermarket and OEM demand.

Our Plain Bearing segment achieved net sales of $82.1 million for the nine month period ended December 31, 2005, an increase of $15.4 million, or 23.1%, compared to $66.7 million for the comparable period in the prior year. Net sales to diversified industrial customers accounted for $6.3 million of the increase, driven primarily by strong demand in the construction and mining heavy equipment sectors, general industrial applications and strong aftermarket demand. The commercial and military aerospace market accounted for $9.1 million of the increase due to an increase in airframe and aerospace bearing shipments to aircraft manufacturers and continued demand for aftermarket product.

Our Roller Bearing segment achieved net sales of $71.2 million for the nine month period ended December 31, 2005, an increase of $6.6 million, or 10.2%, compared to $64.6 million for the comparable period in the prior year. $1.9 million of this increase was attributable to sales to customers in the industrial market and from strong demand from mining, construction equipment and general industrial applications. The aerospace and defense market accounted for the remaining $4.7 million of the increase, driven primarily by increasing build rates and maintenance requirements for commercial and military aircraft.

Our Ball Bearing segment achieved net sales of $33.2 million for the nine month period ended December 31, 2005, an increase of $4.8 million, or 16.9%, compared to $28.4 million for the comparable period in the prior year. The increase was driven principally by increased demand from airframe, electro-optical, and satellite and communications applications and increased penetration of the airframe market. Sales to our customers in the industrial market were flat year over year.

Our Other segment, which is focused mainly on the sale of precision ball screws and machine tool collets, achieved net sales of $12.2 million for the nine month period ended December 31, 2005, an increase of $1.1 million, or 9.9%, compared to $11.1 million for the same period last year. This increase was primarily due to increased sales of machine tool collets as a result of increased penetration of the U.S. machine tool collets market and due to increasing overall market demand, both in Europe and the U.S.

Gross Margin. Gross margin was $59.6 million, or 30.0% of net sales, for the nine month period ended December 31, 2005, versus $47.4 million, or 27.8% of net sales, for the comparable period in fiscal 2005. The increase in our gross margin as a percentage of net sales was primarily the result of an overall increase in volume, slightly higher prices and increased manufacturing efficiency.

Selling, General and Administrative. SG&A expenses increased by $9.0 million, or 38.6%, to $32.3 million for the nine month period ended December 31, 2005 compared to $23.3 million for the same period in fiscal 2005. The $9.0 million increase was primarily due to non-recurring compensation expense of $5.2 million, stock option compensation expense of $0.2 million, professional service fees associated with the implementation of Sarbanes-Oxley 404 of $0.3 million, an increase in personnel necessary to support increased volume, higher professional service fees and additional costs associated with being a public company. As a percentage of net sales, SG&A was 16.2% for the nine month period ended December 31, 2005 compared to 13.6% for the comparable period in fiscal 2005. SG&A, excluding non-recurring compensation expense of $5.2 million and stock option compensation expense of $0.2 million, was 13.5% of net sales for the nine month period ended December 31, 2005 compared to 13.4% for the comparable period in fiscal 2005.

Other, net. Other, net for the nine month period ended December 31, 2005 was $1.0 million compared to $2.5 million for the comparable period in fiscal 2005. For the nine month period ended December 31, 2005, other, net included amortization of intangibles of $0.5 million, $0.2 million of non-recurring management fees and $0.3 million of bad debt expense. For the nine month period

ended January 1, 2005, other, net consisted of amortization of intangibles of $0.3 million, $0.3 million of management fees, losses on fixed asset disposals of $1.8 million and $0.1 million of other expenses.

Operating Income. Operating income was $26.3 million, or 13.2% of net sales, for the nine month period ended December 31, 2005 compared to $21.7 million, or 12.7% of net sales, for the nine month period ended January 1, 2005. Operating income excluding stock option expense of $0.2 million, non-recurring compensation expense of $5.2 million, and non-recurring management fees of $0.2 million was $31.9 million or 16.0% of net sales. Operating income for the Plain Bearing segment was $21.4 million for the nine month period ended December 31, 2005, or 26.1% of net sales, compared to $16.3 million for the same period last year, or 24.4% of net sales. The Roller Bearing segment achieved an operating income for the nine month period ended December 31, 2005 of $16.7 million, or 23.5% of net sales, compared to $10.6 million, or 16.4% of net sales, for the nine month period ended January 1, 2005. The Ball Bearing segment achieved an operating income of $7.7 million, or 23.2% of net sales, for the nine month period ended December 31, 2005, compared to $5.6 million, or 19.7% of net sales, for the comparable period in fiscal 2005. The Other segment achieved an operating income of $1.2 million, or 9.8% of net sales, for the nine month period ended December 31, 2005, compared to $0.9 million or 8.1% of net sales, for the comparable period in fiscal 2005. The increase in operating income in each of the segments was driven primarily by an increase in net sales. In addition, operating income as a percentage of net sales increased for each of the segments primarily as a result of leveraging fixed cost base over higher net sales.

Interest Expense, net. Interest expense, net decreased by $1.7 million to $12.6 million for the nine month period ended December 31, 2005, compared to $14.3 million for the nine month period ended January 1, 2005. Amortization of deferred financing costs and debt discount are recorded as a component of net interest expense. Amortization expenses included in interest expense, net were $0.6 million for the nine month period ended December 31, 2005 compared to $0.9 million for the nine month period ended January 1, 2005.

Loss on Early Extinguishment of Debt. For the nine month period ended December 31, 2005, loss on early extinguishment of debt of $3.8 million included $1.6 million for non-cash write-off of deferred financing fees and unamortized bond discount associated with retired debt, $1.3 million of redemption premium associated with the redemption of all of our 13% discount debentures in September 2005, $0.5 million prepayment fees related to the prepayment of all of the outstanding balance under our second lien term loan in August 2005 and $0.4 million in interest expense for the 30-day call period related to the early extinguishment of our 13% discount debentures. For the nine month period ended January 1, 2005, loss on early extinguishment of debt of $7.0 million included $4.3 million for non-cash write-off of deferred financing fees associated with retired debt, $1.8 million of redemption premium and $0.9 million in interest expense for the 30-day call period related to the early extinguishment of our $110.0 million of $9^5/_8$% senior subordinated notes in July 2004.

Income Before Income Taxes. Income before taxes was $9.9 million for the nine month period ended December 31, 2005 compared to income before taxes of $0.5 million for the nine month period ended January 1, 2005.

Income Taxes. Income tax expense for the nine month period ended December 31, 2005 was $3.4 million compared to an expense of $0.2 million for the nine month period ended January 1, 2005. The effective income tax rate for the nine month period ended December 31, 2005 was 34.7% compared to an income tax rate of 36.9% for the nine month period ended January 1, 2005. The change in the effective income tax rates from period to period is mostly due to changes in the allocation between domestic and foreign earnings, primarily the result of the loss on early extinguishment of debt and the one-time compensation payment.

Net Income. Net income was $6.5 million for the nine month period ended December 31, 2005 compared to net income of $0.3 million for the nine month period ended January 1, 2005.

Fiscal 2005 Compared to Fiscal 2004

Net Sales. Our net sales for fiscal 2005 were $243.0 million, an increase of $55.7 million, or 29.7%, compared to $187.3 million for fiscal 2004. During fiscal 2005, we experienced net sales growth in each of our four segments, driven by strong demand across our end markets as well as our continued efforts to supply new products to existing and new customers. Overall, we experienced significant growth in net sales to our diversified industrial and aerospace customers, driven principally by increased build rates of industrial machinery and commercial and military aircraft, respectively. We believe these trends will continue for the near future and we believe opportunities exist for our expansion within each of these markets. In particular, we expect to benefit from the current acceleration in aerospace build rates and anticipate that net sales from the aerospace market will represent a larger percentage of our overall net sales going forward.

Our Plain Bearing segment achieved net sales of $93.3 million for fiscal 2005, an increase of $15.7 million, or 20.2%, compared to $77.6 million for the prior year. Net sales to our diversified industrial customers accounted for $9.0 million of the increase, driven primarily by strong demand in the construction and mining heavy equipment sectors, strong aftermarket demand for rail products, and several new product introductions we made during the year targeted at both existing and new customers. The commercial and military aerospace market accounted for $8.2 million of the increase due to an increase in airframe and aerospace engine bearing shipments resulting from better penetration of existing customers and a number of new contract wins as well as recovering build rates and maintenance requirements for commercial aircraft. Direct sales to the defense market decreased by $1.5 million due to exceptionally strong demand in the last six months of fiscal 2004 compared to the same period for fiscal 2005.

Our Roller Bearing segment achieved net sales of $92.3 million for fiscal 2005, an increase of $29.2 million, or 46.2%, compared to $63.1 million for the prior year. $13.2 million of the increase was attributable to the inclusion of a full year of results for the RBC-API business unit which was purchased in December 2003. Excluding RBC-API, net sales for the Roller Bearing segment were $73.0 million for fiscal 2005, an increase of $16.0 million, or 28.1%, compared to $57.0 million for fiscal 2004. $14.8 million of this increase was attributable to sales to our customers in the industrial market, where we have selectively increased our penetration of the class 8 truck market, and benefited from strong demand from mining, construction equipment and general industrial applications. The aerospace market accounted for the remaining $1.2 million of the increase, driven primarily by increasing build rates and maintenance requirements for military aircraft.

Our Ball Bearing segment achieved net sales of $41.9 million for fiscal 2005, an increase of $6.1 million, or 17.0%, compared to $35.8 million for the prior year. $3.4 million of the increase was attributable to sales to our customers in the industrial market, driven primarily by increased demand from semiconductor applications and by increased demand from industrial distributors for aftermarket parts. Commercial and military aerospace accounted for the remaining $2.7 million of the increase, driven principally by increased demand from airframe, electro-optical, and satellite and communications applications and our increased penetration of the airframe market.

Our Other segment, which is focused mainly on the sale of precision ball screws and machine tool collets, achieved net sales of $15.6 million, an increase of $4.8 million, or 43.9%, compared to $10.8 million for the same period last year. This increase was primarily due to increased sales of our machine tool collets as a result of our increased penetration of the U.S. machine tool collet market and due to increasing overall market demand.

Gross Margin. Our gross margin was $68.4 million, or 28.2% of net sales, for fiscal 2005, versus $51.9 million, or 27.7% of net sales, for fiscal 2004. The increase in our gross margin as a percentage of net sales was primarily the result of an overall increase in volume, slightly higher prices, and a shift in mix toward higher margin products, partially offset by increased raw material and labor costs which negatively impacted gross margin by 4.0%. We were able to grow our gross margin percentage through price increases and raw material surcharges to customers which offset the impact of raw material price increases of up to 40%.

Selling, General and Administrative. Our SG&A expenses increased by $4.6 million, or 16.5%, to $32.7 million for fiscal 2005 compared to $28.1 million for fiscal 2004. Excluding the RBC-API acquisition, SG&A increased by $4.1 million in fiscal 2005, or 14.7%, compared to fiscal 2004. The $4.1 million increase was primarily due to an increase in personnel necessary to support our increased volume, higher professional service fees and $0.4 million of compensation expense recorded for the intrinsic value of options issued during fiscal 2005. As a percentage of net sales, SG&A declined to 13.5% for fiscal 2005 compared to 15.0% for fiscal 2004. The decline was primarily due to continued control of fixed costs and controlled expansion of headcount. We expect our SG&A to remain relatively constant as a percentage of net sales over the next few years, including the anticipated costs associated with operating as a public company.

Other, net. Other, net for fiscal 2005 was $3.5 million compared to $1.7 million for fiscal 2004. For fiscal 2005, other, net included an expense of $2.0 million for the disposal of manufacturing fixed assets, $0.5 million of Whitney management fees, $0.5 million of bad debt expense and $0.6 million of other expenses. For fiscal 2004, other, net consisted of $0.5 million of Whitney management fees, fixed asset disposals of $0.2 million, $0.4 million of acquisition costs and $0.5 million of other expenses.

Operating Income. Operating income was $32.1 million, or 13.2% of net sales, for fiscal 2005 compared to $22.1 million, or 11.8% of net sales for fiscal 2004. Operating income for the Plain Bearing segment was $22.6 million, or 24.3% of net sales, compared to the prior year's $18.6 million, or 23.9% of net sales. Our Roller Bearing segment achieved an operating income of $17.0 million, or 18.5% of net sales, compared to $11.3 million, or 17.8% of net sales, for the prior year, owing primarily to the full year inclusion of RBC-API. Our Ball Bearing segment achieved an operating income of $9.1 million, or 21.7% of net sales, for fiscal 2005, compared to $6.7 million, or 18.6% of net sales, for fiscal 2004. Our Other segment achieved an operating income of $0.8 million, or 5.1% of net sales, for fiscal 2005, compared to $0.4 million, or 3.5% of net sales, for fiscal 2004. The increase in operating income in each of our segments was driven primarily by an increase in net sales. In addition, our operating income as a percentage of net sales increased for each of our segments primarily as a result of leveraging our fixed cost base over higher net sales.

Interest Expense, net. Interest expense, net decreased by $0.7 million to $19.7 million for fiscal 2005 compared to $20.4 million for fiscal 2004. Amortization of deferred financing costs and debt discount are recorded as a component of net interest expense. Amortization expenses included in interest expense, net were $1.1 million for fiscal 2005 compared to $1.6 million for fiscal 2004.

Loss on Early Extinguishment of Debt. For fiscal 2005, loss on early extinguishment of debt of $7.0 million included $4.3 million for non-cash write-off of deferred financing fees associated with retired debt, $1.8 million of redemption premium and $0.9 million in interest expense for the 30-day call period related to the early extinguishment of our $110.0 million of $9^5/_8$% senior subordinated notes in July 2004.

Income Before Income Taxes. Income before taxes increased by $4.2 million, to $5.9 million in fiscal 2005 compared to $1.7 million in fiscal 2004 primarily as a result of higher gross margin, partially offset by higher operating expenses, disposal of manufacturing fixed assets, and loss on extinguishment of debt.

Income Taxes. Income tax for fiscal 2005 provided a benefit of $1.4 million compared to an expense of $1.1 million for fiscal 2004. Our effective income tax rate for fiscal 2005 was a benefit of 23.6% compared to an effective rate of 61.7% for fiscal 2004. In fiscal 2005, the income tax benefit was impacted predominantly by the reduction of income tax expense by $3.8 million for the undistributed earnings of our foreign subsidiaries on which income taxes were previously recorded. We have reassessed our needs internationally and have determined that our undistributed foreign earnings of approximately $18.0 million as of April 2, 2005 will be re-invested indefinitely as further described in Note 15 to our consolidated financial statements. Additionally, our effective tax rate for fiscal 2005 was impacted by a foreign tax rate differential of $0.4 million and adjustments of taxes to correspond to tax returns as filed of $0.8 million. Our effective tax rate for fiscal 2004 was impacted predominantly by the adjustments of taxes to correspond to tax returns as filed and other miscellaneous permanent differences. As of April 2, 2005, net operating loss carry forwards were approximately $5.5 million (federal) and $7.0 million (state) to offset future income taxes, which expire at various dates through 2024. Alternative minimum tax credit carry forwards totaled approximately $1.9 million as of April 2, 2005.

Net Income. Net income increased by $6.6 million to $7.3 million for fiscal 2005 compared to $0.7 million for fiscal 2004.

Fiscal 2004 Compared to Fiscal 2003

Net Sales. Our net sales for fiscal 2004 were $187.3 million, an increase of $14.4 million, or 8.4%, compared to $172.9 million for fiscal 2003. We acquired RBC-API in December 2003, which contributed $6.1 million to the Roller Bearing segment in fiscal 2004. Overall we began experiencing increased demand from our diversified industrial and aerospace customers in the fourth quarter of fiscal 2004.

Our Plain Bearing segment achieved net sales of $77.6 million for fiscal 2004, an increase of $10.1 million, or 15.0%, compared to $67.4 million in fiscal 2003. $6.4 million of this increase was due to the inclusion of a full year of net sales for the RBC France business unit which was acquired in December 2002. Net sales to our commercial and military aerospace customers accounted for $4.2 million of the increase due to an increase in aerospace engine bearing shipments, mainly for military applications. Net sales to our diversified industrial customers declined $0.5 million, driven mainly by low industrial activity in the first nine months of the year.

Our Roller Bearing segment achieved net sales of $63.1 million for fiscal 2004, an increase of $2.3 million, or 3.8%, compared to $60.8 million for fiscal 2003. Included in fiscal 2004 were net sales for the RBC-API business unit which was acquired in December 2003. Excluding RBC-API, net sales for the Roller Bearing segment decreased by $3.8 million in fiscal 2004 due principally to the continued contraction in the industrial and heavy truck markets for these bearings in the first nine months of the fiscal year.

Our Ball Bearing segment achieved net sales of $35.8 million for fiscal 2004, an increase of $1.8 million, or 5.2%, compared to $34.0 million for fiscal year 2003. Net sales to our diversified industrial customers accounted for $1.0 million of the increase, driven by increased demand from industrial distributors for aftermarket parts and increased penetration of the industrial distributor market. The remaining $0.8 million of the increase was driven by increased demand for airframe applications.

Our Other segment achieved net sales of $10.8 million for fiscal 2004, an increase of $0.2 million, or 2.5%, compared to $10.6 million for fiscal year 2003. This increase was primarily due to increased sales of our machine tool collets to the machine tool industry.

Gross Margin. Our gross margin was $51.9 million in fiscal 2004, or 27.7% of net sales, versus $48.8 million, or 28.2% of net sales, for fiscal 2003. Gross margins for fiscal 2004 and fiscal 2003 reflected one-time expenses associated with the start-up of our Mexican manufacturing operations, the reengineering of manufacturing operations at our Tyson facility, and the relocation of our Bremen, Indiana manufacturing facility to Plymouth, Indiana. These charges totaled $1.7 million in fiscal 2004 and $2.3 million in fiscal 2003. Excluding these costs, and the additive gross margin in fiscal 2004 from our RBC-API acquisition, our gross margin decreased $0.5 million, primarily the result of a shift in mix toward lower margin products.

Selling, General and Administrative Expenses. SG&A expenses increased by approximately 5.5%, or $1.5 million, to $28.1 million in fiscal 2004 from $26.6 million in fiscal 2003. The increase of $1.5 million was mainly due to the addition of RBC-API in December 2003. Excluding the effects of the RBC-API acquisition in fiscal year 2004, SG&A expenses increased $0.7 million, or 2.6%. As a percentage of net sales, SG&A expenses were 15.0% for fiscal 2004 compared to 15.4% for fiscal 2003.

Other, net. Other, net for fiscal 2004 was $1.7 million compared to $1.4 million for fiscal 2003. Fiscal 2004 expenses consisted of Whitney management fees of $0.5 million, fixed asset disposals of $0.2 million, acquisition expenses of $0.4 million and $0.6 million of other expenses. Fiscal 2003 expenses included Whitney management fees of $0.4 million, fixed asset disposals of $0.9 million associated with the relocation of our Bremen, Indiana manufacturing facility and $0.2 million of other expenses.

Operating Income. Operating income was $22.1 million, or 11.8% of net sales, for fiscal 2004 compared to $20.7 million, or 12.0% of net sales in fiscal 2003. Operating income for the Plain Bearing segment was $18.6 million, or 23.9% of net sales, compared to the prior year's $16.8 million, or 24.9% of net sales. Our Roller Bearing segment achieved an operating income of $11.3 million, or 17.8% of net sales, compared to the prior year's $8.5 million, or 13.9% of net sales. Our Ball Bearing segment achieved an operating income of $6.7 million, or 18.6% of net sales, compared to the prior year's $7.0 million, or 20.6% of net sales. Our Other segment achieved an operating income of $0.4 million, or 3.5% of net sales, compared to the prior year's $1.8 million, or 16.8% of net sales. Changes in operating income in our Plain Bearing and Roller Bearing segments were driven primarily by changes in net sales. Changes in operating income in our Ball Bearing and Other segments were driven by changes in net sales, offset by increased SG&A expenses and a shift in mix toward lower margin products.

Interest Expense, net. Interest expense, net decreased by $0.6 million to $20.4 million in fiscal 2004 as compared to $21.0 million in fiscal 2003. Amortization of deferred financing costs and debt discount are recorded as a component of net interest expense. Amortization expenses included in interest expense, net were $1.6 million in fiscal 2004 and $3.3 million in fiscal 2003. Excluding the amortization of deferred financing costs and debt discount, interest expense, net increased by $1.1 million.

Gain on Early Extinguishment of Debt. In fiscal 2003 we retired early $28.8 million of debentures which resulted in a gain of $0.8 million.

Income Before Income Taxes. Income before income taxes increased by $1.5 million to $1.7 million in fiscal 2004 from $0.2 million in fiscal 2003. This increase was primarily due to fiscal 2004 higher operating income of $1.4 million.

Income Taxes. Income tax expense was $1.1 million for fiscal 2004 as compared to $0.1 million for the comparable period last year. As a percentage of pre-tax income, the fiscal 2004 effective tax rate was 61.7% compared to 69.8% for fiscal year 2003. For fiscal 2004, the difference between the statutory and effective tax rates was primarily due to the adjustment of taxes to correspond to tax returns filed and other miscellaneous permanent differences. For fiscal 2003 the rate differential related to various

minor permanent differences. As of April 3, 2004, we had net operating loss carryforwards of approximately $9.9 million to offset future federal and state income taxes, which expire at various dates through 2024. In addition, we had an alternative minimum tax credit carryforwards of approximately $1.6 million as of April 3, 2004.

Net Income. Net income increased $0.6 million in fiscal 2004 to $0.7 million compared to $0.1 million in fiscal 2003.

Liquidity and Capital Resources

Our business is capital intensive. Our capital requirements include manufacturing equipment and materials. In addition, we have historically fueled our growth in part through acquisitions. We have historically met our working capital, capital expenditure requirements and acquisition funding needs through our net cash flows provided by operations, various debt arrangements and sale of equity to investors.

Liquidity

On August 15, 2005, we entered into a Fifth Amended and Restated Credit Agreement (the "Senior Credit Facility"), among RBCA; the other Credit Parties signatory thereto; General Electric Capital Corporation, a Delaware corporation, for itself, as lender, and as agent for the lenders, concurrently with the closing of our initial public offering. Pursuant to the Senior Credit Facility, we increased our term loan borrowings by approximately $40.0 million from $110.0 million under the term loan portion of the Senior Credit Facility. The Senior Credit Facility provides a $55.0 million revolving credit agreement (the "Revolving Credit Facility") and a $150.0 million term loan (the "Term Loan"). The principal amount of the Term Loan shall be repaid in twenty-five (25) consecutive quarterly installments commencing December 31, 2005. As of December 31, 2005, we had repaid $2,375 of principal on the Senior Credit Facility. Each loan is secured by a lien against substantially all of our assets and subjects us to standard affirmative and negative covenants, as well as financial leverage tests. As of December 31, 2005, we were in compliance with all such covenants.

The Revolving Credit Facility bears interest at a floating rate of either the higher of the base rate on corporate loans or the federal funds rate plus 50 basis points, plus 1.25%; or LIBOR plus 2.50%. We have the right to elect the applicable interest rate on the Revolving Credit Facility. The Term Loan bears interest at a floating rate of either the higher of the base rate on corporate loans or the federal rate plus 50 basis points, plus 1.50%; or LIBOR plus 2.75%. We have the right to elect the applicable interest rate on the Term Loan. As of December 31, 2005, the weighted average interest rate on the outstanding Senior Credit Facility was 7.04%.

Approximately $20.6 million of the Revolving Credit Facility is being utilized to provide letters of credit to secure RBCA's obligations relating to certain Industrial Development Revenue Bonds and insurance programs. As of December 31, 2005, we had the ability to borrow up to an additional $34.4 million under the Revolving Credit Facility.

Voluntary prepayment and commitment reductions are permitted in whole or in part, without premium or penalty, subject to minimum prepayment or reduction requirements, provided that voluntary prepayments of LIBOR loans on a date other than the last day of the relevant interest period will be subject to the payment of customary breakage costs, if any.

In addition, the lenders under the Revolving Credit Facility are entitled to be paid a fee on unused commitments under that facility at a rate equal to 0.50% per annum, payable monthly in arrears. With respect to the letter of credit subfacility, an additional fee, equal to the product of the average daily undrawn face amount of all letters of credit issued, guaranteed or supported by risk participation agreements multiplied by a per annum rate equal to the applicable margin applied to LIBOR rate

loans, i.e., 3.0%, is payable monthly in arrears together with any fees and charges incurred by the administrative agent to a letter of credit issuer.

The proceeds of the initial public offering and additional Term Loan borrowings were used to repay and redeem outstanding debt and all of our then outstanding Class C and Class D preferred stock. Concurrently with the funding, we issued a notice of redemption to the note holders of the 13% senior subordinated discount debentures due June 15, 2009. The requisite funds, approximately $40.2 million, were irrevocably put on deposit with the trustee, Bank of New York, for redemption on September 13, 2005. This amount included a redemption premium of $1.3 million and interest expense for the call period of $0.4 million. These amounts along with $0.9 million of unamortized deferred financing fees and debt discount associated with this debt were recorded as a loss on early extinguishment of debt. We also repaid approximately $45.5 million on our second lien term loan. This amount included a prepayment fee of $0.5 million. These amounts along with $0.8 million of unamortized deferred financing fees associated with the second lien term loan debt were recorded as a loss on early extinguishment of debt. Deferred financing fees of $1.3 million were capitalized associated with the Senior Credit Facility.

On December 8, 2003, Schaublin entered into a bank credit facility, or Swiss Credit Facility, with Credit Suisse providing for 10.0 million Swiss Francs, or approximately $7.6 million, of term loan, or Swiss Term Loan, and up to 2.0 million Swiss Francs, or approximately $1.5 million, of revolving credit loans and letters of credit, or the Swiss Revolver. The credit agreement for the Swiss Credit Facility contains affirmative and negative covenants regarding the Schaublin financial position and results of operations and other terms customary to such financings. As of December 31, 2005, we were in compliance with all such covenants. On November 8, 2004, we amended the Swiss Credit Facility to increase the Swiss Revolver to 4.0 million Swiss Francs, or approximately $3.0 million. As of December 31, 2005, $4.8 million was outstanding under the Swiss Term Loan, and no loans or letters of credit were outstanding under the Swiss Revolver.

In connection with this offering we expect to amend or replace our Senior Credit Facility to provide for lower borrowing costs. We expect that the amended or replaced Senior Credit Facility will contain similar amortization schedules, financial covenants, events of default, negative and affirmative covenants and representations and warranties. The amendment or replacement of the Senior Credit Facility is contingent upon the consummation of the primary portion of this offering, but this offering is not contingent upon the amendment or replacement of the Senior Credit Facility. We are in discussions with multiple lenders regarding alternatives for reducing borrowing costs under our Senior Credit Facility, including replacing or amending the facility. Based on discussions with lenders, we expect that after giving effect to the amendment or replacement of the Senior Credit Facility, we will reduce the interest rate on our LIBOR loans by at least 125 basis points. There can be no assurances, however, that capital markets will permit us to replace or amend the facility or that we will be able to achieve such savings. In March 2006, we obtained an amendment to our Senior Credit Facility such that the sale of shares by the selling stockholders pursuant to this offering does not result in an event of default under our Senior Credit Facility. See "Description of Certain Indebtedness Senior Credit Facility."

We believe that after giving effect to this offering and the amendment or replacement of our Senior Credit Facility, our cash and cash equivalents, cash flow from operations and capacity under the Revolving Credit Facility and Swiss Revolver will provide adequate cash to fund our working capital, capital expenditure, debt service and other cash requirements for our existing businesses for the foreseeable future. Our ability to meet future working capital, capital expenditure 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, 2005 Compared to the Nine Month Period Ended January 1, 2005

In the nine month period ended December 31, 2005, we generated cash of $13.2 million from operating activities compared to $4.7 million for the nine month period ended January 1, 2005. The increase of $8.5 million was mainly a result of an increase of $6.2 million in net income, reduced by $2.2 million representing the net effect of non-cash charges such as deferred taxes, loss on early extinguishment of debt and loss on disposal of assets, plus a change in working capital investment of $4.5 million.

Cash used for investing activities for the nine month period ended December 31, 2005 included $7.8 million relating to capital expenditures compared to $6.6 million for the nine month period ended January 1, 2005. Investing activities also included $2.6 million relating to the acquisition of the RBC Southwest Products business.

In the nine month period ended December 31, 2005, we decreased borrowings under the Revolving Credit Facility by $5.0 million, received proceeds from the sale of stock of $92.1 million, used $30.6 million to redeem Class C redeemable preferred stock, used $4.0 million to redeem Class D preferred stock, received $0.3 million from the exercise of stock options and warrants, retired term loans of $45.0 million, retired the 13% senior secured discount debentures of $38.6 million, increased our bank term loan by $41.1 million, made payments on term loans of $3.7 million, used $0.2 million of funds for capital lease obligations and paid $1.3 million of financing fees in connection with our amendment to the Senior Credit Facility.

Fiscal 2005 Compared to Fiscal 2004

In fiscal 2005, we generated cash of $9.9 million from operating activities compared to $7.5 million for fiscal 2004. The increase of $2.4 million was mainly a result of an increase of $6.7 million in net income, net of non-cash charges over fiscal 2004, offset by a change in working capital investment of $4.4 million over fiscal 2004. The change in working capital investment was primarily the result of an increase in accounts receivable due to strong fourth quarter net sales and a build in inventory in the fourth quarter to service increasing demand.

Cash flow from investing activities in fiscal 2005 was in-line with fiscal 2004. Cash required for acquisitions decreased by $5.2 million due to the impact of the RBC-API acquisition in fiscal 2004. Capital expenditures increased $4.6 million in fiscal 2005 compared to fiscal 2004 due to increased investment in manufacturing assets to expand capacity and improvements in leaseholds.

Financing activities used $0.3 million in fiscal 2005 and provided $2.9 million in fiscal 2004, both related to debt refinancing transactions.

Fiscal 2004 Compared to Fiscal 2003

In fiscal 2004, we generated cash of $7.5 million from operating activities compared to $4.0 million for fiscal 2003. The increase of $3.5 million was mainly driven by a decrease in working capital investment of $3.0 million as a result of a decrease in inventory investment of approximately

$8.8 million and a decrease in prepaids and other assets of approximately $1.3 million offset by an increase of $5.5 million in accounts receivable due to strong fourth quarter net sales and an increase in accounts payable and accrued liabilities of approximately $7.6 million.

Cash flow from investing activities in fiscal 2004 increased by $2.6 million due to higher investment in acquisitions, the RBC-API transaction, over fiscal 2003. Capital expenditures decreased by $1.6 million in fiscal 2004 compared to fiscal 2003.

Financing activities used approximately $1.0 million more in fiscal 2004 than in fiscal 2003 mainly to finance the acquisition of RBC-API.

Capital Expenditures

We expect to make capital expenditures of approximately $12.0 million during fiscal 2006 in connection with our existing business. We have funded our fiscal 2006 capital expenditures, and expect to fund fiscal 2007 capital expenditures, principally through existing cash, internally generated funds and borrowings under our Revolving Credit Facility. We generally expect capital expenditures for fiscal 2007 to remain at similar levels to those in fiscal 2006. We may also make substantial additional capital expenditures in connection with acquisitions. Although there are no present understandings, commitments or agreements with respect to the acquisition of any other businesses, we do evaluate acquisition opportunities regularly.

Obligations and Commitments

The following table outlines what we regard as our significant contractual obligations and commercial commitments as of December 31, 2005. The table does not represent all of our contractual obligations and commercial commitments that we have entered into.

	Payments Due By Period				
Significant Contractual Obligations	**Total**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
	(in thousands)				
Total debt[1]	$ 169,030	$ 3,390	$ 6,740	$ 4,580	$ 154,320
Capital lease obligations	466	174	233	46	13
Operating leases[2]	13,033	2,863	4,727	2,438	3,005
Interest payments[3]	67,465	11,964	23,307	22,657	9,537
Pension and postretirement benefits[2]	8,293	1,948	3,208	1,354	1,783
Total significant contractual cash obligations	$ 258,287	$ 20,339	$ 38,215	$ 31,075	$ 168,658

(1) Includes the $147.6 million Term Loan under our Senior Credit Facility and other senior debt consisting of the Swiss Term Loan, industrial revenue bonds and other debt totaling $21.4 million.

(2) Operating leases and pension and postretirement benefits are estimated as unchanged from fiscal year end 2005.

(3) Interest payments are calculated based on beginning of period debt balances that reflect contractual debt amortization over the term of the instruments and assume a constant LIBOR rate of 4.39%.

Quarterly Results of Operations

	Quarter Ended										
	June 28, 2003	Sept. 27, 2003	Dec. 27, 2003	April 3, 2004	July 3, 2004	Oct. 2, 2004	Jan. 1, 2005	April 2, 2005	July 2, 2005	Oct. 1, 2005	Dec. 31, 2005
	(in thousands, except per share data)										
Net sales	$ 39,737	$ 42,449	$ 42,901	$ 62,244	$ 56,195	$ 56,391	$ 58,145	$ 72,285	$ 66,001	$ 65,367	$ 67,390
Gross margin	10,966	11,708	11,668	17,556	15,293	15,381	16,732	21,008	19,276	19,987	20,361
Operating income	4,572	5,107	4,185	8,265	5,916	7,360	8,405	10,458	10,398	5,093	10,788
Net income (loss)	$ (185)	$ (40)	$ (720)	$ 1,608	$ (3,822)	$ 1,668	$ 2,462	$ 6,952	$ 3,345	$ (1,960)	$ 5,099
Net income (loss) per common share:											
Basic[1][2]	$ (0.11)	$ (0.09)	$ (0.20)	$ 0.13	$ (0.71)	$ 0.14	$ 0.23	$ 0.77	$ 0.34	$ (0.18)	$ 0.31
Diluted[1][2]	$ (0.11)	$ (0.09)	$ (0.20)	$ 0.08	$ (0.71)	$ 0.08	$ 0.13	$ 0.71	$ 0.22	$ (0.18)	$ 0.29

(1) See Note 2 to the Consolidated Financial Statements for a discussion of net income (loss) per common share.

(2) Net income (loss) per common share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not necessarily equal the total for the year.

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. It is not believed that the adoption of SFAS No. 151 will have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123(R) that will require that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SEAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. SFAS No. 123(R) replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, as originally issued in 1995, established as preferable a fair value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25 as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair value-based method been used. Public entities will be required to apply SFAS No. 123(R) as of the beginning of the first fiscal year beginning after June 15, 2005. SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

2. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amount previously recognized under SFAS No. 123 for purpose of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We are required to adopt the pronouncement in fiscal 2007 and have decided to use the "modified prospective" method in applying SFAS No. 123(R). We are currently evaluating its effect on our consolidated results of operations and whether the adoption will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123. For fiscal 2006, we will continue to disclose stock-based compensation information in accordance with SFAS No. 148, "Accounting for Stock Based Compensation Transitions and Disclosure an Amendment of FASB Statement No. 123," and SFAS No. 123.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to product returns, bad debts, inventories, recoverability of intangible assets, income taxes, financing operations, pensions and other post-retirement benefits and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition. We recognize revenue in accordance with SEC Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements as amended by Staff Accounting Bulletin 104. The SEC requires that the following four basic criteria must be met before we recognize revenue:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectibility is reasonably assured.

We recognizes revenue upon the passage of title on the sale of manufactured goods, which is at time of shipment, and under the units-of-delivery method in a limited number of aerospace long-term projects.

Accounts Receivable. We are required to estimate the collectability of our accounts receivable, which requires a considerable amount of judgment in assessing the ultimate realization of these receivables, including the current credit-worthiness of each customer. Changes in required reserves may occur in the future as conditions in the marketplace change.

Inventory. Inventories are stated at the lower of cost or market value. Cost is principally determined by the first-in, first-out method. We account for inventory under a full absorption method. We record adjustments to the value of inventory based upon past sales history and forecasted plans to sell our inventories. The physical condition, including age and quality, of the inventories is also considered in establishing its valuation. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from actual requirements if future economic conditions, customer inventory levels or competitive conditions differ from our expectations.

Goodwill and Intangible Assets. We adopted the provisions of SFAS No. 141, "Business Combinations," and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS No. 142") at the beginning of fiscal 2003. These standards require that all business combinations be accounted for using the purchase method and that goodwill (representing the excess of the amount paid to acquire a company over the estimated fair value of the net assets acquired) and intangible assets with indefinite useful lives not be amortized but instead be tested for impairment annually (performed by us during the fourth quarter of each fiscal year), or when events or circumstances indicate that its value may have declined. This determination of any goodwill impairment is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to our carrying amount. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the goodwill's implied fair value. The fair value of our reporting units is calculated by comparing the weighted average of the net present value of future cash flows and a market approach based on our reporting units' carrying value. We utilized a discount rate of 12.1% based on a weighted average cost of capital. The discount rate was derived using an analysis of similar companies which we believe have a comparable level of risk. Although no changes are expected, if the assumptions management makes regarding estimated cash flows are less favorable than expected, we may be required to record an impairment charge in the future. Goodwill had been amortized by the straight-line method over a 40-year period through March 30, 2002. Effective with fiscal 2003, goodwill amortization was suspended in conjunction with the adoption of SFAS No. 142. The determination of impairment for intangible assets with indefinite useful lives is based on a comparison of the fair value of the intangible asset with its carrying value.

Definite-lived intangible assets are being amortized over their useful lives of 5 to 15 years. Also included in intangible assets is an asset relating to our minimum pension liability.

Income Taxes. As part of the process of preparing the consolidated financial statements, we are required to estimate the income taxes in each jurisdiction in which we operate. This process involves estimating the actual current tax liabilities together with assessing temporary differences resulting from the differing treatment of items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included in the Consolidated Balance Sheet. We must then assess the likelihood that the deferred tax assets will be recovered, and to the extent that we believe that recovery is not more than likely, we are required to establish a valuation allowance. If a valuation allowance is established or increased during any period, we are required to include this amount as an expense within the tax provision in the Consolidated Statements of Operations. Significant judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance recognized against net deferred tax assets.

We have determined that a valuation allowance against deferred tax assets is not necessary based on our estimates of taxable income in the jurisdictions that we operate and over the period in which the deferred tax assets will be recoverable. We estimate that we will need to generate approximately $23.1 million of taxable income in the future to fully realize our net deferred tax asset.

Pension Plans and Post-retirement Health Care. We have noncontributory defined benefit pension plans covering union employees in our Heim division plant in Fairfield, Connecticut, in our Nice subsidiary plant in Kulpsville, Pennsylvania, in our Bremen subsidiary plant in Plymouth, Indiana and in our Tyson subsidiary plant in Glasgow, Kentucky. Our funding policy is to make the minimum annual contribution required by the Employee Retirement Income Security Act of 1974. Plan obligations and annual pension expense are determined by independent actuaries using a number of assumptions provided by us including assumptions about employee demographics, retirement age, compensation levels, pay rates, turnover, expected long-term rate of return on plan assets, discount rate and the amount and timing of claims. Each plan assumption reflects our best estimate of the plan's future experience. The most sensitive assumption in the determination of plan obligations for pensions is the

discount rate. The discount rate used in determining the funded status as of April 2, 2005 and April 3, 2004 was 5.9% and 6.25%, respectively. In developing the overall expected long-term rate of return on plan assets assumption, a building block approach was used in which rates of return in excess of inflation were considered separately for equity securities and debt securities. The excess returns were weighted by the representative target allocation and added along with an appropriate rate of inflation to develop the overall expected long-term rate of return on plan assets assumption.

The discount rate that we use for determining future pension obligations is based on a review of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate determined on this basis has decreased from 6.50% at March 29, 2003 to 6.25% at April 3, 2004, and to 5.90% at April 2, 2005.

Lowering the expected long-term rate of return on the assets of our pension plans by 1.00% (from 9.00% to 8.00%) would have increased our pension expense for fiscal 2005 by approximately $108,000. Increasing the expected long-term rate of return on the assets of our pension plans by 1.00% (from 9.00% to 10.00%) would have reduced our pension expense for fiscal 2005 by approximately $108,000.

Lowering the discount rate assumption used to determine net periodic pension cost by 1.00% (from 6.25% to 5.25%) would have increased our pension expense for fiscal 2005 by approximately $205,000. Increasing the discount rate assumption used to determine net periodic pension cost by 1.00% (from 6.25% to 7.25%) would have reduced our pension expense for fiscal 2005 by approximately $165,000.

Lowering the discount rate assumption used to determine the funded status as of April 2, 2005 by 1.00% (from 5.90% to 4.90%) would have increased the projected benefit obligation of our pension plans by approximately $2.1 million. Increasing the discount rate assumption used to determine the funded status as of April 2, 2005 by 1.00% (from 5.90% to 6.90%) would have reduced the projected benefit obligation of our pension plans by approximately $1.8 million.

We recorded a minimum pension liability of $3.4 million and $4.6 million as of April 2, 2005 and April 3, 2004, respectively. This liability represented the amount by which the accumulated benefit obligation exceeded the sum of the fair market value of plan assets. The additional minimum pension liability as of April 2, 2005 and April 3, 2004 of $3.3 million and $4.0 million, respectively, was offset by an intangible asset to the extent of previously unrecognized prior service cost. The intangible assets of $0.6 million and $0.6 million as of April 2, 2005 and April 3, 2004, respectively, were included on the line item entitled "Intangible assets" in our consolidated balance sheet. The remaining amounts of $1.7 million and $2.0 million, net of deferred income taxes of $1.0 million and $1.4 million, respectively, were recorded as a component of stockholders' deficit on the line item titled "Accumulated other comprehensive loss" in our consolidated balance sheet as of April 2, 2005 and April 3, 2004, respectively. The intangible asset in 2005 and 2004 was greater than the unrecognized prior service cost because two of our plans had an unrecognized negative prior service cost.

Our investment program objective is to achieve a rate of return on plan assets which will fund the plan liabilities and provide for required benefits while avoiding undue exposure to risk to the plan and increases in funding requirements. Our target allocation of plan assets was 100 percent equity investments as of April 2, 2005 and April 3, 2004.

For the benefit of employees at our Heim, West Trenton, Nice, Tyson and Bremen facilities, we sponsor contributory defined benefit health care plans that provide post-retirement medical and life insurance benefits to union employees who have attained certain age and/or service requirements while employed by us. The plans are unfunded and costs are paid as incurred. Post-retirement benefit obligations as of April 2, 2005 and April 3, 2004 were $3.7 million and $4.2 million, respectively, and are included in "Other non-current liabilities" in our consolidated balance sheet.

We use a March 31 measurement date for our plans. We expect to contribute approximately $0.3 million to our post-retirement benefit plans in fiscal year 2006.

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act") was signed into law. Our prescription drug benefit for all post-retirement plans is capped at a set amount each month, which is paid to the retirees so they can obtain prescription drug coverage. As such, we are not self-insured for prescription drugs, and the Act has no impact on the recorded obligation.

During fiscal 2004, the plans were amended to contractually limit the benefit to be provided for certain groups of current and future retirees. As a result, there is no health care trend associated with these groups. The discount rate used in determining the accumulated post-retirement benefit obligation was 5.9% as of April 2, 2005 and 6.25% as of April 3, 2004. The discount rate used in determining the net periodic benefit cost was 6.25% for fiscal 2005, 6.50% for fiscal 2004 and 7.25% for fiscal 2003.

The discount rate that we use for determining net periodic benefit cost for these benefits is based on a review of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate determined on this basis has decreased from 6.50% at March 31, 2003 to 6.25% at April 3, 2004, and to 5.90% at April 2, 2005.

Lowering the discount rate assumption used to determine net periodic benefit cost by 1.00% (from 6.25% to 5.25%) would have increased our post-retirement expense for fiscal 2005 by approximately $25,000. Increasing the discount rate assumption used to determine net periodic benefit cost by 1.00% (from 6.25% to 7.25%) would have reduced our post-retirement expense for fiscal 2005 by approximately $28,000.

Lowering the discount rate assumption used to determine the accumulated post-retirement benefit obligation as of April 2, 2005 by 1.00% (from 5.90% to 4.90%) would have increased the accumulated post-retirement benefit obligation of our post-retirement plans by approximately $425,000. Increasing the discount rate assumption used to determine the accumulated post-retirement benefit obligation, as of April 2, 2005 by 1.00% (from 5.90% to 6.90%) would have reduced the accumulated post-retirement benefit obligation of our post-retirement plans by approximately $357,000.

Stock-Based Compensation. We account for our stock compensation arrangements with employees under the provisions of Accounting Principles Board (APB) Opinion No. 25 "Accounting for Stock Issued to Employees."

We have granted to our employees options and warrants to purchase our common stock at exercise prices determined by our management and board of directors. We record stock-based compensation as necessary to the extent that the deemed value of the stock at the date of grant exceeds the exercise price of the option. These valuations depend upon our determination of the fair value of our stock and can vary based upon the value of our company and liquidity assumptions over time. In the event we issue options at below fair value, we would be required to record an additional charge.

Management employed the intrinsic value method pursuant to APB No. 25 under which compensation cost is recognized only if the exercise price of grants issued is below the fair value of our common stock at the date of grant as determined by the board of directors. Had compensation cost for option grants and warrant grants to employees been determined based on the fair value at the grant

dates consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," our net income would have been reduced to the following pro forma amounts:

	Fiscal Year Ended			Nine Months Ended	
	March 29, 2003	April 3, 2004	April 2, 2005	January 1, 2005	December 31, 2005
Net income, as reported	$ 49	$ 663	$ 7,260	$ 308	$ 6,484
Plus: stock-based compensation expense included in reported net income, net of the tax (see further discussion below)			264	209	136
Less: stock-based compensation expense determined under fair value method, net of tax	(56)	(131)	(540)	(131)	(1,547)
Pro forma net income (loss)	$ (7)	$ 532	$ 6,984	$ 386	$ 5,073
Net income (loss) per common share, as reported:					
Basic	$ (0.20)	$ (0.24)	$ 0.62	$ (0.33)	$ 0.43
Diluted	$ (0.20)	$ (0.24)	$ 0.35	$ (0.33)	$ 0.37
Net income (loss) per common share, pro forma:					
Basic	$ (0.21)	$ (0.26)	$ 0.57	$ (0.32)	$ 0.30
Diluted	$ (0.21)	$ (0.26)	$ 0.33	$ (0.32)	$ 0.27

For purposes of the pro forma disclosures, the estimated fair value of the options and warrants is amortized to be expensed over the service period that generally is the option or warrant vesting period. The weighted average fair value per share of options and warrants granted was $8.17 in fiscal 2005, $1.58 in fiscal 2004, $1.18 in fiscal 2003, and $5.99 and $8.17, respectively, for the nine months ended December 31, 2005 and January 1, 2005.

The fair value for our options and warrants was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Fiscal Year Ended			Nine Months Ended	
	March 29, 2003	April 3, 2004	April 2, 2005	January 1, 2005	December 31, 2005
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Expected weighted average life	3.0	3.0	3.0	3.0	7.0
Risk-free interest rate	3.5%	3.5%	3.5%	3.5%	3.5%
Expected volatility	0.1%	0.1%	0.4%	0.1%	0.3%

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and warrants which have no vesting restrictions and are fully transferable. In addition, option and warrant valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because our options and warrants have characteristics significantly different from those of traded options and warrants, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of our options and warrants.

On March 29, 2006, we accelerated the vesting of 523,585 stock options whose exercise prices were below our closing stock price on the date the vesting of the options was accelerated. As a result, a charge of approximately $73,000 dollars, net of tax, will be recorded in fiscal 2006. The accelerated vesting of these stock options is intended to eliminate a possible compensation expense associated with these options in future periods due to the adoption of SFAS No. 123(R), "Share-Based Payment."

We awarded 179,575 options to purchase common stock at an exercise price of $8.00 per share during the fiscal year ended April 2, 2005. Contemporaneous with the first option grant on April 4,

2004, we performed a valuation analysis to estimate the fair value of our common stock. We considered each of the valuation methodologies outlined in the AICPA Technical Practice Aid "Valuation of Privately-Held-Company Equity Securities Issued as Compensation" and determined that the market-multiple approach was the most relevant method to use for our company. We employed this approach by focusing on multiples of enterprise value to EBITDA for comparable public companies at the time of the April 4, 2004 grant date. This methodology resulted in an estimate of our enterprise value, from which we subtracted the book value of our outstanding indebtedness and the estimated redemption value of our preferred stock, in order to arrive at an estimate of the value of our common stock. We then estimated a 17% lack of marketability discount to reflect the illiquid nature of private company equity securities such as our common stock. The resulting valuation approximated $8.00 per share and provided the basis for our board's approval of the April 4, 2004 option grant at an exercise price of $8.00 per share. At each of the subsequent seven option grant dates during fiscal year 2005, we relied on the valuation analysis performed as of April 4, 2004 as the basis for our establishing an exercise price of $8.00 per share for each such option grant because management believed the business continued to perform in line with its projections.

In connection with the preparation of our audited financial statements for fiscal year 2005 in anticipation of our initial public offering in August 2005, and solely for the purposes of accounting for employee stock-based compensation, we considered whether the stock options granted during fiscal year 2005 had compensatory elements that should be reflected in our financial statements. This review resulted in our determination that the fair value of our common stock as of each of the option grant dates during fiscal year 2005 was likely higher than the $8.00 per share exercise price established for all such options. As a result, we decided to retrospectively estimate the fair value of our common stock as of each option grant date during fiscal year 2005.

In conducting our retrospective analysis, we considered the valuation methodologies that investment banking firms were discussing with us in connection with our preparations for our initial public offering. We also considered the likelihood of our proceeding with our initial public offering and the changes in our business and capital structure during the course of fiscal 2005. Based on such considerations, we determined that the contemporaneous analysis we performed as of April 4, 2004 should be modified as follows in order to more accurately apply the market-multiple approach in arriving at an estimated fair value of our common stock as of each grant date:

- We broadened the group of comparable public companies against which we benchmarked our valuation;

- In benchmarking our financial metrics against the group of comparable public companies, we shifted our focus to valuation multiples of net income rather than valuation multiples of EBITDA;

- We gave pro forma effect to the anticipated issuance of common stock in our initial public offering as described in our prospectus with respect to such offering;

- We concluded that it was not appropriate to apply an illiquidity discount factor to our valuation; and

- We concluded that it was appropriate to apply a discount of between 0% to 15% to the valuation multiples of our group of comparable public companies in order to account for the relative strength of the IPO new issue market as of each grant date.

We incorporated these adjustments to the market-multiple approach and performed a retrospective analysis initially as of the April 2004 option grant date, and we determined that the fair value of our common stock approximated $15.00 per share. Given that our annual planning and budgeting cycle concludes during our fiscal fourth quarter, our financial projections for fiscal years 2005 and 2006 had been recently completed as of the April 2004 option grant date. As of each subsequent option grant

date, we concluded that our actual and expected financial performance as of each such date was in line with our financial projections and that the outlook for our future financial performance had not changed since we originally established our financial projections. As a result, we determined that, as of each option grant date, there was no need to modify our financial projections for fiscal 2005 and 2006. Therefore, any changes in our estimated fair value between option grant dates were driven by changing market factors, including, principally, the valuation multiples for the group of comparable companies and short-term interest rates. During the course of fiscal 2005, the average of the net income based valuation multiples for our group of comparable companies increased modestly. At the same time, short-term interest rates also increased, resulting in an increase in our projected interest expense due to the fact that a high percentage of our debt bears interest at floating rates. This resulted in a corresponding decrease to our projected net earnings. These two market factors largely offset each other and therefore resulted in minimal changes in our estimated fair value between option grant dates. As a result, we determined to use the same fair value of our common stock, $15.00 per share, as of each grant date during fiscal year 2005.

In July 2005, we reviewed our retrospective analysis and further considered whether it met all of the guidelines set forth by the AICPA Technical Practice Aid. Noting the Practice Aid's recommendation to engage an unrelated valuation specialist, we decided to retain Valuation Research Corporation, or VRC, as an independent third party to perform a valuation of our common stock as of each of the option grant dates during fiscal 2005. VRC's independent valuation of our common stock determined that the fair value of our common stock as of each of the option grant dates during fiscal year 2005 exceeded the $8.00 per share as determined in our contemporaneous analysis, but was less than the $15.00 per share as determined in our initial retrospective determination. For purposes of its analysis, VRC used our financial projections for fiscal 2005 and 2006 which, as previously noted, we determined did not need to be modified as of each option grant date. As a result, the different fair value estimates calculated by VRC resulted from VRC employing different methodologies and assumptions compared to those employed by us in our prior analyses, including the following:

Valuation approach: VRC relied primarily upon the market-multiple approach, but supplemented this with the income approach in order to support the indications of value obtained under the market-multiple approach. Our prior analyses relied exclusively on the market-multiple approach.

Comparable public company benchmarks: VRC used a slightly different group of comparable public companies than the group we used in our contemporaneous and retrospective valuations, against which to benchmark our valuation of the Company. In addition, VRC used a slightly different benchmarking methodology. Specifically, our analyses used an average of the multiples of the comparable companies whereas VRC applied a premium to the median of the multiples observed for our publicly traded peers to reflect several factors, including our relatively higher margins and growth prospects versus the median of our peers, as determined by VRC.

Multiple selection: VRC's analysis applied multiples of enterprise value to EBITDA to our projected fiscal 2005 and 2006 EBITDA to arrive at an enterprise value, from which VRC subtracted the book value of our outstanding indebtedness and the estimated redemption value of our preferred stock. Our contemporaneous analysis also focused on a multiple of enterprise value to EBITDA but applied such multiple only to our projected fiscal 2005 EBITDA. Our initial retrospective analysis focused on multiples of equity value to our projected fiscal 2005 net income.

Capital structure: VRC estimated the value of our common equity by subtracting from enterprise value the book value of our debt and the estimated redemption value of our preferred stock as of each grant date. Our debt balances changed over time, particularly between the June 2004 and August 2004 grant dates due to our debt refinancing which occurred during this period. Our

Class C preferred stock redemption value increased over time due to the accrual of pay-in-kind dividends since it was redeemable at a fixed price plus accrued dividends. Our Class D preferred stock redemption value is calculated based upon our enterprise value rather than a fixed price and, as such, changed over time as a result of changes to the estimates of our enterprise value generally as a result of fluctuations in the valuation multiples of our group of comparable companies. Our contemporaneous analysis valued our common equity by subtracting from enterprise value the book value of our debt and the estimated redemption value of our preferred stock as of the April 2004 grant date. Unlike our contemporaneous analysis and the revised retrospective analysis which considered the VRC report, our initial retrospective analysis took into account a capital structure pro forma as adjusted for the initial public offering, and the use of proceeds thereof.

Discount rate: In estimating the present redemption value of our preferred stock in connection with our revised retrospective analysis, VRC applied a discount rate to account for the timing and risk associated with the redemption of our preferred stock as well as the lack of marketability associated with our preferred stock in general. The discount rate consists of two components, a required market yield based on comparable publicly traded preferred instruments of approximately 8% and a lack of marketability discount of approximately 15%.

Valuation date: VRC made an assessment of the fair value of our common stock as of each grant date, similar to our own retrospective analysis. By contrast, our contemporaneous valuation of fair value was made as of the April 2004 grant date and we relied on such fair valuation for each subsequent option grant date.

Lack of marketability discount/IPO new issue discount: VRC applied lack of marketability discounts, ranging from 14% to 16%, to the value of our common equity, to reflect the illiquid nature of private company equity securities such as our common stock. This discount range was determined by VRC based on an analysis of a hypothetical put option on our common stock with different volatility and discount factor assumptions as of each grant date. In our contemporaneous valuation, we applied a 17% lack of marketability discount, based upon our good faith judgment as to the appropriate discount to account for the illiquid nature of our common stock. In our initial retrospective valuation we did not apply a lack of marketability discount, but included a discount of between 0% and 15% to the valuation multiples of our group of comparable public companies in order to account for the relative strength of the IPO new issue market as of each grant date.

Based on our thorough review of the independent valuation, we determined that the assumptions and methods employed by VRC were more appropriate and consistent with accepted valuation methods and with the practices recommended in the AICPA Technical Practice Aid than those employed by either our contemporaneous analysis or our initial retrospective analysis. We concluded that it was appropriate to reassess the fair value of our common stock underlying the fiscal 2005 equity awards,

upon analyzing VRC's independent valuation. In accordance with our revised retrospective assessment, the following table sets forth information related to our option grants during fiscal 2005:

Grant Date	Number of Options Granted	Exercise Price	Fair Value	Intrinsic Value	Deferred Compensation
4/4/04	50,000	$ 8.00	$ 11.20	$ 3.20	$ 160,000
6/6/04	8,325	8.00	11.20	3.20	26,640
8/27/04	2,500	8.00	10.80	2.80	7,000
9/7/04	31,250	8.00	11.60	3.60	112,500
10/12/04	62,500	8.00	13.60	5.60	350,000
11/4/04	6,250	8.00	14.40	6.40	40,000
1/13/05	12,500	8.00	11.20	3.20	40,000
2/17/05	6,250	8.00	13.20	5.20	32,500
Total	179,575				$ 768,640

As noted above, the same financial projections for fiscal years 2005 and 2006 were used for each valuation assessment date during fiscal 2005. As a result, any changes in our estimated fair value between option grant dates were driven principally by changing market factors, including valuations of comparable public companies, stock price volatilities and interest rates. In addition, the book value of our debt and the estimated redemption value of our preferred stock changed over time due to the reasons stated above. The following is a description of our revised retrospective determination, which considered the VRC analysis, of the fair value of our common stock with respect to each option grant date during fiscal 2005.

April 2004. In retrospectively determining the fair value of our common stock as of April 2004, we noted that the VRC valuation applied multiples of enterprise value to EBITDA, based on a premium to the median enterprise value to EBITDA multiples of a group of comparable companies, to our projected fiscal 2005 and 2006 EBITDA, to arrive at an enterprise value. From this figure, VRC subtracted the book value of our debt and the estimated redemption value of our preferred stock as of April 2004 to arrive at an aggregate common equity value. VRC then applied a 15% lack of marketability discount and divided this figure by the number of diluted shares of our common stock to arrive at a common equity value approximating $11.20 per share. Consistent with the independent valuation, we retrospectively determined that the fair value of our common stock for purposes of the stock option grants in April 2004 approximated $11.20 per share.

June 2004. In retrospectively determining the fair value of our common stock as of June 2004, we evaluated the events that occurred between April 2004 and June 2004. We examined our financial performance since the April 2004 evaluation date and concluded that our past and expected future performance was consistent with our projected operating results and, therefore, it was not necessary to modify our operating projections. In addition, VRC noted that the median valuations of our publicly traded comparable companies remained relatively unchanged between April 2004 and June 2004. Given that minimal changes were made to the underlying assumptions used in the market-multiple approach, consistent with the independent valuation, we determined that the fair value of our common stock for purposes of the stock option grants in June 2004 continued to approximate $11.20 per share.

August 2004. In retrospectively determining the fair value of our common stock as of August 2004, we evaluated the events that occurred between June 2004 and August 2004. We examined our financial performance since the June 2004 evaluation date and concluded that our past and expected future performance was consistent with our projected operating results and, therefore, it was not necessary to modify our operating projections. VRC also noted that the median valuations of our comparable companies improved slightly between June 2004 and August 2004. This expansion in the multiples of our comparable companies resulted in a slight increase in our estimated enterprise value

derived under the market-multiple approach. However, during this period we completed a refinancing of our debt which resulted in a slightly higher debt balance versus the June 2004 grant date. This higher debt balance partially offset the increase in our estimated enterprise value. In addition, VRC determined that it was appropriate to increase the lack of marketability discount factor by 1.00% due primarily to an increase in the median stock price volatility of our publicly traded peers, resulting in a slight reduction in our estimated fair value. As a result of these factors, consistent with the independent valuation, we determined that the fair value of our common stock for purposes of the stock option grants in August 2004 approximated $10.80 per share.

September 2004. In retrospectively determining the fair value of our common stock as of September 2004, we evaluated the events that occurred between August 2004 and September 2004. We examined our financial performance since the August 2004 evaluation date and concluded that our past and expected future performance was consistent with our projected operating results and, therefore, it was not necessary to modify our operating projections. In addition, VRC noted that the median valuations of comparable companies improved slightly between August 2004 and September 2004. This expansion in the multiples of comparable companies resulted in a slight increase in our estimated enterprise value derived under the market-multiple approach. As a result, consistent with the independent valuation, we determined that the fair value of our common stock for purposes of the stock option grants in September 2004 approximated $11.60 per share.

October 2004. In retrospectively determining the fair value of our common stock as of October 2004, we evaluated the events that occurred between September 2004 and October 2004. We examined our financial performance since the September 2004 evaluation date and concluded that our past and expected future performance was consistent with our projected operating results and, therefore, it was not necessary to modify our operating projections. VRC also noted that the median valuations of comparable companies improved between September 2004 and October 2004, and more significantly than the increase in valuation exhibited in the August 2004 to September 2004 time period. As a result, consistent with the independent valuation, we determined that the fair value of our common stock for purposes of the stock option grants in October 2004 approximated $13.60 per share.

November 2004. In retrospectively determining the fair value of our common stock as of November 2004, we evaluated the events that occurred between October 2004 and November 2004. We examined our financial performance since the October 2004 evaluation date and concluded that our past and expected future performance was consistent with our projected operating results and, therefore, it was not necessary to modify our operating projections. VRC also noted that the median valuations of comparable companies improved slightly between October 2004 and November 2004. In addition, VRC determined that it was appropriate to decrease the lack of marketability discount factor by 1.00% due primarily to a reduction in the median stock price volatility of our publicly traded peers, resulting in a slight increase in our estimated fair value. As a result of these factors, consistent with the independent valuation, we determined that the fair value of our common stock for purposes of the stock option grants in November 2004 approximated $14.40 per share.

January 2005. In retrospectively determining the fair value of our common stock as of January 2005, we evaluated the events that occurred between November 2004 and January 2005. We examined our financial performance since the November 2004 evaluation date and concluded that our past and expected future performance was consistent with our projected operating results and, therefore, it was not necessary to modify our operating projections. VRC also noted that the median valuations of comparable companies decreased between November 2004 and January 2005. In addition, VRC determined that it was appropriate to increase the lack of marketability discount factor by 1.00% primarily due to an increase in the median stock price volatility of our group of publicly traded peers, resulting in a reduction in our estimated fair value. As a result of these factors, consistent with the

independent valuation, we determined that the fair value of our common stock for purposes of the stock option grants in January 2005 approximated $11.20 per share.

February 2005. In retrospectively determining the fair value of our common stock as of February 2005, we evaluated the events that occurred between January 2005 and February 2005. We examined our financial performance since the January 2005 evaluation date and concluded that our past and expected future performance was consistent with our projected operating results and, therefore, it was not necessary to modify our operating projections. VRC also noted that the median valuations of our comparable companies increased between January 2005 and February 2005. In addition, VRC determined that it was appropriate to increase the lack of marketability discount factor by 1.00% primarily due to an increase in the median stock price volatility of our group of comparable companies, resulting in a slight reduction in our estimated fair value. As a result of these factors, consistent with the independent valuation, we determined that the fair value of our common stock for purposes of the stock option grants in February 2005 approximated $13.20 per share.

Impact of Inflation and Changes in Prices of Raw Materials and Supplies

To date, inflation in the economy as a whole has not significantly affected our operations. However, we purchase steel at market prices, which during the past two years have increased to historical highs as a result of a relatively low level of supply and a relatively high level of demand. To date, we have generally been able to pass through these price increases through price increases on our products, the assessment of steel surcharges on our customers or entry into long-term agreements with our customers which often contain escalator provisions tied to our invoiced price of steel. However, even if we are able to pass these steel surcharges or price increases to our customers, there may be a time lag of up to 12 weeks or more between the time a price increase goes into effect and our ability to implement surcharges or prices increases, particularly for orders already in our backlog. As a result, our gross margin percentage may decline, and we may not be able to implement other price increases for our products.

Competitive pressures and the terms of certain of our long-term contracts may require us to absorb at least part of these cost increases, particularly during periods of high inflation. Our principal raw material is 440c and 52100 wire and rod steel (types of stainless and chrome steel), which has historically been readily available. Recently, because of extraordinarily high demand for certain grades of steel, suppliers have in some instances allocated certain types of steel in limited quantities to customers. However, to date, we have never experienced a work stoppage due to a supply shortage. We maintain multiple sources for raw materials including steel and have various supplier agreements. Through sole-source arrangements, supplier agreements and pricing, we have been able to minimize our exposure to fluctuations in raw material prices.

Our suppliers and sources of raw materials are based in the U.S., Europe and Asia. We believe that our sources are adequate for our needs in the foreseeable future, that there exist alternative suppliers for our raw materials and that in most cases readily available alternative materials can be used for most of our raw materials.

Quantitative and Qualitative Disclosure 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. We are exposed to market risk from changes in the interest rates on a significant portion of our outstanding indebtedness. Outstanding balances under our Senior Credit Facility bear interest at a variable rate based on prime (for any day, a floating rate equal to the higher of (1) the rate publicly posted as the base rate posted by at least 75% of the nation's 30 largest banks or (2) the Federal Funds Rate plus 50 basis points per year) or LIBOR (the London inter-bank offered rate for

deposits in U.S. dollars for the applicable LIBOR Period) ranging from 30 to 120 days as adjusted each interest period. As of December 31, 2005, based on the aggregate amount of $147.6 million outstanding under our Senior Credit Facility, as of such date, a 100 basis point change in interest rates would have changed our interest expense by approximately $1.5 million per year. On an as adjusted basis after giving effect to this offering and the use of estimated proceeds therefrom, as of December 31, 2005, a 100 basis point change in interest rates would have changed our interest expense by approximately $1.3 million per year.

Interest rate fluctuations affect the fair market value of our fixed rate debt, but with respect to such fixed rate instruments, do not impact our earnings or cash flow.

Foreign Currency Exchange Rates. As a result of increased sales in Europe, our exposure to risk associated with fluctuating currency exchange rates between the U.S. dollar, the Euro and the Swiss Franc has increased. Our Swiss operations utilize the Swiss franc as the functional currency and our French operations utilize the Euro as the functional currency. Foreign currency transaction gains and losses are included in earnings. Approximately 12% of our net sales were denominated in foreign currencies for fiscal 2005 and for the nine month period ended December 31, 2005. 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 currently do not have exchange rate hedges in place to reduce the risk of an adverse currency exchange movement. Although currency fluctuations have not had a material impact on our financial performance in the past, such fluctuations may materially affect our financial performance in the future. The impact of future exchange rate fluctuations on our results of operations cannot be accurately predicted.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

BUSINESS

RBC Bearings Incorporated

We are a well known international manufacturer and marketer of highly engineered precision plain, roller and ball bearings. Bearings, which 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 highly technical or regulated bearing products for specialized markets that require sophisticated design, testing and manufacturing capabilities. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. We estimate that over one-fourth of our net sales are derived from products for which we are the sole supplier and the only manufacturer able to provide the required bearing solution. We believe that being the sole supplier for these products provides us with a competitive advantage due to the lengthy and rigorous certification processes and/or approvals required by a majority of these customers or government agencies, which typically take anywhere from six months to six years to complete, and due to our long track record with most of these customers of delivering high quality and uniquely designed and engineered products in a timely manner. We estimate that approximately two-thirds of our net sales during fiscal 2005 and during the nine month period ended December 31, 2005 were generated by products for which we hold the number one or two market position. 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 16 manufacturing facilities in three countries.

The Bearing Industry

The bearing industry is a highly fragmented multi-billion dollar market. Purchasers of bearings include producers of commercial and military aerospace equipment, automotive and commercial truck manufacturers, industrial equipment and machinery manufacturers, agricultural machinery manufacturers and construction, mining and specialized equipment manufacturers.

Demand for bearings generally follows the market for products in which bearings are incorporated and the economy as a whole. In general, the bearing industry grew through the 1990's and peaked in 1998. A number of factors, including an economic downturn and reduced capital investment, led to a historic reduction in bearing demand between 1998 and 2002. In 2003, the industry began to experience a turnaround, with bearing shipments increasing over the previous year.

According to The Freedonia Group, Inc., demand for bearings in the U.S. is projected to increase 5.2% per year through 2008. We believe many of the end markets we serve will grow at a higher rate over the comparable period. The increased demand for bearings in the diversified industrial market is being influenced by growth in industrial machinery and equipment shipments and increasing nonresidential construction activity. In addition, increased usage of existing machinery will significantly improve aftermarket demand for replacement bearing products. In the aerospace market, aging of the existing commercial aircraft fleet along with carrier traffic growth is expected to continue to expand demand for our bearing solutions. Lastly, strong growth in the defense market is being influenced by modernization programs necessitating increased spending on new equipment, as well as continued utilization of deployed equipment supporting robust aftermarket demand for replacement bearings.

Our Competitive Strengths

We believe that for the majority of our products, the principal competitive factors affecting our business are product qualifications, product line breadth, service and price. Although some of our current and potential competitors have greater financial, marketing, personnel and other resources than

us, we believe that we are well positioned to compete with regard to each of these factors in each of the markets in which we operate.

Leading Market Positions. We compete in specialized markets where we believe we are often the only supplier with the manufacturing expertise, business plan and engineering resources required to provide the required bearing solution. We estimate that approximately two-thirds of our net sales during fiscal 2005 and during the nine month period ended December 31, 2005 were generated by products for which we hold the number one or two market position. Most of our products undergo lengthy and rigorous customer certification processes and/or approvals, while our aerospace and defense products generally require additional FAA and military certification, respectively. We often participate in our customers' product design and/or certification process which typically takes anywhere from six months to six years to complete, and, in many cases, our bearings are the only products that are certified for use with the product. This is evidenced by our strong customer relationships, many of which are greater than 20 years.

Diversified Revenue Base. We sell a wide array of bearing products to customers across many diverse end markets, each of which is influenced by different fundamental economic factors. Our products are sold both to OEMs and to aftermarket distributors and service providers. In addition, we currently sell our products to more than 6,700 customers, and no single customer represented more than 6% of our net sales during fiscal 2005 and the nine month period ended December 31, 2005. Our diversified revenue base mitigates the impact of any single product or customer on our financial performance.

Large Installed Product Base with Recurring Aftermarket Revenue Stream. We provide bearings to a large and growing number of applications for which our products have been tested and certified. Our bearing products are approved for over 32,000 applications, many of which are part of aerospace, defense and industrial platforms that can be in service for as long as several decades, thereby requiring continuing aftermarket support. Many of our products are critical to the performance of the equipment in which they are installed but represent a small percentage of the ongoing maintenance expense of the equipment. Aftermarket sales of replacement parts for existing equipment platforms represented approximately 56% of our net sales for fiscal 2005. We believe we are well positioned to continue to capture recurring revenue from these product lines in the future due to the high customer switching costs and our high service levels associated with most of the equipment in which our products are installed.

Proprietary Design and Manufacturing Capabilities. We believe that our bearing engineering and manufacturing expertise, including our dedicated team of engineers and proprietary manufacturing capabilities, positions us to provide high quality, innovative solutions to our targeted markets in a timely way. We also believe that our design and manufacturing capabilities will allow us to maintain a leadership position as our customers continue to rely on us to develop new bearing solutions that can be manufactured cost effectively. However, our strength in this area is dependent upon our ability to continue to attract and retain skilled engineers, and many of our competitors have more resources than us to devote to human and technology development.

Disciplined Acquisition Program with History of Successful Integration. We have demonstrated expertise in acquiring and integrating bearing and precision-engineered component manufacturers that have complementary products or distribution channels and provide significant potential for margin enhancement. We have consistently increased the profitability of acquired businesses through a process of methods and systems improvement coupled with the introduction of complementary and proprietary new products. Since October 1992 we have completed 13 acquisitions which have significantly broadened our end markets, products, customer base and geographic reach. Most recently, in September 2005, we acquired the Southwest Products Company, a manufacturer of spherical bearings,

journal bearings and push-pull controls for military weapon systems and military and commercial aerospace applications.

Experienced Management Team. Our management team possesses extensive managerial experience in the bearing industry, with our top five operating executives averaging over 20 years of bearing industry experience. We intend to retain and attract experienced professionals by leveraging our reputation as a premier provider of precision bearing solutions. However, we cannot assure you that we will be successful in attracting and retaining top management in the future as many of our competitors have more resources than us.

Our Growth Strategy

We intend to grow our business while continuing to focus on specialized markets for highly engineered bearing solutions. Key elements of our growth strategy include:

Continue to Develop Innovative Bearing Solutions. We intend to leverage our design and manufacturing expertise and our extensive customer relationships to continue to develop new products for markets where we believe there are substantial growth opportunities. We analyze new product opportunities carefully by taking into account projected market prices and volumes and expected manufacturing costs, only pursuing new product lines that we believe will achieve our gross margin targets. Recent examples of our new product and process innovation include lightweight aircraft structural components that integrate bearing products for the Airbus series of aircraft, corrosion resistant materials for aircraft bearings and patented new designs that improve the service performance of cam followers for the oil and gas, packaging and material handling industries. Our ability to develop new custom engineered products strengthens existing customer relationships and creates new business opportunities for us.

Expand Customer Base and Penetrate End Markets. We continually seek opportunities to penetrate new customers, geographic locations and bearing platforms with existing products or profitable new product opportunities. For example, we have been expanding our sales to foreign aerospace manufacturers and foreign defense manufacturers that support the U.S. government. In addition, in the last three years we have added sales support in the following 9 locations: Chicago, the greater New York City area, Syracuse, Charlotte, Dallas/Forth Worth, Detroit, Southern California, Montreal, Canada and Paris, France and have been able to increase aftermarket sales in these regions. We currently have sales offices in over 10 other U.S. cities as well as other international locations such as Aachen, Germany, Cheltenham, England and Delemont, Switzerland. We intend to continue to expand our sales force, customer base and end markets and have identified a number of attractive growth opportunities domestically and abroad, including current projects in semiconductor machinery, airframe controls and missile guidance systems. In addition, our OEM relationships, coupled with our design expertise, provide us with extensive cross-selling opportunities on platforms that we do not currently supply.

Increase Aftermarket Sales. Aftermarket sales accounted for approximately 56% of our net sales for fiscal 2005. Such sales included both sales to third party distributors and a portion of our sales to OEMs for replacement bearings. We intend to increase the percentage of our revenues derived from the replacement market by continuing to implement several initiatives. First, we will continue to seek opportunities to increase our sales to key existing distributors as well as expand our base of third party customers. Second, our new product and new end market initiatives are focused on high-growth platforms, such as 300 millimeter semiconductor manufacturing systems and the U.S. government's Joint Strike Fighter program that we expect will be in service for long periods and therefore create significant demand for replacement parts. Additionally, we will seek opportunities to develop new products that can be used as replacement parts for existing platforms. For example, we have been approved recently to supply replacement bearings on the U.S. Navy's fleet of Harrier aircraft. We

believe that increasing our aftermarket sales of replacement parts will further enhance the continuity and predictability of our revenues and increase our profitability.

Pursue Selective Acquisitions. We believe that there will continue to be consolidation within the bearing industry that may present us with acquisition opportunities, particularly within the industrial and aerospace markets. This consolidation is being driven by an ongoing trend among OEMs to utilize fewer suppliers in order to simplify procurement, increase manufacturing efficiency and reduce costs; and, because we are one of the more well known and established suppliers of high quality specialty bearing products, it is a trend that has often worked in our favor. We regularly evaluate opportunities, some of which may be material, to acquire bearing and precision-engineered component manufacturers which have complementary products, customers or distribution channels, provide significant potential for margin enhancement and further expand the breadth of our product portfolio.

Customers and Markets

We serve a broad range of end markets where we can add value with our specialty, precision bearing products and applications. We classify our customers into two principal categories: diversified industrial and aerospace and defense. These principal end markets utilize a large number of both commercial and specialized bearing products. Although we provide a relatively small percentage of total bearing products supplied to each of our overall principal markets, we believe we have leading market positions in many of the specialized bearing product markets in which we primarily compete.

Diversified Industrial Market (55% of net sales for the nine month period ended December 31, 2005)

We manufacture bearing products for a wide range of diversified industrial markets, including construction and mining, oil and natural resource extraction, heavy truck, packaging and semiconductor machinery. Nearly all mechanical devices and machinery require bearings to relieve friction where one part moves relative to another. Our products target existing market applications in which our engineering and manufacturing capabilities provide us with a competitive advantage in the marketplace.

Our largest diversified industrial customers include Applied Materials, Caterpillar, Chicago Rawhide, Eaton, Hitachi Construction Machinery, Parker-Hannifin Corporation and various aftermarket distributors including Applied Industrial, Motion Industries and McMaster Carr. We believe that the diversification of our sales among the various markets of the industrial bearings market reduces our exposure to downturns in any individual market. We believe opportunities exist for growth and margin improvement in this market as a result of increasing demand for industrial machinery, the introduction of new products and the expansion of aftermarket sales.

Aerospace and Defense Market (45% of net sales for the nine month period ended December 31, 2005)

Aerospace Applications

We supply bearings for use in commercial and private aircraft. We supply bearings for many of the commercial aircraft currently operating worldwide and are the primary supplier for many of our product lines. This includes military contractors for airplanes, helicopters and missile systems. Commercial aerospace customers generally require precision products, often of special materials, made to unique designs and specifications. Many of our aerospace bearing products are designed and certified during the original development of the aircraft being served, which often makes us the primary bearing supplier for the life of the aircraft.

Our largest aerospace customers include Airbus, Boeing, General Electric, Lockheed Martin, Raytheon, Rolls Royce, Pratt and Whitney and various aftermarket channels. We estimate that over 60% of commercial aerospace net sales are actually used as replacement parts, as bearings are regularly replaced on aircraft in conjunction with routine maintenance procedures. We believe our strong relationships with OEMs help drive our aftermarket sales since a portion of OEM sales are ultimately

intended for use as replacement parts. We believe that growth and margin expansion in this segment will be driven primarily by expanding our international presence and the refurbishment and maintenance of existing commercial aircraft.

Defense Applications

We manufacture bearing products used by the U.S. Department of Defense and certain foreign governments for use in fighter jets, troop transports, naval vessels, helicopters, gas turbine engines, armored vehicles, guided weaponry and satellites. We manufacture an extensive line of standard products that conform to many domestic military application requirements, as well as customized products designed for unique applications. We specialize in the manufacture of high precision ball and roller bearings, commercial ball bearings and metal-to-metal and self-lubricating plain bearings for the defense market. Our bearing products are manufactured to conform to U.S. military specifications and are typically custom designed during the original product design phase, which often makes us the sole or primary bearing supplier for the life of the product. In addition to products that meet military specifications, these customers often require precision products made of specialized materials to custom designs and specifications. Product approval for use on military equipment is often a lengthy process ranging from six months to six years.

Our largest defense customers include the U.S. Department of Defense and all branches of the U.S. military. Sales consist primarily of replacement bearings on programs for which we are the sole-source supplier. We believe that our current installed base of bearing products and our sophisticated engineering and manufacturing capabilities position us to benefit from growing replacement part demand caused by increased equipment utilization as well as the introduction of new weapons and transport systems. Appropriations for maintenance and repairs for product platforms serviced by us have generally remained relatively stable, even during periods where defense spending was in relative decline, such as the early to mid-1990s. With increased government spending on defense, demands for the repair and maintenance of the product platforms serviced by us have strengthened in the past year.

We have long-term supply agreements that serve to establish the scope of the supply arrangements with many of our larger customers. The primary purpose of these agreements is to allow the customer to secure favorable pricing and capacity while providing us with the opportunity to effectively plan production. The majority of these agreements are for three year terms, however longer terms are occasionally agreed upon. Typically, large OEM customers are in the three-year category while defense contractors and their programs are likely to involve longer terms. These agreements generally establish the price (typically including material escalation), the product being supplied, the term of the agreement, minimum quantities and general terms and conditions. However, shipments are based solely upon the purchase orders placed by the customer under the long-term supply agreement. No single customer represented more than 6% of our net sales in fiscal 2005 and the nine month period ended December 31, 2005.

Products

Bearings are employed to fulfill several functions including reduction of friction, transfer of motion and carriage of loads. We design, manufacture and market a broad portfolio of bearing products. The following table provides a summary of our product segments:

Segment	Net Sales for the Nine Month Period Ended December 31, 2005	Representative Applications
Plain Bearings	$82,078 (41%)	Aircraft engine controls and landing gear Helicopter rotors and missile launchers Mining and construction equipment
Roller Bearings	$71,193 (36%)	Aircraft hydraulics Military and commercial truck chassis Packaging machinery and gear pumps
Ball Bearings	$33,239 (17%)	Radar and night vision systems Airframe control and actuation Semiconductor equipment
Other	$12,248 (6%)	Precision ground ball screws for robotic handling and missile guidance Collets for machine tools

Plain Bearings. Plain bearings are primarily used to rectify inevitable misalignments in various mechanical components, such as aircraft controls, helicopter rotors, or in heavy mining and construction equipment. Such misalignments are either due to machining inaccuracies or result when components change position relative to each other. Plain bearings are produced with either self-lubricating or metal-to-metal designs and consist of several sub-classes, including rod end bearings, spherical plain bearings and journal bearings. Sales of plain bearings accounted for 38% of our net sales in fiscal 2005 and 41% of our net sales for the nine month period ended December 31, 2005.

Roller Bearings. Roller bearings are anti-friction products that utilize cylindrical rolling elements. We produce three main designs: tapered roller bearings, needle roller bearings and needle bearing track rollers and cam followers. We produce medium sized tapered roller bearings used primarily in heavy truck axle applications. We offer several needle roller bearing designs that are used in both industrial applications and certain U.S. military aircraft platforms. These products are generally specified for use where there are high loads and the design is constrained by space considerations. A significant portion of the sales of this product is to the aftermarket. Needle bearing track rollers and cam followers have wide and diversified use in the industrial market and are often prescribed as a primary component in articulated aircraft wings. We believe we are the world's largest producer of aircraft needle bearing track rollers. The sale of roller bearings accounted for 38% of our net sales in fiscal 2005 and 36% of our net sales for the nine month period ended December 31, 2005.

Ball Bearings. Ball bearings are devices which utilize high precision ball elements to reduce friction in high speed applications. We specialize in four main types of ball bearings: high precision aerospace, airframe control, thin section and industrial ball bearings. High precision aerospace bearings are primarily sold to customers in the defense industry that require more technically sophisticated bearing products, such as missile guidance systems, providing higher degrees of fault tolerance given the criticality of the applications in which they are used. Airframe control ball bearings are precision ball bearings that are plated to resist corrosion and are qualified under a military specification. Thin section ball bearings are specialized bearings that use extremely thin cross sections and give specialized machinery manufacturers many advantages. We produce a general line of industrial ball bearings sold

primarily to the aftermarket. Ball bearings accounted for 17% of our net sales in fiscal 2005 and 17% of our net sales for the nine month period ended December 31, 2005.

Other. Our other products consist primarily of precision linear precision products and machine tool collets. Linear products are precision ground ball bearing screws that offer repeatable positioning accuracy in defense, machine tools, robotic handling and semiconductor equipment. We also have several application development programs for linear precision products in progress in guided missile, unmanned aircraft, and "smart bomb" applications. Machine tool collets are cone-shaped metal sleeves, used for holding circular or rodlike pieces in a lathe or other machine, that provide effective part holding and accurate part location during machining operations. Our other products accounted for approximately 7% of our net sales in fiscal 2005 and 6% of our net sales for the nine month period ended December 31, 2005.

Product Design and Development

We produce specialized bearings which are often tailored to the specifications of a customer or application. Our sales professionals are highly experienced engineers who collaborate with our customers on a continual basis to develop bearing solutions. The product development cycle can follow many paths which are dependent on the end market or channel. The process normally takes between 3-6 years from concept to sale depending upon the application and the market. A common route that is used for major OEM projects begins when our design engineers meet with their customer counterparts at the machine design conceptualization stage and work with them through the conclusion of the product development.

Often, at the early stage, a bearing design concept is produced that addresses the expected demands of the application. Environmental demands are many but normally include load, stress, heat, thermal gradients, vibration, lubricant supply, corrosion resistance, with one or two of these environmental constraints being predominant in the design consideration. A bearing design must perform reliably for a period of time specified by the customer's product objectives.

Once a bearing is designed, a mathematical simulation is created to replicate the expected application environment and thus allow optimization with respect to these design variables. Upon conclusion of the design and simulation phase, samples are produced and laboratory testing commences at one of our test laboratories. The purpose of this testing phase is not only to verify the design and the simulation model but also to allow further design improvement where needed. Finally, upon successful field testing by the customer, the product is ready for sale.

For the majority of our products, the culmination of this lengthy process is the receipt of a product approval or certification, generally obtained from either the OEM, the Department of Defense or the FAA which allows us to supply the product to the customer. We currently have in excess of 32,000 such approvals, which often gives us a significant competitive advantage, and in many of these instances we are the only approved supplier of a given bearing product.

Manufacturing and Operations

Our manufacturing strategies are focused on product reliability, quality and service. Custom and standard products are produced according to manufacturing schedules that ensure maximum availability of popular items for immediate sale while carefully considering the economies of lot production and special products. Capital programs and manufacturing methods development are focused on quality improvement and low production costs. A monthly review of product line production performance assures an environment of continuous attainment of profitability goals.

Capacity. Our plants currently run on a single shift, and light second and third shifts at selected locations, to meet the demands of our customers. We believe that current capacity levels and future

annual estimated capital expenditures on equipment up to approximately 4% of net sales should permit us to effectively meet demand levels for the foreseeable future. We also believe that we have the ability to increase capacity and move to full second or third shifts when required.

Inventory Management. Our increasing emphasis on the distributor/aftermarket sector has required us to maintain greater inventories of a broader range of products than the OEM market historically demanded. We operate an inventory management program designed to balance customer delivery requirements with economically optimal inventory levels. In this program, each product is categorized based on characteristics including order frequency, number of customers and sales volume. Using this classification system, our primary goal is to maintain a sufficient supply of standard items while minimizing warehousing costs. In addition, production cost savings are achieved by optimizing plant scheduling around inventory levels and customer delivery requirements. This leads to more efficient utilization of manufacturing facilities and minimizes plant production changes while maintaining sufficient inventories to service customer needs.

Sales, Marketing and Distribution

Our marketing strategy is aimed at increasing sales within our two primary markets, targeting specific applications in which we can exploit our competitive strengths. To effect this strategy, we seek to expand into geographic areas not previously served by us and we continue to capitalize on new markets and industries for existing and new products. We employ a technically proficient sales force and utilize marketing managers, product managers, customer service representatives and product application engineers in our selling efforts.

We have accelerated the development of our sales force through the hiring of sales personnel with prior bearing industry experience, complemented by an in-house training program. We intend to continue to hire and develop expert sales professionals and strategically locate them to implement our expansion strategy. Today, our direct sales force is located to service North America, Europe and Latin America and is responsible for selling all of our products. This selling model leverages our relationship with key customers and provides opportunities to market multiple product lines to both established and potential customers. We also sell our products through a well-established, global network of industrial and aerospace distributors. This channel primarily provides our products to smaller OEM customers and the end users of bearings that require local inventory and service. In addition, specific larger OEM customers are also serviced through this channel to facilitate requirements for "Just In Time" deliveries or "Kan Ban" systems. Our worldwide distributor network provides our customers with more than 1,500 points of sale for our products. We intend to continue to focus on building distributor sales volume.

The sale of our products is supported by a well-trained and experienced customer service organization. This organization provides customers with instant access to key information regarding their bearing purchase and delivery requirements. We also provide customers with updated information through our web site, and we have developed on-line integration with specific customers, enabling more efficient ordering and timely order fulfillment for those customers.

We store product inventory in four company-owned and operated warehouses located on the East and West coasts of the U.S., and in France and Switzerland. The inventory is located in these warehouses based on thorough analysis of customer demand to provide superior service and product availability to our customers.

Competition

Our principal competitors include Kaydon Corporation, New Hampshire Ball Bearings and McGill Manufacturing Company, Inc., although we compete with different companies for each of our product lines. We believe that for the majority of our products, the principal competitive factors affecting our

business are product qualifications, product line breadth, service and price. Although some of our current and potential competitors may have greater financial, marketing, personnel and other resources than us, we believe that we are well positioned to compete with regard to each of these factors in each of the markets in which we operate.

Product Qualifications. Many of the products we produce are qualified for the application by the OEM, the U.S. Department of Defense, the FAA or a combination of these agencies. These credentials have been achieved for thousands of distinct items after years of design, testing and improvement. In many cases patent protection presides, in all cases there is strong brand identity and in numerous cases we have the exclusive product for the application.

Product Line Breadth. Our products encompass an extraordinarily broad range of designs which often create a critical mass of complementary bearings and components for our markets. This position allows many of our industrial and aircraft customers the ability for a single manufacturer to provide the engineering service and product breadth needed to achieve a series of OEM design objectives or aftermarket requirements. This ability enhances our value to the OEM considerably while strengthening our overall market position.

Service. Product design, performance, reliability, availability, quality, technical and administrative support are elements that define the service standard for this business. Our customers are sophisticated and demanding, as our products are fundamental and enabling components to the construction or operating of their machinery. We maintain inventory levels of our most popular items for immediate sale and service well over 15,000 voice and electronic contacts per month. Our customers have high expectations regarding product availability, and the primary emphasis of our service efforts is to ensure the widest possible range of available products and delivering them on a timely basis.

Price. We believe our products are priced competitively in the markets we serve. We continually evaluate our manufacturing and other operations to maximize efficiencies in order to reduce costs, eliminate unprofitable products from our portfolio and maximize our profit margins. While we compete with larger bearing manufacturers who direct the majority of their business activities, investments and expertise toward the automotive industries, our sales in this industry are only a small percentage of our business. We invest considerable effort to develop our price to value algorithms and we price to market levels where required by competitive pressures.

Suppliers and Raw Materials

We obtain raw materials, component parts and supplies from a variety of sources and generally from more than one supplier. Our principal raw material is steel. Our suppliers and sources of raw materials are based in the U.S., Europe and Asia. We purchase steel at market prices, which during the past two years have increased to historical highs as a result of a relatively low level of supply and a relatively high level of demand. To date, we have generally managed to pass through these raw material price increases to our customers by assessing steel surcharges on, or price increases of, our bearing products. However, we have from time to time experienced a time lag of up to 12 weeks or more in our ability to pass through steel surcharges to our customers which has negatively impacted our gross margins. We will continue to pass on raw material price increases as competitive conditions allow.

Because of extraordinarily high demand for certain grades of steel, suppliers have in some instances allocated certain types of steel in limited quantities to customers. However, to date, we have never experienced a work stoppage due to a supply shortage. We believe that our sources for raw materials, including steel, are adequate for our needs in the foreseeable future, that there exist alternative suppliers for our raw materials and that in most cases readily available alternative materials can be used for most of our raw materials. However, we cannot provide any assurances of the

availability or the prices thereof. We do not believe that the loss of any one supplier would have a material adverse effect on our financial condition or results of operations.

We have not been significantly impacted by recent increases in energy prices because energy costs, the most significant component of which is natural gas used in heat treating operations, represent less than 4% of our overall costs.

Backlog

As of December 31, 2005, we had an order backlog of $152.6 million, as compared to a backlog of $133.8 million for the same period in the prior year. The amount of backlog includes orders which we estimate will be fulfilled within the next 12 months; however, orders included in our backlog are subject to cancellation, delay or other modifications by our customers prior to fulfillment. We sell many of our products pursuant to contractual agreements, single source relationships or long-term purchase orders, each of which may permit early termination by the customer. However, due to the nature of many of the products supplied by us and the lack of availability of alternative suppliers to meet the demands of such customers' orders in a timely manner, we believe that it is not practical or prudent for most of our customers to shift their bearing business to other suppliers.

Employees

We had approximately 1,224 hourly employees and 525 salaried employees as of December 31, 2005, of whom 261 were employed in our European and Mexican operations. As of December 31, 2005, approximately 903 of our hourly employees, or 74%, were non-unionized. We believe that our employee relations are satisfactory.

We are subject to several collective bargaining agreements covering unionized workers, as follows:

- collective bargaining agreements with the United Auto Workers covering substantially all of the hourly employees at our West Trenton, New Jersey, Fairfield, Connecticut and Bremen, Indiana plants. These agreements expire on June 30, 2007, January 31, 2008 and October 31, 2009, respectively; and

- a collective bargaining agreement with the United Steelworkers covering substantially all the hourly employees at our Glasgow, Kentucky plant. This agreement expires on June 13, 2008.

On February 28, 2006, our RBC Nice Bearings, Inc. subsidiary and the United Steelworkers of America (AFL-CIO) Local 6816-12 entered into a shutdown agreement in connection with our decision to close operations at our Kulpsville, Pennsylvania facility. In connection with the shutdown agreement, the union has agreed to take no action against us in connection with such shutdown. The agreement also addresses closure and other transition issues related to pensions, workers compensation, adjustment assistance and other matters. The production conducted at the Nice facility will be moved to other RBC locations, and we anticipate no material impact on production or our ability to service our customers. We expect that such closure will not materially impact our results of operations or financial condition.

Intellectual Property

We own U.S. and foreign patents and trademark registrations and U.S. copyright registrations, and have U.S. trademark and patent applications pending. We currently have approximately 15 U.S. patents and patent applications and a few foreign patents. We file patent applications and maintain patents to protect certain technology, inventions and improvements that are important to the development of our business, and we file trademark applications and maintain trademark registrations to protect product names that have achieved brand-name recognition among our customers. We also rely upon trade secrets, know-how and continuing technological innovation to develop and maintain our competitive

position. We believe our trade-secrets, know-how, innovations and product approvals are significantly more important to the success of our business and ability to maintain our competitive position than our patents. Many of our brands are well recognized by our customers and are considered valuable assets of our business. We currently have approximately 60 U.S. trademark registrations and applications and a significant number of foreign trademark registrations. We do not believe, however, that any individual item of intellectual property is material to our business. See "Risk Factors."

Regulation

Product Approvals. Essential to servicing the aerospace market is the ability to obtain product approvals. We have in excess of 32,000 product approvals, which enable us to provide products used in virtually all domestic aircraft platforms presently in production or operation. Product approvals are typically issued by the FAA to designated OEMs who are Production Approval Holders of FAA approved aircraft. These Production Approval Holders provide quality control oversight and generally limit the number of suppliers directly servicing the commercial aerospace aftermarket. Regulations enacted by the FAA provide for an independent process (the Parts Manufacturer Approval, or PMA, process), which enables suppliers who currently sell their products to the Production Approval Holders, to sell products to the aftermarket. We have received over 2,400 PMA approvals to date and have approximately 633 active PMA applications in process. The costs of obtaining required product approvals are not directly tracked, but are included in our manufacturing overhead and SG&A costs. We do not directly pass these costs on to our customers, but they are reflected indirectly in our overall product pricing.

We are subject to various other federal laws, regulations and standards. Although we are not presently aware of any pending legal or regulatory changes that may have a material impact on us, new laws, regulations or standards or changes to existing laws, regulations or standards could subject us to significant additional costs of compliance or liabilities, and could result in material reductions to our results of operations, cash flow or revenues.

Environmental Matters

We are subject to federal, state and local environmental laws and regulations, including those governing discharges of pollutants into the air and water, the storage, handling and disposal of wastes and the health and safety of employees. We also may be liable under the Comprehensive Environmental Response, Compensation, and Liability Act or similar state laws for the costs of investigation and clean-up of contamination at facilities currently or formerly owned or operated by us, or at other facilities at which we have disposed of hazardous substances. In connection with such contamination, we may also be liable for natural resource damages, government penalties and claims by third parties for personal injury and property damage. Agencies responsible for enforcing these laws have authority to impose significant civil or criminal penalties for non-compliance. We believe we are currently in material compliance with all applicable requirements of environmental laws. We do not anticipate material capital expenditures for environmental controls in fiscal 2006.

Investigation and remediation of contamination is ongoing at some of our sites. In particular, state agencies have been overseeing groundwater monitoring activities at our facilities in Hartsville, South Carolina and Fairfield, Connecticut. At Hartsville, we are monitoring low levels of contaminants in the groundwater caused by former operations. The state will permit us to cease monitoring activities after two consecutive sampling periods demonstrate contaminants are below action levels. In connection with the purchase of our Fairfield, Connecticut facility in 1996, we agreed to assume responsibility for completing clean-up efforts previously initiated by the prior owner. We submitted data to the state that we believe demonstrates that no further remedial action is necessary although the state may require additional clean-up or monitoring. Although there can be no assurance, we do not expect any of those to be material.

We received notice in 2003 from the U.S. EPA that we had been named a potentially responsible *de minimis* party for past disposal of hazardous substances at the Operating Industries, Inc.'s landfill in Monterey, California. Any such disposal would have been conducted prior to our ownership, and we notified the former owners of a potential claim for indemnification pursuant to the terms of our asset purchase agreements. We are currently negotiating a *de minimis* settlement with the U.S. EPA and expect that any settlement, even if we are unsuccessful in obtaining indemnification, will not be material to our results of operations or to our business.

Properties

Our principal executive offices are located at One Tribology Center, Oxford, Connecticut 06478. We also use this facility for manufacturing our plain bearing products, both Teflon® lined and metal-to-metal, and commercial ball bearings.

In addition, we own facilities in Hartsville, South Carolina; Fairfield, Connecticut; Kulpsville, Pennsylvania; Rancho Dominguez, California; Santa Ana, California; Walterboro, South Carolina; Bremen, Indiana; and Scionzier Cedex, France, as well as a small parcel of real property in Oxford, Connecticut which may be used for expansion of our manufacturing operations at that location. On February 15, 2006, we entered into a Purchase & Sale Agreement for the Kulpsville, Pennsylvania facility with the closing scheduled for March 30, 2006. We also have leases in effect with respect to facilities in the following locations until the following dates: West Trenton, New Jersey, February 10, 2009; Oxford, Connecticut, September 30, 2014; Torrington, Connecticut, December 22, 2006; Plymouth, Indiana, May 15, 2022; Glasgow, Kentucky, June 30, 2010; Delemont, Switzerland, December 31, 2009; Reynosa, Tamaulipas, Mexico, September 20, 2010 plus an expansion lease that is expected to commence its five year term on July 15, 2006; Oklahoma City, Oklahoma, December 31, 2008, Les Ulis Cedex, France, July 1, 2010; Chatsworth, California, November 11, 2006, and Irwindale, California August 31, 2010.

We believe that our existing property, facilities and equipment are generally in good condition, are well maintained and adequate to carry on our current operations. We also believe that our existing manufacturing facilities have sufficient capacity to meet increased customer demand. Substantially all of our owned domestic properties and most of our other assets are subject to a lien securing our obligations under our Senior Credit Facility.

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.

MANAGEMENT

The following table sets forth certain information concerning our directors and executive officers. Each director is elected for a one-year term or until such person's successor is duly elected and qualified.

Name	Age	Positions
Dr. Michael J. Hartnett	60	Chairman, President and Chief Executive Officer
Daniel A. Bergeron	46	Vice President and Chief Financial Officer
Phillip H. Beausoleil	61	General Manager, ITB and TDC
Thomas C. Crainer	48	General Manager, Heim, RBC-API and Schaublin SA
Richard J. Edwards	50	Vice President and General Manager, RBC Divisions
Robert Anderson	85	Director
Richard R. Crowell	51	Director
Dr. Amir Faghri	54	Director
William P. Killian	70	Director
Alan B. Levine	62	Director
Dr. Thomas J. O'Brien	58	Director
Michael Stone	43	Director

Dr. Michael J. Hartnett has been the President and Chief Executive Officer since April 1992 and Chairman of the board of directors since June 1993. Prior to that, Dr. Hartnett served as Vice President and General Manager of our Industrial Tectonics Bearings Corporation, or ITB, subsidiary from 1990, following eighteen years at The Torrington Company, one of the three largest bearings manufacturers in the U.S. While at Torrington Company, Dr. Hartnett held the position of Vice President and General Manager of the Aerospace Business Unit and was, prior to that, Vice President of the Research and Development Division. Dr. Hartnett holds an undergraduate degree from University of New Haven, a Masters degree from Worcester Polytechnic Institute and a Ph.D. in Applied Mechanics from the University of Connecticut. Dr. Hartnett has also developed numerous patents, authored more than two dozen technical papers and is well known for his contributions to the field of tribology, the study of friction. Dr. Hartnett currently serves as a director of Aftermarket Technology Corp., a publicly-held company in the business of re-manufacturing aftermarket components for automobiles.

Daniel A. Bergeron joined us in May 2003 as Vice President, Finance. On August 5, 2003, he was appointed Vice President and Chief Financial Officer. From November 2002 through May 2003, he served as Vice President and Chief Financial Officer of Allied Healthcare International, Inc., a publicly-held provider of healthcare staffing services. Mr. Bergeron served as Vice President and Chief Financial Officer at Paragon Networks International, Inc., a telecommunications company, from June 2000 to October 2002. From April 1998 to February 2000, he served as Vice President and Chief Financial Officer of Tridex Corporation, a publicly-held software company. From July 1987 to March 1998, Mr. Bergeron held various financial reporting positions with Dorr-Oliver Inc., an international engineering and manufacturing company, including Vice President and Chief Financial Officer from 1994 to March 1998. Mr. Bergeron holds a B.S. in Finance from Northeastern University and a M.B.A. from the University of New Haven.

Phillip H. Beausoleil spent three years as Plant Manager for the SKF Kulpsville, Pennsylvania facility before joining us in 1993 as Plant Manager of the Santa Ana, California division, Transport Dynamics. In 1995, the general manager responsibilities at Industrial Tectonics Bearings, or ITB, in California were given to Mr. Beausoleil. He also spent 23 years at New Hampshire Ball Bearing, the last five years as General Manager of its Astro Division.

Thomas C. Crainer joined us in 1986 as Plant Manager at the ITB division in California and was promoted to General Manager in 1995. In 2000, Mr. Crainer became General Manager for RBC Schaublin. In 2003, he returned to the U.S. to assume additional responsibilities for our Heim Bearings, Engineered Component and Aircraft Products facilities. He had previously been employed for six years at TRW Bearing in Falconer, NY as Manufacturing Supervisor, Production Control Manager and Manufacturing Manager. His undergraduate degree in Business Administration is from St. Bonaventure University. In 1991 he received an M.B.A. from the University of Phoenix.

Richard J. Edwards joined us as Manufacturing Manager for the Hartsville, South Carolina facility in 1990. After holding the positions of Plant Manager for the Hartsville Plant, and Director of Operations for the RBC Divisions, he was named Vice President and General Manager for the RBC Divisions in 1996. Prior to joining us, Mr. Edwards spent six years with the Torrington Company as Materials Manager, and later Plant Superintendent in the Tyger River plant. He holds a Bachelor of Science degree in Management from Arizona State University.

Robert Anderson has been a director since June 1998. Mr. Anderson has served as Chairman Emeritus of Rockwell Corporation since February 1990. He also serves as a director of Aftermarket Technology Corporation and is a member of the Caltech Board of Trustees and a graduate of the Anderson School of the University of California, Los Angeles.

Richard R. Crowell has been a director since June 2002. Mr. Crowell is a Partner of Aurora Capital Group, a private equity investment firm. Prior to establishing Aurora in 1991, Mr. Crowell was a Managing Partner of Acadia Partners, a New York-based investment fund. From 1983 to 1987, he was a Managing Director, Corporate Finance for Drexel Burnham Lambert. He serves on the board of directors of Tartan Textile Services, Inc., Anthony Inc. and ADCO Global, Inc. Mr. Crowell earned a B.A. from the University of California, Santa Cruz and an M.B.A. from the Anderson School of the University of California, Los Angeles.

Dr. Amir Faghri has been a director since July 2004. Dr. Faghri is presently the Dean of the School of Engineering of the University of Connecticut. He joined the university in 1994 as Head of the Mechanical Engineering Department. Dr. Faghri is published extensively in the area of heat transfer and is the sole inventor of six U.S. patents. He has been a consultant for several major research centers, including Los Alamos, Oak Ridge National Laboratories and Intel Corporation. He is a Fellow of ASME. He received a B.S. from Oregon State University and an M.S. and a Ph.D. from the University of California, Berkeley.

William P. Killian has been a director since October 2001. Mr. Killian has reported directly to and advised CEOs of Fortune 500, NYSE corporations on strategy, corporate growth, acquisitions and divestitures for 25 years. From 1986 until his retirement in 2000, Mr. Killian was Corporate Vice President, Development and Strategy for Johnson Controls, Inc. a $20 billion global market leader in automotive systems and facility management and controls. Currently, he serves as a member of the board of directors of Aqua-Chem, Inc. and Premix, Inc. Mr. Killian holds a Bachelor of Chemical Engineering from Georgia Tech and a Master of Engineering Administration from the University of Utah.

Alan B. Levine has been a director and chairman of our audit committee since October 2005. Mr. Levine served as Chief Financial Officer and Director of Virtual Access Networks, Inc. (2001 to 2002) and Chief Financial Officer and Treasurer of Marathon Technologies Corporation (1998 to 2001). He was also a member of the Board of Directors and Audit Committee Chair of MCK Communications before the company's merger in November 2003. Prior to this, Mr. Levine was with Ernst & Young, LLP from 1974 to 1998, and was Partner from 1986 to 1998, where he established and directed the firm's Entrepreneurial Services practice. Today, Mr. Levine leads ABL Associates, a consulting practice dedicated to helping entrepreneurial companies identify and implement strategic initiatives and manage change. He is also a Director on the Board of Nextera Enterprises, a public

company based in Boston, where he serves as Audit Committee Chair. Mr. Levine earned a Bachelor of Arts degree from the University of Vermont. He also holds a Master of Accounting degree from the University of Arizona and is a certified public accountant.

Dr. Thomas J. O'Brien has been a director and audit committee member since February 2006. Dr. O'Brien has served as the Head of the Finance Department at the University of Connecticut since 1999 and as a professor at the University since 1986. Prior to this, Dr. O'Brien held positions at the University of North Carolina Chapel Hill, Duke University, University of North Carolina Charlotte and Florida State University. In addition to Dr. O'Brien's distinguished career as a professor, he has also written several books and has co-authored numerous papers and articles covering topics in finance. Dr. O'Brien earned a Bachelor of Arts degree in Economics from Davidson College. He received his MBA from the University of Pennsylvania and holds a Ph.D in Finance from the University of Florida.

Michael Stone has been a director since April 2002. Mr. Stone is a Managing Partner of Whitney. He has been with Whitney since 1989 and has been a senior investor in each of Whitney's outside equity funds. Previously, he was with Bain & Company where he worked with manufacturing and pharmaceutical clients and Bain Capital-owned entities. He received a B.A. from Duke University and a M.B.A. from Harvard Business School. Mr. Stone is a director of several private companies.

Board of Directors

Our board of directors consists of up to 9 members. We currently have 8 members on our board of directors. A majority of our board of directors are independent. Our directors are elected by our stockholders at each annual meeting. Nominees for director are designated by the then constituted board of directors, and stockholders vote on whether each nominee should be elected as a director. Our board of directors is divided into three classes serving staggered three-year terms: Class I consists of Robert Anderson and Michael Stone, Class II consists of William P. Killian, Richard R. Crowell and Alan B. Levine and Class III consists of Dr. Michael J. Hartnett, Dr. Thomas J. O'Brien and Dr. Amir Faghri. Class I, Class II and Class III directors will serve until our annual meetings of stockholders in 2006, 2007 and 2008, respectively. At each annual meeting of stockholders, directors will be elected to succeed the class of directors whose terms have expired. This classification of our board of directors could have the effect of increasing the length of time necessary to change the composition of a majority of our board of directors. In general, at least two annual meetings of stockholders will be necessary for stockholders to effect a change in a majority of the members of our board of directors.

Committees of Our Board of Directors

The standing committees of our board of directors consist of an audit committee, a compensation committee and a corporate governance and nominating committee. Mr. Levine, Dr. Faghri and Dr. O'Brien currently serve on our audit committee, Messrs. Crowell, Anderson and Killian serve on our compensation committee and Mr. Levine, Dr. O'Brien and Dr. Faghri serve on our corporate governance and nominating committee. All the members of our audit, compensation and corporate governance and nominating committees are "independent" as defined by applicable Nasdaq rules.

Audit Committee

The principal duties and responsibilities of our audit committee are as follows:

- to monitor our financial reporting process and internal control system;
- to appoint and replace our independent outside auditors from time to time, determine their compensation and other terms of engagement and oversee their work;
- to oversee the internal audit function; and
- to oversee our compliance with legal, ethical and regulatory matters.

The audit committee has the power to investigate any matter brought to its attention within the scope of its duties. It also has the authority to retain counsel and advisors to fulfill its responsibilities and duties. We intend to comply with future audit committee requirements as they become applicable to us.

Compensation Committee

The principal duties and responsibilities of our compensation committee are as follows:

- to provide oversight on the development and implementation of the compensation policies, strategies, plans and programs for our key employees and outside directors and disclosure relating to these matters;
- to review and approve the compensation of our chief executive officer and the other executive officers of us and our subsidiaries; and
- to provide oversight concerning selection of officers, management succession planning, performance of individual executives and related matters.

Each member of our compensation committee will be an "outside" director as that term is defined in 162(m) of the Internal Revenue Code of 1986, as amended, and a "non-employee" director within the meaning of Rule 16b-3 of the rules under the Securities Exchange Act of 1934.

Corporate Governance and Nominating Committee

The principal duties and responsibilities of our corporate governance and nominating committee are as follows:

- to establish criteria for board and committee membership and recommend to our board of directors proposed nominees for election to the board of directors and for membership on committees of the board of directors;
- to make recommendations regarding proposals submitted by our stockholders; and
- to make recommendations to our board of directors regarding corporate governance matters and practice.

Compensation of Directors

Effective in fiscal 2007, independent members of our board of directors are paid $50,000 per year, payable quarterly, and are entitled to annual stock option grants at the discretion of the compensation committee of the board of directors for their services. In addition, our compensation policy provides for reimbursement for reasonable out-of-pocket expenses incurred in connection with attendance at board meetings or of any committee thereof.

Code of Ethics

Our board of directors has adopted a code of business conduct and ethics applicable to our directors, officers and employees.

Corporate Governance Guidelines

To help discharge its responsibilities, our board of directors has adopted corporate governance guidelines in accordance with applicable Nasdaq National Market listing standards on significant corporate governance issues. These guidelines address such matters as director independence, committee membership and structure, meetings and executive sessions, director selection, retirement and training, among other things.

Limitation on Directors' Liability and Indemnification

Our amended and restated certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for:

- any breach of their duty of loyalty to the corporation or its stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

The limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our restated certificate of incorporation provides that we will indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by law. We believe that indemnification under our restated certificate of incorporation covers at least negligence and gross negligence on the part of indemnified parties. Our restated certificate of incorporation also permits us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in his or her capacity as an officer, director, employee or other agent.

The limited liability and indemnification provisions in our restated certificate of incorporation may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty and may reduce the likelihood of derivative litigation against our directors and officers, even though a derivative action, if successful, might otherwise benefit us and our stockholders. A stockholder's investment in us may be adversely affected to the extent we pay the costs of settlement or damage awards against our directors and officers under these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors, officers or employees in which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for directors, officers and controlling persons of us pursuant to the foregoing provisions or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission, or SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Executive Compensation

The following table sets forth the cash and other compensation paid by us in fiscal 2005, 2004 and 2003 to Dr. Hartnett, our Chairman, President and Chief Executive Officer, and our next four most highly paid executive officers, or the Named Executive Officers.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	**Fiscal Year**	**Salary[a]**	**Bonus**	**Other Annual Compensation**	**Securities Underlying Options/SARs**	**All Other Compensation**
Dr. Michael J. Hartnett	2005	$ 591,744	$ 578,817	$ 9,211[b]		$ 15,000[g]
Chairman, President &	2004	560,442	481,757	8,685[b]		15,000[g]
Chief Executive Officer	2003	521,924	66,547	11,832[b]		
Phillip H. Beausoleil	2005	206,970	100,000		25,000[f]	7,147[h]
General Manager, ITB	2004	204,269	50,000			7,605[h]
and TDC	2003	189,371	45,000		12,500[f]	7,854[h]
Daniel A. Bergeron	2005	189,000	40,000	6,000[c]	25,000[f]	4,500[i]
Vice President and	2004	152,769		6,000[c]		
Chief Financial Officer	2003					
Thomas C. Crainer	2005	185,000	42,096	12,311[d]		5,329[j]
General Manager,	2004	211,835		5,702[d]		5,708[j]
Heim, RBC-API and Schaublin SA	2003	224,228	37,000	6,960[d]	12,500[f]	5,329[j]
Richard J. Edwards	2005	207,741	30,000	10,261[e]		3,750[k]
Vice President and	2004	202,448	35,000	12,800[e]	25,000[f]	
General Manager, RBC Divisions	2003	172,917	30,000	9,573[e]	12,500[f]	3,750[k]

(a) Includes amounts deferred by the executive pursuant to our 401(k) Plan.

(b) Consists of leased vehicles for use by Dr. Hartnett.

(c) Consists of $6,000 car allowance for Mr. Bergeron.

(d) Consists of a leased vehicle for use by Mr. Crainer.

(e) Consists of a leased vehicle for use by Mr. Edwards.

(f) Options granted under the 2001 Stock Option Plan.

(g) Consists of employer match contributed to Dr. Hartnett's SERP account.

(h) Consists of employer match contributed to Mr. Beausoleil's SERP account.

(i) Consists of employer match contributed to Mr. Bergeron's SERP account.

(j) Consists of employer match contributed to Mr. Crainer's SERP account.

(k) Consists of employer match contributed to Mr. Edwards' SERP account.

Option Grants in Last Fiscal Year

The following table provides information with respect to stock options granted to our named executive officers during fiscal 2005:

	Individual Grants				Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term[b]		
Name	Number of Securities Underlying Options/SARs Granted	% of Total Options Granted to Employees in 2005[a]	Exercise or Base Price per Share	Expiration Date	0%	5%	10%
Daniel A. Bergeron	25,000	13.9%	$ 8.00	April 4, 2014	$ 162,500	$ 390,174	$ 740,232
Phillip H. Beausoleil	25,000	13.9%	8.00	April 4, 2014	162,500	390,174	740,232

(a) Based on an aggregate of 179,575 shares subject to options granted to our employees in 2005, including the named executive officers.

(b) Potential realizable values are computed by: (1) multiplying the number of shares of common stock subject to a given option by the initial public offering price per share of $14.50; (2) assuming that the aggregate stock value derived from that calculation compounds at the annual rate of 0%, 5% or 10% shown in the table for the entire 10-year term of the option; and (3) subtracting from that result the aggregate option exercise price. The 0%, 5% and 10% assumed annual rates of stock price appreciation are mandated by the rules of the SEC and do not reflect our estimate or projection of future stock prices. These values do not take into account amounts required to be paid as income taxes under the Internal Revenue Code and any applicable state laws or option provisions providing for termination of an option following termination of employment, non-transferability or vesting. Actual gains, if any, on stock option exercises will depend on the future performance of the common stock and the date on which the options are exercised.

Aggregated Stock Option Exercises in Last Fiscal Year and Fiscal Year-end Option Values

The following table sets forth the number of exercisable and unexercisable options and warrants held by each of the Named Executive Officers as of April 2, 2005. None of our common stock was acquired during fiscal 2005 upon the exercise of stock options and warrants by the Named Executive Officers.

Fiscal Year-End Option and Warrant Values

	Number of Securities Underlying Unexercised Options and Warrants at Fiscal Year-End		Value of Unexercised In-the-Money Options and Warrants at Fiscal Year-End[a]	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Dr. Michael J. Hartnett[b]	1,812,658		$ 25,001,340	$
Daniel A. Bergeron	16,500	8,500	107,250	55,250
Phillip H. Beausoleil	87,625	8,500	923,613	55,250
Richard J. Edwards	193,800		2,356,080	
Thomas C. Crainer	58,100		632,710	

(a) Based upon a per share price of $14.50.

(b) The options and warrants were held by Dr. Hartnett and by Hartnett Family Investments, L.P. as of April 2, 2005.

As of April 2, 2005, there was no public market for any of our common stock underlying the options and warrants reflected on the table.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information about securities authorized for issuance under our equity compensation plans and other agreements as of April 2, 2005:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants	(b) Weighted Average Exercise Price of Outstanding Options and Warrants	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	303,492	$ 11.32	842,183
Equity compensation plans not approved by security holders	1,463,068	$ 0.71	
Total	1,766,560	$ 2.53	842,183

Stock Option Plans

1998 Stock Option Plan

Effective February 18, 1998, we adopted the RBC Bearings Incorporated (f/k/a Roller Bearing Holding Company, Inc.) 1998 Stock Option Plan. The terms of the 1998 option plan provide for the grant of options to purchase up to 8,413,900 shares of common stock to officers and employees of, and consultants (including members of the board of directors) to us and our subsidiaries. Options granted may be either incentive stock options (under Section 422 of the Internal Revenue Code) or non-qualified stock options. The 1998 option plan, which expires on December 31, 2008, is to be governed by our board of directors or a committee to which the board delegates its responsibilities. As of April 2, 2005, there were outstanding options to purchase 252,375 shares of common stock granted under the 1998 option plan, all of which were exercisable. The 1998 Stock Option Plan has been frozen and no additional stock options will be awarded pursuant to the plan.

The exercise price of options granted under the 1998 option plan was determined by our board of directors, but in no event less than 100% of the Fair Market Value (as defined in the 1998 option plan) of the common stock on the date of grant. Options granted under the 1998 option plan may be exercised during the period set forth in the agreement pursuant to which the options are granted, but in no event more than ten years following grant.

The 1998 Stock Option Plan provides that the number of shares for which outstanding options shall be exercisable, and the exercise price thereof, shall be adjusted upon the happening of stock dividends, stock splits, recapitalizations and certain other capital events regarding our company or the common stock. Upon any merger, consolidation or combination where shares of common stock are converted into cash, securities or other property, outstanding options shall be converted into the right to receive upon exercise the consideration as would have been payable in exchange for the shares of common stock underlying such options had such options been exercised prior to such event.

Options granted under the 1998 option plan are not transferable by the holders thereof except by the laws of descent and distribution. Our board of directors has the right to establish such rules and regulations concerning the 1998 option plan and to make such determinations and interpretations of the terms thereof as it deems necessary or advisable.

2001 Stock Option Plan

The RBC Bearings Incorporated (f/k/a Roller Bearing Holding Company, Inc.) 2001 Stock Option Plan was adopted in fiscal 2002 and amended and restated on October 24, 2003. The terms of the 2001 option plan provide for the grant of options to purchase up to 1,008,553 shares of common stock to our officers and employees of, and consultants (including members of our board of directors) to, us and our subsidiaries selected by the CEO to participate in the plan. Options granted may be either incentive stock options (under Section 422 of the Internal Revenue Code) or non-qualified stock options. The 2001 option plan, which expires in July 2011, is to be governed our board of directors or a committee to which the board of directors delegates its responsibilities. As of April 2, 2005, there were outstanding options to purchase 466,741 shares of common stock granted under the 2001 option plan, 333,741 of which were exercisable. The 2001 Stock Option Plan has been frozen and no additional stock options will be awarded pursuant to the plan.

The exercise price of options granted under the 2001 option plan was determined by the board of directors, but in no event less than 100% of the Fair Market Value (as defined in the 2001 option plan) of the common stock on the date of grant. Options granted under the 2001 option plan may be exercised during the period set forth in the agreement pursuant to which the options are granted, but in no event more than ten years following grant.

The 2001 Stock Option Plan provides that the number of shares for which outstanding options shall be exercisable, and the exercise price thereof, shall be adjusted upon the happening of stock dividends, stock splits, recapitalizations and certain other capital events regarding our Company or the common stock. Upon any merger, consolidation or combination where shares of common stock are converted into cash securities or other property, outstanding options shall be converted into the right to receive upon exercise the consideration as would have been payable in exchange for the shares of common stock underlying such options had such options been exercised prior to such event.

Options granted under the 2001 option plan are not transferable by the holders thereof except (1) by the laws of descent and distribution, (2) transfers to members of any holder's immediate family (which for purposes of the 2001 option plan shall be limited to the participant's children, grandchildren and spouse), (3) to one or more trusts for the benefit of such family members, or (4) to partnerships or limited liability companies in which such family members and/or trusts are the only partners or members; provided, that options may be transferred pursuant to sections (2) through (4) hereof only if the option expressly so provides, or as otherwise approved by the CEO or the board of directors in their discretion. Our board of directors has the right to establish such rules and regulations concerning the 2001 option plan and to make such determinations and interpretations of the terms thereof as it deems necessary or advisable.

2005 Long-Term Incentive Plan

We adopted our 2005 Long-Term Incentive Plan effective upon the completion of our initial public offering in August 2005. The plan provides for grants of stock options, stock appreciation rights, restricted stock and performance awards. Our directors, officers and other employees and persons who engage in services for us are eligible for grants under the plan. The purpose of the plan is to provide these individuals with incentives to maximize stockholder value and otherwise contribute to our success and to enable us to attract, retain and reward the best available persons for positions of responsibility.

1,139,170 shares of our common stock were authorized for issuance under the plan, subject to adjustment in the event of a reorganization, stock split, merger or similar change in our corporate structure or the outstanding shares of common stock. Of this amount, 683,502 options were awarded to Dr. Hartnett at the time of our initial public offering in August 2005 at the offering price of $14.50 per share and the remainder have been reserved for grants to our employees (other than Dr. Hartnett) at the discretion of our compensation committee. We may grant shares of restricted stock to our

employees and directors in the future under the plan. Our compensation committee will administer the plan. Our board also has the authority to administer the plan and to take all actions that the compensation committee is otherwise authorized to take under the plan. The terms and conditions of each award made under the plan, including vesting requirements, will be set forth consistent with the plan in a written agreement with the grantee.

Stock Options. Under the plan, the compensation committee or the board may award grants of incentive stock options and other non-qualified stock options. The compensation committee also has the authority to grant options that will become fully vested and exercisable automatically upon a change in control. The compensation committee may not, however, award to any one person in any calendar year options to purchase common stock equal to more than 10% of the total number of shares authorized under the plan (other than the initial award to Dr. Hartnett discussed above), and it may not award incentive options first exercisable in any calendar year whose underlying shares have a fair market value greater than $100,000 determined at the time of grant.

The compensation committee will determine the exercise price and term of any option in its discretion, however, the exercise price may not be less than 100% of the fair market value of a share of common stock on the date of grant. In the case of any incentive stock option, the option must be exercised within 10 years of the date of grant. The exercise price of an incentive option awarded to a person who owns stock constituting more than 10% of our voting power may not be less than 110% of such fair market value on such date and the option must be exercised within five years of the date of grant.

Restricted Stock. Under the plan, the compensation committee may award restricted stock subject to the conditions and restrictions, and for the duration that it determines in its discretion.

Stock Appreciation Rights. The compensation committee may grant stock appreciation rights, or SARs, subject to the terms and conditions contained in the plan. Under the plan, the exercise price of an SAR must equal the fair market value of a share of our common stock on the date the SAR was granted. Upon exercise of a SAR, the grantee will receive an amount in shares of our common stock equal to the difference between the fair market value of a share of common stock on the date of exercise and the exercise price of the SAR, multiplied by the number of shares as to which the SAR is exercised.

Performance Awards. The compensation committee may grant performance awards contingent upon achievement by the grantee or by us, of set goals and objectives regarding specified performance criteria, over a specified performance cycle. Awards may include specific dollar-value target awards, performance units, the value of which is established at the time of grant, and/or performance shares, the value of which is equal to the fair market value of a share of common stock on the date of grant. The value of a performance award may be fixed or fluctuate on the basis of specified performance criteria. A performance award may be paid out in cash and/or shares of common stock or other securities.

Amendment and Termination of the Plan. The board may amend or terminate the plan in its discretion, except that no amendment will become effective without prior approval of our stockholders if such approval is necessary for continued compliance with the performance-based compensation exception of Section 162(m) of the Internal Revenue Code or any stock exchange listing requirements. If not previously terminated by the board, the plan will terminate on the tenth anniversary of its adoption.

On March 29, 2006, we accelerated vesting with respect to all outstanding options under our existing stock option plans. Such acceleration was approved by our board of directors. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Stock-Based Compensation."

401(k) Plan

We maintain the Roller Bearing Company of America 401(k) Retirement Plan, or the 401(k) Plan, a plan established pursuant to Section 401(k) of the Internal Revenue Code, for the benefit of our non-union employees. All non-union employees who have completed six months of service with us are entitled to participate. Subject to various limits, employees are entitled to defer up to 25% of their annual salary on a pre-tax basis and up to an additional 10% of their annual salary on an after-tax basis. We previously matched 50% of an employee's pre-tax contribution up to 10% of annual salary. Effective October 1, 2001, we suspended matching contributions to the 401(k) Plan. Employees vest in our contributions ratably over three years.

Effective April 3, 2004, we resumed matching contributions to our 401(k) Plan at a rate of 25% of an employee's pre-tax contribution up to 4% of annual salary. We also maintain a smaller 401(k) plan for non-union employees at our Miller bearing facility. We also maintain three 401(k) plans for our union employees. Subject to various limits, union employees are entitled to defer up to 25% of their annual salary on a pre-tax basis. We make employer contributions (matching and, in some cases, non-elective contributions) based on requirements in applicable collective bargaining agreements.

Supplemental Retirement Plan

Effective September 1, 1996, we adopted a non-qualified supplemental retirement plan, or SERP, for a select group of highly compensated and management employees designated by our board of directors. The SERP allows eligible employees to elect to defer until termination of their employment the receipt of up to 25% of their current salary. We make contributions equal to the lesser of 50% of the deferrals or 3.5% of the employee's annual salary, which vest in full after three years of service following the effective date of the SERP. Accounts are paid, either in a lump sum or installments, upon retirement, death or termination of employment. Accounts are generally payable from our general assets although it is intended that we set aside in a "rabbi trust" invested in annuity contracts amounts necessary to pay benefits. Employees' rights to receive payments are subject to the rights of our creditors.

Compensation Committee Interlocks and Insider Participation

The current compensation of our executive officers, other than our Chief Executive Officer's, which was determined in accordance with his employment agreement with us, was determined by our Chief Executive Officer in consultations with our board of directors. Our compensation committee was formed on November 9, 2004, which has undertaken responsibility for oversight with respect to executive compensation issues. See "Management Committees of our Board of Directors Compensation Committee." No member of our compensation committee will serve as a member of the board of directors or compensation committee of an entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Dr. Hartnett Employment Agreement

On July 1, 2005, we entered into a new employment agreement with Dr. Hartnett. Under the terms of the employment agreement, Dr. Hartnett was employed as our Chief Executive Officer. The term of Dr. Hartnett's employment agreement is set to expire on July 1, 2010.

Dr. Hartnett's current agreement provides for a base salary for the fiscal year 2006 of $556,896 before giving effect to a one-time reduction of $180,000 for nine-months in fiscal 2006 described below. Dr. Hartnett's base salary is subject to an automatic annual increase effective December 1 of each year during the term in a percentage amount equal to the greater of (i) five percent (5%) or (ii) the percentage change in the consumer price index for the prior year. Dr. Hartnett is also entitled to an annual performance bonus with respect to each fiscal year during which he remains an employee in an

amount determined as a percentage of Dr. Hartnett's base salary, based on the amount by which our performance exceeds (or fails to meet) EBITDA targets in an operating plan. Dr. Hartnett's employment agreement has been amended to effectuate the terms of a settlement agreement which, among other things, provides for the payment to Dr. Hartnett of a special cash bonus in the amount of $45,000 for each of fiscal years 2007 through 2010. The settlement agreement also provides for a one-time special bonus of $5.2 million and a one-time reduction in his base salary of $180,000 for nine-months in fiscal 2006. See "Related Party Transactions Dr. Hartnett Settlement Bonus."

The employment agreement also contains non-competition provisions prohibiting Dr. Hartnett from competing against us during the term of the employment agreement and for two years thereafter without our prior written consent. Dr. Hartnett is also entitled to certain additional benefits (beyond those generally available to our employees) including medical and hospitalization insurance and additional life insurance. We are also required to maintain an apartment in Los Angeles for use by Dr. Hartnett while on business.

RELATED PARTY TRANSACTIONS

Except as described below, since March 29, 2001, we have not been a party to, nor have we currently proposed, any transaction or series of similar transactions in which the amount exceeds $60,000, and in which any director, executive officer, holder of more than 5% of our common stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest, other than compensation agreements and other agreements, which are described in the "Management" section of this prospectus. We believe that each of the following transactions, other than the loans to our executives, are on terms no less favorable than we could obtain from an unrelated third party.

Sale of Class B Exchangeable Convertible Participating Preferred Stock

On July 29, 2002, Dr. Hartnett purchased 10,000 shares and Whitney Investor, through an affiliate, purchased 230,000 shares of Class B Exchangeable Convertible Participating Preferred Stock of RBCI in exchange for gross proceeds of $24.0 million, referred to as the 2002 Class B Sale. In connection with the purchase, we paid a closing fee of $750,000, plus fees and expenses of approximately $50,000 in connection with its investment in us, to Whitney, and we amended the terms of our management services agreement with Whitney. Following the closing of the sale, we utilized the proceeds from the sale and certain of our cash on hand to repurchase approximately $30.4 million in principal amount at maturity of our 13% senior subordinated discount debentures. This repurchase satisfied our obligation to make a scheduled redemption payment relating to such debt in December 2002. For more information on Whitney Investor's beneficial ownership of our equity securities, see "Principal and Selling Stockholders."

The holders of our Class B preferred stock were entitled to an 8% per annum accumulating dividend and were further entitled to participate in any dividends paid to the holders of shares of our common stock. The Class B preferred stock was subject to conversion by us or exchange by the holders thereof. In either situation, each share of Class B preferred stock would yield a number of shares of our Class A common stock determined by reference to a formula set forth in our then existing amended and restated certificate of incorporation (which included anti-dilution protections), a number of shares of our Class C redeemable preferred stock also determined by reference to a formula set forth in our then existing amended and restated certificate of incorporation and one share of Class D preferred stock. Any holders of Class C preferred stock would have been entitled to an 8% per annum accumulating dividend. The Class C preferred stock was subject to redemption by us at our option but was not subject to mandatory redemption. The Class D preferred stock entitled the holders thereof, upon liquidation, to a payment determined by reference to a formula set forth in our then existing amended and restated certificate of incorporation.

Dr. Hartnett Loan

In connection with a recapitalization which took place in May 1997, we loaned Dr. Hartnett, our President and Chief Executive Officer, $500,000 to purchase shares of our capital stock. The loan did not bear interest and is due on the earlier of (i) June 23, 2007, (ii) the consummation of a sale of our company or (iii) the consummation of an initial public offering by us. The loan was secured by a pledge of Dr. Hartnett's shares of RBCI to us. This loan was repaid in full upon the consummation of our initial public offering in August 2005.

Dr. Hartnett Settlement Bonus

Letter Agreement

On June 17, 2005 we entered into a Letter Agreement among us, Dr. Hartnett and Whitney which approved the terms of certain pre-offering transactions concurrent with our initial public offering,

including the amendment and restatement of our certificate of incorporation, the termination of the Whitney Management Services Agreement upon consummation of our initial public offering, the freezing of our existing stock option plans and the approval of our 2005 Long-Term Incentive Plan, and the terms of a Settlement Bonus (as described below) between us and Dr. Hartnett.

Dr. Hartnett Settlement Bonus

We agreed to pay Dr. Hartnett a one-time special cash bonus of $5.2 million in the first half of fiscal 2006 to reimburse Dr. Hartnett for taxes owed by him in connection with a previous stock sale by Dr. Hartnett to Whitney. We took a charge equal to approximately $5.2 million in the second quarter of 2006. In connection with such transaction, we will receive offsetting cash tax benefits equal to approximately $5.2 million and, accordingly, this transaction should be cash neutral to us. Additionally, in connection with such arrangement, Dr. Hartnett's salary was reduced by $180,000 for nine-months in fiscal 2006 to compensate us for interest expense to be incurred by us as a result of timing differences between the payment of the $5.2 million to Dr. Hartnett and the offsetting tax benefits. We have also agreed to pay Dr. Hartnett a special cash bonus of $45,000 in each of the fiscal years 2007 through 2010.

Amended and Restated Stockholders Agreement; Registration Rights

On February 6, 2003, in connection with an investment in us by Dr. Hartnett and Whitney V, L.P., or Whitney V, we entered into an Amended and Restated Stockholders Agreement with Dr. Hartnett, Hartnett Family Investments, L.P., or the Hartnett Partnership, Whitney V and the Whitney Investor. We amended this agreement upon the consummation of our initial public offering to make modifications in order to eliminate provisions related to transfer restrictions, information and observer rights and provisions with respect to seats on our board of directors. The stockholders agreement also contained provisions with respect to registration rights. The stockholders agreement will be terminated upon consummation of this offering.

Class A Preferred Stock Transaction

In February 2003, we raised capital from Dr. Hartnett and Whitney V, an affiliate of Whitney Investor. On February 6, 2003, Dr. Hartnett and Whitney V bought an aggregate of 1,008.41 shares of our Class A preferred stock for $3,000 per share, or an aggregate purchase price of approximately $3.0 million. The Class A preferred stock was the most senior of our capital stock in terms of liquidation preference and was entitled to an accrued dividend at 8% per annum. In connection with the sale of the Class A preferred stock, we paid to Whitney closing fees in the amount of $200,000, and reimbursed Whitney for expenses of approximately $35,000 incurred in connection with the purchase. Pursuant to the terms of the Purchase Agreement for the Class A preferred stock, on February 10, 2003, we exercised our option to repurchase such stock for the purchase price plus all accrued dividends. Accordingly, no Class A preferred stock was outstanding after February 10, 2003. The purpose of this transaction was to provide an infusion to our equity capital and to the equity capital of our subsidiary RBCA in order to cure defaults of certain covenants contained in our credit agreement and in the indentures governing our then outstanding senior subordinated discount debentures and previously outstanding notes of RBCA. These defaults resulted from RBCA having made certain restricted payments in the fourth quarter of 2002 at a time when it technically was not permitted to do so. Such payments included (1) advances in the amounts of $519,000 and $450,000 that RBCA made to our subsidiary, Schaublin Holding, on December 10, 2002 and December 13, 2002, respectively, in connection with an acquisition by Schaublin of Myonic, and (2) a dividend in the amount of approximately $2.5 million that RBCA made to us on December 13, 2003 for purposes of financing an interest payment due on our Discount Debentures. As a result of the equity infusion, the defaults described above were cured or waived. This transaction was unanimously approved by the disinterested

members of our board of directors and the terms thereof were unanimously determined by such board of directors to have been no less favorable to us than those that could be obtained on the date thereof in arm's-length dealings with a person who was not an affiliate of ours.

Amended and Restated Management Services Agreement

On July 29, 2002, in connection with the investment in us by Dr. Hartnett and an affiliate of Whitney Investor, we entered into an Amended and Restated Management Services Agreement with Whitney. Pursuant to the agreement, Whitney provides us certain services in exchange for an annual advisory fee of approximately $500,000 (subject to reduction upon the occurrence of specified circumstances). In addition, on July 29, 2002 we paid Whitney a one-time fee of approximately $750,000 as a closing fee in connection with Whitney's investment in our Class B preferred stock, plus fees and expenses of approximately $50,000 in connection with its investment in us. Pursuant to the agreement, Whitney agreed to provide and has from time to time provided services which include, but are not limited to, general management consulting services, identification, support, negotiation and analysis of potential acquisitions and dispositions, monitoring compliance with financing agreements, strategic planning including evaluating major strategic alternatives. This agreement was terminated upon consummation of our initial public offering in August 2005.

Transactions Consummated in Connection with Our Initial Public Offering

As of April 2, 2005, prior to giving effect to our 5-for-2 stock split, there were 2,481,007 shares of our Class A common stock and 100 shares of our Class B common stock outstanding. Additionally, as of such date and prior to giving effect to our 5-for-2 stock split, there were outstanding (1) warrants and options to purchase up to an additional 764,494 shares of our Class A common stock, (2) warrants and options to purchase 549,146 shares of our Class B common stock, and (3) 240,000 shares of our Class B exchangeable convertible participating preferred stock, or Class B preferred stock, which were convertible into shares of Class A common stock, Class C preferred stock and Class D preferred stock. Dr. Hartnett owned all of our Class B common stock, options and warrants to purchase Class B common stock, as well as 10,000 shares of our Class B preferred stock. Dr. Hartnett's shares of Class B common stock entitled him majority voting control with respect to our capital stock. The balance of 230,000 shares of Class B preferred stock was held by Whitney Investor.

The following transactions occurred prior to the completion of our initial public offering in August 2005:

Recapitalization

Prior to the initial public offering in August 2005, we had three classes of capital stock outstanding: Class B preferred stock, Class A common stock and Class B common stock. Prior to the consummation of the initial public offering, we effectuated a series of transactions in order to, among other things, simplify our capital structure. Our simplified capital structure has two classes of authorized capital stock (common stock and preferred stock), of which only shares of common stock remained outstanding after our initial public offering. The recapitalization transaction involved a number of steps that were effectuated contemporaneously with the consummation of our initial public offering. These steps were as follows:

Stock Split. We amended our certificate of incorporation to effect a 5-for-2 stock split of our common stock.

Conversion of Class B Preferred Stock. Immediately prior to the consummation of the recapitalization, all outstanding shares of Class B preferred stock were converted in accordance with their terms into 1,846,396 (on a post stock split basis) shares of Class A common stock, shares of

Class C preferred stock and shares of Class D preferred stock. All shares of Class C and Class D preferred stock were redeemed with cash or common stock as described below.

Redemption of Class C Preferred Stock. Immediately after the conversion of the Class B preferred stock, we used proceeds from our initial public offering and the refinancing of our Senior Credit Facility to redeem all outstanding Class C preferred stock, including any accrued and unpaid dividends, for an aggregate redemption price determined in accordance with our pre-offering certificate of incorporation. The aggregate redemption price of the Class C preferred stock was equal to $30.6 million.

Repurchase of Class D Preferred Stock. Immediately after the conversion of the Class B preferred stock, we repurchased all of the outstanding Class D preferred stock for an aggregate repurchase price equal to $8.0 million payable as follows: $4.0 million of the repurchase price paid in cash using proceeds from the initial public offering and the refinancing of our Senior Credit Facility, and $4.0 million paid in shares of our Class A common stock based on the initial public offering price of $14.50 per share (before giving effect to the underwriting discount).

Reclassification of Class A Common Stock and Class B Common Stock. Immediately after the transactions described above, we amended and restated our certificate of incorporation to provide for, among other things, authorized capital stock of 60.0 million shares of common stock and 10.0 million shares of preferred stock after giving effect to a 5-for-2 stock split. As a result, all of our Class A common stock and Class B common stock (including shares of Class A common stock issued upon conversion of the Class B preferred stock and repurchase of the Class D preferred stock) were reclassified as common stock, on a one-for-one basis.

Stock Options and Warrants. Following the reclassification of our shares, all outstanding options and warrants to purchase our Class A common stock and Class B common stock became exercisable into shares of our newly created common stock in accordance with the terms of our stock option plans and stock option and warrant agreements. We froze our existing 1998 Stock Option Plan and 2001 Stock Option Plan such that no further awards or grants may be made under them. We established a new 2005 Long-Term Incentive Plan which provides for the issuance of stock options or other equity awards equal to 1,139,170 shares of common stock. Of these options, 683,502 were awarded to Dr. Hartnett upon the consummation of the initial public offering at the offering price of $14.50 per share, subject to vesting, and the remainder was reserved for grants to our employees (other than Dr. Hartnett) at the discretion of our compensation committee.

PRINCIPAL AND SELLING STOCKHOLDERS

Except as set forth in the footnotes below, the following table sets forth information known to us with respect to the beneficial ownership of our common stock as of March 29, 2006 prior to the offering of common stock contemplated hereby, and as adjusted to reflect the sale of common stock in this offering including the exercise of warrants for cash as described below, by (1) each stockholder known by us to own beneficially more than 5% of our common stock, (2) each of the named executive officers, (3) each of our directors and (4) all of our directors and executive officers as a group. Percentages set forth in the table below assume no exercise of the underwriters' overallotment option. Beneficial ownership is determined in accordance with the rules of the SEC. Such rules provide that in computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days after March 29, 2006 are deemed outstanding. Such shares are not deemed outstanding for purposes of computing percentage ownership of any other person.

Some of the selling stockholders will be selling shares in this offering that they will acquire by exercising warrants for cash. We will not receive any of the proceeds from the sale of common stock by the selling stockholders in connection with this offering. The selling stockholders acquired the securities being sold in this offering under exemptions from applicable requirements of the Securities Act of 1933.

To the extent that any successor(s) to the selling stockholders wish to sell under this prospectus, we will file a supplement to this prospectus identifying such successor(s) as a selling stockholder.

Unless otherwise indicated in the footnotes below (1) the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable and (2) unless otherwise indicated, the address of each of the individuals listed in the table is RBC Bearings Incorporated, One Tribology Center, Oxford, CT 06478.

	Shares Beneficially Owned Prior to the Offering			Shares Beneficially Owned After the Offering	
Name	**Number**	**Percentage**	**Number of Shares Offered**	**Number**	**Percentage**
Dr. Michael J. Hartnett	1,663,725(d)	9.0%	355,000	1,308,725(h)	6.7%
Daniel A. Bergeron	25,000(e)	*		25,000	*
Phillip H. Beausoleil	69,387(e)	*		69,387	*
Thomas C. Crainer	40,617(e)	*	3,117	37,500(h)	*
Richard J. Edwards	127,984(e)	*		127,984	*
Robert Anderson	32,550(e)	*		32,550	*
Richard R. Crowell	76,310(e)	*		76,310	*
Dr. Amir Faghri	5,000(e)	*		5,000	*
William P. Killian	30,742(f)	*		30,742	*
Alan B. Levine	2,500(e)	*		2,500	*
Dr. Thomas J. O'Brien	400(e)	*		400	*
Michael Stone[(a)(b)]	5,637,412(g)	33.2%	5,637,412		
Whitney RBHC Investor, LLC[(c)]	5,637,412(g)	33.2%	5,637,412		
All directors and officers as a group (12 persons)	7,711,627	40.8%	5,995,529	1,716,098	8.6%

*

Less than 1%.

(a)

Mr. Stone maintains his address at c/o Whitney & Co., 177 Broad Street, Stamford, Connecticut, 06901.

(b)

Shares of common stock owned by Whitney RBHC Investor, LLC. The Managing Member of Whitney RBHC Investor, LLC is Whitney V, L.P., the general partner of which is Whitney Equity Partners V, LLC. Mr. Stone is a Managing Member of Whitney Equity Partners V, LLC, and for the purposes of Section 13 of the Exchange Act, he may be deemed to share voting and dispositive power over such shares and to be a beneficial owner of such securities. Mr. Stone disclaims beneficial ownership of securities held by Whitney RBHC Investor, LLC, except to the extent of his pecuniary interest in such securities.

(c)

Whitney RBHC Investor, LLC maintains its address at 177 Broad Street, Stamford, Connecticut, 06901.

(d)

Consists of (1) options and warrants granted to Dr. Hartnett to purchase up to 1,575,046 shares of our common stock that are currently exercisable or exercisable within 60 days of March 29, 2006 and (2) 88,679 shares of our common stock.

(e)

Consists of shares of our common stock or common stock issuable upon exercise of stock options and warrants that are currently exercisable or exercisable within 60 days of March 29, 2006.

(f)

Consists of shares of our common stock issuable upon exercise of stock options currently exercisable or exercisable within 60 days of March 29, 2006. Mr. Killian maintains his address at Unit 1801/1802, 888 Boulevard of the Arts, Sarasota, Florida 34236.

(g)

Shares of common stock, owned by Whitney RBHC Investor, LLC. The Managing Member of Whitney RBHC Investor, LLC is Whitney V, L.P. Whitney V, L.P. disclaims beneficial ownership of such securities, except to the extent of its pecuniary interest therein.

(h)

Represents the number of shares of common stock received upon the exercise of warrants for cash. Each of the following selling stockholders will exercise the following number of warrants, set forth after their respective names in order to receive the number of shares of common stock set forth in the "Number of Shares Offered": Dr. Michael J. Hartnett (355,000) and Thomas C. Crainer (3,117). All of the foregoing warrants have an exercise price of $0.40 per share and expire on June 23, 2007.

DESCRIPTION OF CAPITAL STOCK

General

We are authorized to issue 60.0 million shares of common stock, $0.01 par value, and 10.0 million shares of preferred stock, $0.01 par value. There is no preferred stock outstanding. As of March 29, 2006, there were 16,976,381 shares of common stock issued and outstanding, 1,319,594 options to purchase common stock outstanding and 1,004,642 warrants to purchase common stock outstanding. The following description of our capital stock does not purport to be complete and is subject to and qualified in its entirety by our amended and restated certificate of incorporation and bylaws, which are included as exhibits to the Registration Statement of which this prospectus forms a part, and by the provisions of applicable Delaware law.

Common Stock

As of March 29, 2006, there were 16,976,381 shares of common stock outstanding and 1,139,170 shares reserved for issuance under our 2005 Long-Term Incentive Plan, of which 696,002 options to purchase shares were issued, and 443,168 shares available for future issuances as provided for in the plan. In addition, 1,004,642 warrants to purchase common stock were issued and outstanding. Our 1998 and 2001 Stock Option Plans were frozen prior to our initial public offering in August 2005, and no additional options or other equity securities will be issued under these plans. The holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the board of directors out of funds legally available for that purpose. In the event of a liquidation, dissolution or winding up of our company, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock in connection with this offering are fully paid and nonassessable, and the shares of common stock to be issued upon the closing of this offering will be fully paid and nonassessable.

Preferred Stock

Pursuant to our amended and restated certificate of incorporation, our board of directors is authorized, subject to any limitations prescribed by law, without stockholder approval, from time to time to issue up to an aggregate of 10.0 million shares of preferred stock, $0.01 par value per share, in one or more series, each of the series to have such rights and preferences, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by our board of directors. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for others to acquire, or of discouraging others from attempting to acquire, a majority of our outstanding voting stock. We have no present plans to issue any shares of preferred stock.

Delaware Anti-Takeover Law and Charter and Bylaw Provisions

Provisions of Delaware law and our certificate of incorporation and bylaws could make it more difficult to acquire us by means of a tender offer, a proxy contest or otherwise and the removal of incumbent officers and directors. These provisions, summarized below, are expected to discourage types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to

acquire control of us to first negotiate with us. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

We are subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the "business combination" or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status, did own) 15% or more of a corporation's voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Transfer Agent and Registrar

The transfer agent and registrar for the common stock is LaSalle Bank National Association.

DESCRIPTION OF CERTAIN INDEBTEDNESS

Senior Credit Facility

Our Senior Credit Facility initially consisted of (1) a 6.5-year $55.0 million Revolving Credit Facility (including the $25.0 million letter of credit subfacility available for the issuance of letters of credit) and (2) a 6.5-year $110.0 million Term Loan.

On August 15, 2005, we amended and restated our existing Senior Credit Facility to increase our borrowings under our Term Loan by $40.0 million, for a total commitment amount of $150.0 million. This lowered the interest rate on the Term Loan (1) from Base Rate, or the federal funds rate plus 50 basis points, plus 2.50% to Base Rate, or the federal funds rate plus 50 basis points, plus 1.50% or (2) from LIBOR plus 3.75% to LIBOR plus 2.75%. The amended and restated credit agreement requires us to make annual amortization payments (payable in quarterly installments) equal to 1% of the total amount of the Term Loan commitment in years one through six and the remaining balance is due at maturity.

The Revolving Credit Facility bears interest at a floating rate, and at RBCA's option so long as no event of default has occurred or is continuing, of either the higher of the base rate on corporate loans or the federal funds rate plus 50 basis points, plus 1.25%; or the offered rate for deposits on U.S. Dollars in the London interbank market for the relevant interest period which is published by the British Bankers Association, or LIBOR rate, plus 2.50%. Availability under our Revolving Credit Facility is based on a multiple of our EBITDA and the amount of our indebtedness otherwise outstanding. The Senior Credit Facility has a scheduled maturity date of August 15, 2011, the sixth anniversary of the date of such amendment and restatement.

After giving effect to the August 2005 amendment and restatement of our Senior Credit Facility, all of our obligations under the Senior Credit Facility became unconditionally guaranteed by us and each existing and subsequently acquired or organized subsidiary other than foreign subsidiaries. The obligations under the Term Loan and the Revolving Credit Facility (including the guarantees) are secured by substantially all of our present and future assets and all present and future assets of each guarantor, including but not limited to (1) a first-priority pledge of all of RBCA's outstanding capital stock owned by us, (2) a first-priority pledge of all of the outstanding capital stock owned by us or any guarantor in any domestic subsidiary, (3) a first-priority pledge of 66% and 65.34% of the outstanding capital stock of RBC Schaublin Holdings S.A. and RBC de Mexico S de R. L. de C.V., respectively and (4) a perfected first-priority security interests in all of our present and future assets and the present and future assets of each guarantor, subject to certain limited exceptions.

Mandatory prepayments in respect of the Term Loan or permanent reductions to the commitments under the Revolving Credit Facility, as applicable, are required in an amount equal to, (a) 100% of the net cash proceeds from all asset sales and dispositions by us and our subsidiaries, subject to certain exceptions, (b) 100% of the net cash proceeds from extraordinary receipts (including, without limitation, proceeds from certain key-man life policies) and (c) 50% of the net cash proceeds from equity issuances by us and our subsidiaries, subject to certain exceptions.

Voluntary prepayments and commitment reductions are permitted in whole or in part, without premium or penalty, subject to minimum prepayment or reduction requirements, provided that voluntary prepayments of LIBOR loans on a date other than the last day of the relevant interest period will be subject to the payment of customary breakage costs, if any.

In addition, the lenders under the Revolving Credit Facility are entitled to be paid a fee on unused commitments under that facility at a rate equal to 0.50% per annum, payable monthly in arrears. With respect to the letter of credit subfacility, an additional fee, equal to the product of the average daily undrawn face amount of all letters of credit issued, guaranteed or supported by risk participation agreements multiplied by a per annum rate equal to the applicable margin applied to LIBOR rate

loans, i.e., 3.0% is payable monthly in arrears together with any fees and charges incurred by the administrative agent to a letter of credit issuer.

During the existence of any default under the credit agreement, the applicable margins applied to all obligations under the senior credit facilities would increase by 2% per year.

The credit agreement documentation contains customary representations and warranties and customary covenants restricting our, and our domestic subsidiaries' ability to, among other things and subject to various exceptions, (1) declare dividends, make distributions or redeem or repurchase capital stock, (2) prepay, redeem or repurchase other debt, (3) incur liens or grant negative pledges, (4) make loans and investments, (5) incur additional indebtedness or guarantees, (6) amend or otherwise alter our organizational documents or any debt and other material agreements, (7) make capital expenditures, (8) engage in mergers, acquisitions and asset sales, (9) conduct transactions with affiliates, (10) alter the nature of our businesses, (11) change our fiscal quarter or our fiscal year, (12) engage in "sale-leaseback" transactions, (13) cancel indebtedness owing to us or our subsidiaries or (14) prohibit restricted subsidiaries from funding dividends or distributions or repaying intercompany loans. We and our subsidiaries also will be required to comply with specified financial covenants (including, without limitation, a leverage ratio and a fixed charge coverage ratio) and various affirmative covenants.

Events of default under the credit agreement include, but are not limited to, (1) our failure to pay principal, interest, fees or other amounts under the credit agreement when due or after expiration of a grace period, (2) any representation or warranty proving to have been materially incorrect when made, (3) covenant defaults, with respect to certain covenants, subject to a grace period, (4) bankruptcy events, (5) a cross default to certain other debt, (6) unsatisfied final judgments over a threshold, (7) a change of control, (8) ERISA defaults and (9) the invalidity or impairment of any loan document or any security interest. In March 2006, we obtained an amendment to our Senior Credit Facility such that the sale of shares by the selling stockholders in this offering does not result in a "Change of Control" and, therefore, an event of default under the Senior Credit Facility.

In addition, the credit agreement includes customary provisions regarding breakage or redeployment costs incurred in connection with prepayments, changes in capital adequacy and capital requirements or their interpretation, illegality, unavailability, reserves without proration or offset and payments free and clear of withholding.

The proceeds from this offering will be used to prepay outstanding balances under our Term Loan under our Senior Credit Facility. See "Prospectus Summary The Offering" and "Use of Proceeds."

In connection with this offering we expect to amend or replace our Senior Credit Facility to provide for lower borrowing costs. We expect that the amended or replaced Senior Credit Facility will contain similar amortization schedules, financial covenants, events of default, negative and affirmative covenants and representations and warranties described above. The amendment or replacement of the Senior Credit Facility is contingent upon the consummation of the primary portion of this offering. We are in discussions with multiple lenders regarding alternatives for reducing borrowing costs under our Senior Credit Facility, including replacing or amending the facility. Based on discussions with lenders, we expect that after giving effect to the amendment or replacement of the Senior Credit Facility, we will reduce the interest rate on our LIBOR loans by at least 125 basis points. There can be no assurances, however, that capital markets will permit us to replace or amend the facility or that we will be able to achieve such savings.

Swiss Credit Facility

On December 8, 2003, Schaublin Holding S.A. entered into a bank credit facility with Credit Suisse Zurich providing for 10.0 million swiss francs or approximately $7.6 million in term loan, or Swiss Term Loan, and up to 2.0 million swiss francs, or approximately $1.5 million, of revolving credit

loans and letters of credit, referred to as the Swiss Revolver. We have pledged 99.4% of the present and future share capital of Schaublin (1,366 shares) to the agent under this credit facility to secure Schaublin's obligation thereunder. This credit facility contains customary representation and warranties, affirmative and negative covenants and events of defaults, as well as certain financial covenants applicable solely to Schaublin. The Swiss Term Loan is payable in semi-annual installments ranging from approximately $0.4 million to approximately $1.0 million and matures on March 31, 2009. The Swiss Terms Loan bears interest at variable rates, calculated at LIBOR plus a margin which varies based on debt capacity ratios determined annually, payable quarterly. On November 8, 2004, we amended the Swiss Credit Facility to increase the Swiss Revolver to 4.0 million swiss francs, or approximately $3.0 million. As of December 31, 2005, $4.8 million was outstanding under the Swiss Term Loan, and no loans or letters of credit were outstanding under the Swiss Revolver.

Industrial Revenue Bonds

During fiscal 1995, we entered into a loan agreement with the South Carolina Jobs Economic Development Authority, or SC JEDA, which provides for borrowings up to $10.7 million under two industrial development revenue bonds, or IRBs. During fiscal 1999 we entered into an additional loan agreement with the SC JEDA which provides for borrowings up to $3.0 million under an industrial development revenue bond. Additionally, during fiscal 2000, we entered into a loan agreement with the California Infrastructure and Economic Development Bank, or CIEDB, which provides for borrowings up to $4.8 million under an industrial development revenue bond (the CIEDB Series 1999 IRB). The proceeds from these IRBs are restricted for working capital requirements and capital expenditure purposes.

On March 1, 2002, we retired the unused portion of the SC JEDA Series 1998 IRB of $1.8 million by asking the state of South Carolina to collapse the bond to just the amount of money that had been used, thereby reducing the debt and the restricted marketable securities balances by $1.8 million.

As of December 31, 2005, $18.8 million of the proceeds have been expended (including accumulated interest of $2.1 million), and the remaining $0.01 million is invested by the trustee in marketable securities.

The SC JEDA Series 1994 A IRB, SC JEDA Series 1994 B IRB and the SC JEDA Series 1998 IRB are secured by a letter of credit issued under the letter of credit subfacility under the Revolving Credit Facility. The CIEDB Series 1999 IRB is likewise secured by an irrevocable direct-pay letter of credit issued by one of our existing lenders.

As of December 31, 2005, we had $16.7 million aggregate principal amount of our industrial revenue bonds outstanding.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, we will have 18,405,969 shares of our common stock outstanding, based on 16,976,381 shares outstanding as of March 29, 2006. If the underwriters exercise their overallotment option in full, we will have a total of 19,466,019 shares of our common stock outstanding. Substantially all of our shares, including the shares sold in this offering, and shares registered pursuant to any Form S-8, as amended we filed, will be freely tradable without restriction or further registration under the Securities Act, unless such shares are purchased by "affiliates" as that term is defined in Rule 144 under the Securities Act.

We cannot make any predictions as to the number of shares that may be sold in the future or the effect, if any, that sales of these shares, or the availability of these shares for future sale, will have on the prevailing market prices of our common stock. Sales of a significant number of shares of our common stock in the public market, or the perception that these sales could occur, could adversely affect prevailing market prices of our common stock and could impair our ability to raise equity capital in the future.

Lock-Up Agreements

We, our executive officers, directors and the selling stockholders have agreed, subject to exceptions, that we or they will not, for a period of not less than 90 days after the date of this prospectus (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of, or otherwise dispose of or transfer any shares of our common stock or any securities convertible into or exchangeable or exercisable for common stock, or file, or cause to be filed, any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing securities, or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the locked-up securities, whether any such swap or transaction is to be settled by delivery of common stock or other securities, in cash or otherwise, without the prior written consent of Merrill Lynch & Co., which may release all or a portion of the shares subject to this lock-up agreement at any time without prior notice. In addition, the lock-up provision will not restrict broker-dealers from engaging in market making and similar activities conducted in the ordinary course of their business.

Rule 144

In general, under Rule 144, as currently in effect a person who has beneficially owned shares of our common stock for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of: 1% of the number of shares of common stock then outstanding, which will equal approximately 184,060 shares immediately after this offering; or the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell the shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Rule 701

Rule 701, as currently in effect, permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions, including the holding period requirement, of Rule 144. Any of our employees, officers, directors or consultants who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell their shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144. All of our shares held by directors, executive officers and the selling stockholders are subject to lock-up agreements and will only become eligible for sale at the earlier of the expiration of the 90-day lock-up agreements or sooner upon obtaining the prior written consent of Merrill Lynch & Co.

Stock Options

As of March 29, 2006, options and warrants to purchase a total of 1,966,119 shares were outstanding, as adjusted to give effect to the exercise of warrants for shares of common stock in connection with this offering. We will also be able to issue 443,168 additional options, restricted stock, SARS or other equity interests permitted under our 2005 Long-Term Incentive Plan. Common stock issued upon exercise of outstanding vested options or warrants, other than common stock issued to our affiliates is available for immediate resale in the open market, subject to the applicable lock-up agreements, as described above, and in compliance with Rule 144 and Rule 701. Selling stockholders who are optionholders or warrantholders will execute lock-up agreements of not less than 90 days with the underwriters.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income and estate tax consequences of the acquisition, ownership and disposition of our common stock by a non-U.S. holder. As used in this summary, the term "non-U.S. holder" means a beneficial owner of our common stock that is not, for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity classified as a corporation for these purposes) created or organized in or under the laws of the United States or of any political subdivision of the United States;
- a partnership (including any entity or arrangement classified as a partnership for these purposes);
- an estate whose income is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust, if (1) a United States court is able to exercise primary supervision over the trust's administration and one or more "United States persons" (within the meaning of the U.S. Internal Revenue Code) has the authority to control all of the trust's substantial decisions, or (2) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a "United States person."

An individual may be treated as a resident of the United States in any calendar year for United States federal income tax purposes, instead of a nonresident, by, among other ways, being present in the United States on at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For purposes of this calculation, an individual would count all of the days present in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year. Residents are taxed for U.S. federal income purposes as if they were U.S. citizens.

If a partnership or other pass-through entity (including an entity or arrangement treated as a partnership or other type of pass-through entity for U.S. federal income tax purposes) owns our common stock, the tax treatment of a partner or beneficial owner of the partnership or other pass-through entity may depend upon the status of the partner or beneficial owner and the activities of the partnership or entity and by certain determinations made at the partner or beneficial owner level. Partners and beneficial owners in partnerships or other pass-through entities that own our common stock should consult their own tax advisors as to the particular U.S. federal income and estate tax consequences applicable to them.

This summary does not discuss all of the aspects of U.S. federal income and estate taxation that may be relevant to a non-U.S. holder in light of the non-U.S. holder's particular investment or other circumstances. In particular, this summary only addresses a non-U.S. holder that holds our common stock as a capital asset (generally, investment property) and does not address:

- special U.S. federal income tax rules that may apply to particular non-U.S. holders, such as financial institutions, insurance companies, tax-exempt organizations, U.S. expatriates, and dealers and traders in securities or currencies;
- non-U.S. holders holding our common stock as part of a conversion, constructive sale, wash sale or other integrated transaction or a hedge, straddle or synthetic security;
- any U.S. state and local or non-U.S. or other tax consequences; and
- the U.S. federal income or estate tax consequences for the beneficial owners of a non-U.S. holder.

This summary is based on provisions of the U.S. Internal Revenue Code of 1986, as amended, applicable U.S. Treasury regulations and administrative and judicial interpretations, all as in effect or in existence on the date of this prospectus. Subsequent developments in U.S. federal income or estate tax law, including changes in law or differing interpretations, which may be applied retroactively, could have a material effect on the U.S. federal income and estate tax consequences of purchasing, owning and disposing of our common stock as set forth in this summary. Each non-U.S. holder should consult a tax advisor regarding the U.S. federal, state, local and non-U.S. income and other tax consequences of acquiring, holding and disposing of our common stock.

Dividends

We do not anticipate paying cash dividends on our common stock in the foreseeable future. See "Dividend Policy." In the event, however, that we pay dividends on our common stock, we will have to withhold a U.S. federal withholding tax at a rate of 30%, or a lower rate under an applicable income tax treaty, from the gross amount of the dividends paid to a non-U.S. holder. Non-U.S. holders should consult their own tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

In order to claim the benefit of an applicable income tax treaty, a non-U.S. holder will be required to provide a properly executed U.S. Internal Revenue Service Form W-8BEN (or other applicable form) in accordance with the applicable certification and disclosure requirements. Special rules apply to partnerships and other pass-through entities and these certification and disclosure requirements also may apply to beneficial owners of partnerships and other pass-through entities that hold our common stock. A non-U.S. holder that is eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the U.S. Internal Revenue Service. Non-U.S. holders should consult their own tax advisors regarding their entitlement to benefits under a relevant income tax treaty and the manner of claiming the benefits.

Dividends that are effectively connected with a non-U.S. holder's conduct of a trade or business in the United States and, if required by an applicable income tax treaty, are attributable to a permanent establishment maintained by the non-U.S. holder in the United States, will be taxed on a net income basis at the regular graduated rates and in the manner applicable to United States persons. In that case, we will not have to withhold U.S. federal withholding tax if the non-U.S. holder provides a properly executed U.S. Internal Revenue Service Form W-8ECI (or other applicable form) in accordance with the applicable certification and disclosure requirements. In addition, a "branch profits tax" may be imposed at a 30% rate, or a lower rate under an applicable income tax treaty, on dividends received by a foreign corporation that are effectively connected with the conduct by that foreign corporation of a trade or business in the United States.

Gain on Disposition of Common Stock

A non-U.S. holder generally will not be taxed on any gain recognized on a disposition of our common stock unless:

- the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if required by an applicable income tax treaty, is attributable to a permanent establishment maintained by the non-U.S. holder in the United States; in these cases, the gain will be taxed on a net income basis at the regular graduated rates and in the manner applicable to United States persons (unless an applicable income tax treaty provides otherwise) and, if the non-U.S. holder is a foreign corporation, the "branch profits tax" described above may also apply;

- the non-U.S. holder is an individual who holds our common stock as a capital asset, is present in the United States for more than 182 days in the taxable year of the disposition and meets other requirements (in which case, except as otherwise provided by an applicable income tax treaty, the gain, which may be offset by U.S. source capital losses, generally will be subject to a flat 30% U.S. federal income tax, even though the non-U.S. holder is not considered a resident alien under the U.S. Internal Revenue Code); or

- we are or have been a "U.S. real property holding corporation" for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period that the non-U.S. holder held our common stock.

Generally, a corporation is a "U.S. real property holding corporation" if the fair market value of its "U.S. real property interests" equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. The tax relating to stock in a U.S. real property holding corporation generally will not apply to a non-U.S. holder whose holdings, direct and indirect, at all times during the applicable period, constituted 5% or less of our common stock, provided that our common stock was regularly traded on an established securities market. We believe that we are not currently, and we do not anticipate becoming in the future, a U.S. real property holding corporation.

Our common stock is quoted on the Nasdaq National Market, a nationally recognized U.S. securities exchange. Although not free from doubt, our common stock should be considered to be regularly traded on an established securities market for any calendar quarter during which it is regularly quoted on the securities exchange by brokers or dealers that hold themselves out to buy or sell our common stock at the quoted price. If we were to be a U.S. real property holding corporation and if our common stock were not considered to be regularly traded on an established securities market at any time during the applicable calendar year, then a non-5% holder would be taxed for U.S. federal income tax purposes on any gain realized on the disposition of our common stock on a net income basis as if the gain were effectively connected with the conduct of a U.S. trade or business by the non-5% holder during the taxable year and, in such case, the person acquiring our common stock from a non-5% holder generally would have to withhold 10% of the amount of the proceeds from the disposition. Such withholding may be reduced or eliminated pursuant to a withholding certificate issued by the U.S. Internal Revenue Service in accordance with applicable U.S. Treasury regulations. We urge all non-U.S. holders to consult their own tax advisors regarding the application of these rules to them.

Federal Estate Tax

Our common stock that is owned or treated as owned by an individual who is not a U.S. citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) at the time of death will be included in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax or other treaty provides otherwise and, therefore, may be subject to U.S. federal estate tax.

Information Reporting and Backup Withholding Tax

Dividends paid to a non-U.S. holder may be subject to U.S. information reporting and backup withholding. A non-U.S. holder will be exempt from backup withholding if the non-U.S. holder provides a properly executed U.S. Internal Revenue Service Form W-8BEN or otherwise meets documentary evidence requirements for establishing its status as a non-U.S. holder or otherwise establishes an exemption.

The gross proceeds from the disposition of our common stock may be subject to U.S. information reporting and backup withholding. If a non-U.S. holder sells our common stock outside the United States through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to the non-U.S.

holder outside the United States, then the U.S. backup withholding and information reporting requirements generally will not apply to that payment. However, U.S. information reporting, but not U.S. backup withholding, will apply to a payment of sales proceeds, even if that payment is made outside the United States, if a non-U.S. holder sells our common stock through a non-U.S. office of a broker, such broker does not have documentary evidence in its files that the non-U.S. holder is not a United States person and certain other conditions are met (unless the non-U.S. holder otherwise establishes an exemption) and the broker:

- is a United States person;
- derives 50% or more of its gross income in specified periods from the conduct of a trade or business in the United States;
- is a "controlled foreign corporation" for U.S. federal income tax purposes; or
- is a foreign partnership, if at any time during its tax year either one or more of its partners are United States persons who in the aggregate hold more than 50% of the income or capital interests in the partnership or the foreign partnership is engaged in a United States trade or business.

If a non-U.S. holder receives payments of the proceeds from a sale of our common stock to or through a U.S. office of a broker, the payment is subject to both U.S. backup withholding and information reporting unless the non-U.S. holder provides a properly executed U.S. Internal Revenue Service Form W-8BEN certifying that the non-U.S. Holder is not a "United States person" or the non-U.S. holder otherwise establishes an exemption.

A non-U.S. holder generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed the non-U.S. holder's U.S. federal income tax liability by filing a refund claim with the U.S. Internal Revenue Service.

UNDERWRITING

We intend to offer the shares through the underwriters. Merrill Lynch, Pierce, Fenner & Smith Incorporated, KeyBanc Capital Markets, a division of McDonald Investments, Inc., and Robert W. Baird & Co. Incorporated are acting as representatives of the underwriters named below. Subject to the terms and conditions described in a purchase agreement among us, the selling stockholders and the underwriters, we and the selling stockholders have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us and the selling stockholders, the number of shares listed opposite their names below.

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
KeyBanc Capital Markets, a division of McDonald Investments, Inc.	
Robert W. Baird & Co. Incorporated	
Total	7,067,000

The underwriters have agreed to purchase all of the shares sold under the purchase agreement if any of these shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us and the selling stockholders that the underwriters propose initially to offer the shares to the public at the initial public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us and the selling stockholders. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	Per Share	Without Option	With Option
Public offering price	$	$	$
Underwriting discount	$	$	$
Proceeds, before expenses, to us	$	$	$
Proceeds, before expenses, to the selling stockholders	$	$	$

The expenses of the offering, not including the underwriting discount, are estimated at $1.1 million and are payable by us. We will be reimbursed for a certain portion of the offering expenses by the underwriters.

Overallotment Option

We have granted options to the underwriters to purchase up to an aggregate of 1,060,050 additional shares of our common stock from us at the public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus solely to cover any overallotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

No Sales of Similar Securities

We, our executive officers, directors and the selling stockholders have agreed, subject to exceptions, not to sell or transfer any common stock for 90 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch. Specifically, we and these other individuals have agreed not to directly or indirectly:

- offer, pledge, sell or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- lend or otherwise dispose of or transfer any common stock;
- request or demand that we file a registration statement related to the common stock; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. In addition, the lock-up provision will not restrict broker-dealers from engaging in market making and similar activities conducted in the ordinary course of their business.

Merrill Lynch has informed us that while it does not currently expect to release the entities or persons bound by the lock-up arrangements, including affiliates, prior to the end of the lock-up period, it retains the right to do so at any time without notice at its sole discretion.

Quotation on the Nasdaq National Market

Our shares of common stock are quoted on the Nasdaq National Market under the symbol "ROLL."

Price Stabilization and Short Positions

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representatives may

engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the common stock in connection with the offering, i.e., if they sell more shares than are listed on the cover of this prospectus, the representatives may reduce that short position by purchasing shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the overallotment option described above. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of such purchases.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Passive Market Making

In connection with this offering, underwriters and selling group members may engage in passive market making transactions in the common stock on the Nasdaq National Market in accordance with Rule 103 of Regulation M under the Exchange Act during a period before the commencement of offers or sales of common stock and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "Relevant Member State") an offer to the public of any shares which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) by the underwriters to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Merrill Lynch for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall result in a requirement for the publication by RBC Bearings Incorporated or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to

decide to purchase any shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

France

No prospectus (including any amendment, supplement or replacement thereto) has been prepared in connection with the offering of the shares that has been approved by the Autorité des marchés financiers or by the competent authority of another State that is a contracting party to the Agreement on the European Economic Area and notified to the Autorité des marchés financiers; no shares have been offered or sold nor will be offered or sold, directly or indirectly, to the public in France; the prospectus or any other offering material relating to the shares have not been distributed or caused to be distributed and will not be distributed or caused to be distributed to the public in France; such offers, sales and distributions have been and shall only be made in France to persons licensed to provide the investment service of portfolio management for the account of third parties, qualified investors (investisseurs qualifiés) and/or a restricted circle of investors (cercle restreint d'investisseurs), in each case investing for their own account, all as defined in Articles L. 411-2, D. 411-1, D. 411-2, D. 734-1, D. 744-1, D. 754-1 and D. 764-1 of the Code monétaire et financier. The direct or indirect distribution to the public in France of any so acquired shares may be made only as provided by Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the Code monétaire et financier and applicable regulations thereunder.

United Kingdom

Each underwriter has agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of any shares in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any shares in, from or otherwise involving the United Kingdom.

Italy

The shares have not been, and will not be, offered or sold directly or indirectly in Italy or to a resident of Italy other than to a Professional Investor as defined by Articles 25 and 31(2) of Regulation No. 11522 (each such person, but excluding individual persons referred to in Article 31(2) of Regulation No. 11522, management companies (societa di gestione del risparmio or "SGRs") authorized to manage individual portfolios on behalf of third parties, and fiduciary companies authorized to manage individual portfolios pursuant to Article 60 of the Eurosim Decree) or to a "qualified investor" as defined in Article 2(1)(e) of EU Directive No. 71/2003, and in compliance with the forms and procedures provided therein. Any such offer or sale or any distribution of this prospectus or any rendering of advice in respect of an investment in the shares within Italy must be conducted either by securities dealing firms ("SIMs") or by authorized banks or investment firms, as described in Decree No. 58 and Regulation No. 11522 or financial companies enrolled in the special register provided for under Article 107 of Decree No. 385 to the extent duly authorized to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the relevant provisions of Decree No. 58.

Switzerland

This prospectus does not constitute an issue prospectus pursuant to Art. 652a of the Swiss Code of Obligations. The shares will not be listed on the SWX Swiss Exchange and, therefore, the prospectus does not comply with the disclosure standards of the Listing Rules of the SWX Swiss Exchange. Accordingly, the shares may not be offered to the public in or from Switzerland, but only to a selected and limited group of investors, which do not subscribe the shares with a view to distribution to the public. The investors will be individually approached by the underwriters from time to time.

This prospectus is personal to each offeree and does not constitute an offer to any other person. The prospectus may only be used by those persons to whom it has been handed out in connection with the offer described herein and may neither directly nor indirectly be distributed or made available to other persons without the express consent of the Company. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in Switzerland.

Electronic Distribution

Merrill Lynch will be facilitating Internet distribution for this offering to certain of its Internet subscription customers. Merrill Lynch intends to allocate a limited number of shares for sale to its online brokerage customers. An electronic prospectus is available on the Internet Web site maintained by Merrill Lynch. Other than the prospectus in electronic format, the information on the Merrill Lynch Web site is not part of this prospectus.

Other Relationships

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Kirkland & Ellis LLP, New York, New York. Certain legal matters will be passed upon for the underwriters by Fried, Frank, Harris, Shriver & Jacobson LLP, New York, New York.

EXPERTS

The consolidated financial statements of RBC Bearings Incorporated at April 2, 2005 and April 3, 2004, and for each of the three years in the period ended April 2, 2005, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

Valuation Research Corporation, in a consent filed with the Registration Statement, of which this prospectus is a part, has consented to the use of its name in this prospectus and to the reference to Valuation Research Corporation under the heading "Experts" in this prospectus. We retained Valuation Research Corporation, an independent valuation firm, to conduct an independent valuation analysis of the fair value of our common stock at each stock option grant date during fiscal 2005 on a retrospective basis for the purpose of assisting us with respect to our determination of a stock-based compensation expense, and we referred to its expertise based on the reputation and experience of said firm in valuation matters.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed a registration statement on Form S-1, including relevant exhibits and schedules, under the Securities Act with the SEC for the common stock we are offering by this prospectus. This prospectus, which contains a part of the registration statement, does not include all of the information contained in the registration statement. You should read the registration statement and its exhibits for additional information. Statements in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. In each instance, reference is made to the copy of such document or contract filed as an exhibit to the registration statement, and each such statement is qualified in all respects by such reference. We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC.

You may read and copy all or any portion of the registration statement or any reports, statements or other information that we file at the SEC's Public Reference Room at 100 F Street, N.E., Room 1024, Washington D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings, including the registration statement, are also available to the public on the Internet at the SEC's web site at *http://www.sec.gov*.

RBC Bearings Incorporated

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
RBC Bearings Incorporated

We have audited the accompanying consolidated balance sheets of RBC Bearings Incorporated as of April 2, 2005 and April 3, 2004, and the related consolidated statements of operations, stockholders' deficit and comprehensive income (loss), and cash flows for each of the three years in the period ended April 2, 2005. Our audits also included the financial statement schedule on page F-60. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of RBC Bearings Incorporated at April 2, 2005 and April 3, 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended April 2, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Hartford, Connecticut

June 10, 2005, except for Note 21
as to which the date is June 13, 2005 and
Note 22 as to which this date is
August 2, 2005

RBC Bearings Incorporated

Consolidated Balance Sheets

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

	April 2, 2005	April 3, 2004
ASSETS		
Current assets:		
Cash	$ 2,635	$ 3,250
Accounts receivable, net of allowance for doubtful accounts of $628 in 2005 and $770 in 2004	53,967	44,516
Inventory	95,654	90,504
Deferred income taxes	4,509	2,342
Prepaid expenses and other current assets	2,226	2,454
Total current assets	158,991	143,066
Property, plant and equipment, net	55,343	56,249
Goodwill	25,150	25,150
Intangible assets, net of accumulated amortization of $949 in 2005 and $449 in 2004	3,333	2,853
Deferred financing costs, net of accumulated amortization of $1,280 in 2005 and $7,849 in 2004	4,755	5,628
Other assets	2,597	1,800
Total assets	$ 250,169	$ 234,746

See accompanying notes.

RBC Bearings Incorporated

Consolidated Balance Sheets (continued)

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

	April 2, 2005	April 3, 2004
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 19,243	$ 13,618
Accrued expenses and other current liabilities	10,621	13,276
Current portion of long-term debt	8,245	10,421
Capital lease obligations	226	201
Total current liabilities	38,335	37,516
Long-term debt, less current portion	211,834	204,803
Capital lease obligations, less current portion	205	225
Other non-current liabilities	7,554	8,487
Total liabilities	257,928	251,031
Commitments and contingencies (Note 17)		
Stockholders' deficit:		
Class A preferred stock, $.01 par value; authorized shares: 15,500 in 2005 and 2004; none issued and outstanding		
Class B exchangeable convertible participating preferred stock, $.01 par value; authorized shares: 240,000 in 2005 and 2004; issued and outstanding shares: 240,000 in 2005 and 2004	2	2
Class C redeemable preferred stock, $.01 par value; authorized shares: 900,000 in 2005 and 2004; none issued and outstanding		
Class D preferred stock, $.01 par value; authorized shares: 240,000 in 2005 and 2004; none issued and outstanding		
Class A voting common stock, $.01 par value; authorized shares: 20,000,000 in 2005 and 2004; issued and outstanding shares: 6,202,519 in 2005 and 6,188,653 in 2004	62	62
Class B super voting common stock, $.01 par value; authorized shares: 2,500,000 in 2005 and 2004; issued and outstanding shares: 250 in 2005 and 2004		
Additional paid-in capital	34,252	33,448
Deferred compensation	(349)	
Accumulated other comprehensive loss	(2,532)	(3,343)
Accumulated deficit	(39,194)	(46,454)
Total stockholders' deficit	(7,759)	(16,285)
Total liabilities and stockholders' deficit	$ 250,169	$ 234,746

See accompanying notes.

RBC Bearings Incorporated

Consolidated Statements of Operations

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

	Fiscal Year Ended		
	April 2, 2005	April 3, 2004 (53 weeks)	March 29, 2003
Net sales	$ 243,016	$ 187,331	$ 172,860
Cost of sales	174,602	135,433	124,086
Gross margin	68,414	51,898	48,774
Operating expenses:			
Selling, general and administrative	32,749	28,107	26,647
Other, net	3,526	1,662	1,424
Total operating expenses	36,275	29,769	28,071
Operating income	32,139	22,129	20,703
Interest expense, net	19,669	20,380	21,023
Loss (gain) on early extinguishment of debt	6,950		(780)
Other non-operating expense (income)	(355)	16	298
Income before income taxes	5,875	1,733	162
Provision for (benefit from) income taxes	(1,385)	1,070	113
Net income	7,260	663	49
Preferred stock dividends	(2,280)	(2,144)	(1,313)
Participation rights of preferred stock in undistributed earnings	(1,142)		
Net income (loss) available to common stockholders	$ 3,838	$ (1,481)	$ (1,264)
Net income (loss) per common share:			
Basic	$ 0.62	$ (0.24)	$ (0.20)
Diluted	$ 0.35	$ (0.24)	$ (0.20)
Weighted average common shares:			
Basic	6,202,615	6,188,903	6,188,903
Diluted	10,854,584	6,188,903	6,188,903

See accompanying notes.

RBC Bearings Incorporated

Consolidated Statements of Stockholders' Deficit and Comprehensive Income (Loss)

(dollars in thousands)

	Preferred Stock		Common Stock							
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit	Comprehensive Income/ (Loss)
Balance at March 30, 2002		$	6,188,903	$ 62	$ 10,561	$	$ (1,024)	$ (47,166)	$ (37,567)	
Net income								49	49	$ 49
Issuance of Class B preferred stock	240,000	2			22,887				22,889	
Issuance of Class A preferred stock					3,025				3,025	
Repurchase of Class A preferred stock					(3,025)				(3,025)	
Currency translation adjustments							(1,455)		(1,455)	(1,455)
Minimum pension liability adjustment, net of taxes of $1,043							(1,565)		(1,565)	(1,565)
Comprehensive loss										$ (2,971)
Balance at March 29, 2003	240,000	2	6,188,903	62	33,448		(4,044)	(47,117)	(17,649)	
Net income (53 weeks)								663	663	$ 663
Currency translation adjustments							63		63	63
Minimum pension liability adjustment, net of taxes of $425							638		638	638
Comprehensive income										$ 1,364
Balance at April 3, 2004	240,000	2	6,188,903	62	33,448		(3,343)	(46,454)	(16,285)	
Net income								7,260	7,260	$ 7,260
Grants of options to purchase Class A common stock at below fair market value					769	(769)				
Amortization of deferred stock compensation						420			420	
Exercise of stock options			13,866		35				35	
Currency translation adjustments							488		488	488
Minimum pension liability adjustment, net of taxes of $338							323		323	323
Comprehensive income										$ 8,071
Balance at April 2, 2005	240,000	$ 2	6,202,769	$ 62	$ 34,252	$ (349)	$ (2,532)	$ (39,194)	$ (7,759)	

See accompanying notes.

RBC Bearings Incorporated

Consolidated Statements of Cash Flows

(dollars in thousands)

	Fiscal Year Ended		
	April 2, 2005	April 3, 2004 (53 weeks)	March 29, 2003
Cash flows from operating activities:			
Net income	$ 7,260	$ 663	$ 49
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,285	8,838	8,714
Deferred income taxes (benefit)	(3,113)	2,219	401
Amortization of intangible assets	500	344	105
Amortization of deferred financing costs and debt discount	1,113	1,580	3,304
Amortization of deferred stock compensation	420		
Loss on disposition of assets	1,778	236	858
Loss (gain) on early extinguishment of debt (non-cash portion)	4,303		
Other	21		28
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(9,251)	(4,447)	1,032
Inventory	(4,725)	44	(8,713)
Prepaid expenses and other current assets	232	652	(688)
Other non-current assets	(377)	2,718	(2,631)
Accounts payable	5,451	(309)	(1,009)
Accrued expenses and other current liabilities	(1,879)	(5,507)	1,693
Other non-current liabilities	(150)	513	880
Net cash provided by operating activities	9,868	7,544	4,023
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(755)	(5,944)	(2,822)
Purchase of property, plant and equipment	(9,526)	(4,951)	(6,522)
Proceeds from sale of assets	274		
Other		101	1,143
Net cash used in investing activities	(10,007)	(10,794)	(8,201)
Cash flows from financing activities:			
Net (decrease) increase in revolving credit facility	2,500	(6,083)	(20,018)
Issuance of Class B preferred stock, net of fees			22,889
Retirement of senior secured discount debentures			(28,766)
Issuance of Class A preferred stock			3,025
Repurchase of Class A preferred stock			(3,025)
Proceeds from exercise of stock options	35		
Retirement of senior subordinated notes payable	(110,000)		
Proceeds from new credit facility	155,000		
Proceeds from senior credit facility		10,000	40,664
Payments on term loans	(43,190)	(7,741)	(5,328)
Principal payments on capital lease obligations	(282)	(173)	(457)
Restructure of foreign debt			7,127
Financing fees paid in connection with senior credit facility	(4,400)	(1,090)	(3,226)
Proceeds from Swiss credit facility		7,971	
Retirement of RBCA's senior credit facility			(10,974)
Net cash provided by (used in) financing activities	(337)	2,884	1,911
Effect of exchange rate changes on cash	(139)	63	(1,365)
Cash and cash equivalents:			

	Fiscal Year Ended		
Decrease during the year	(615)	(303)	(3,632)
Cash, at beginning of year	3,250	3,553	7,185
Cash, at end of year	$ 2,635	$ 3,250	$ 3,553
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 20,301	$ 19,073	$ 15,745
Income taxes	$ 207	$ 321	$ 671

See accompanying notes.

RBC Bearings Incorporated

Notes to Consolidated Financial Statements

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

1. Organization and Business

RBC Bearings Incorporated ("Company", collectively with its subsidiaries), is a Delaware corporation. The Company operates in four reportable business segments roller bearings, plain bearings, ball bearings, other and corporate in which it manufactures roller bearing components and assembled parts and designs and manufactures high-precision roller and ball bearings. The Company sells to a wide variety of original equipment manufacturers ("OEMs") and distributors who are widely dispersed geographically. In fiscal 2005, 2004 and 2003, no one customer accounted for more than 5.0% of the Company's sales. The Company's segments are further discussed in Note 20.

2. Summary of Significant Accounting Policies

General

The consolidated financial statements include the accounts of RBC Bearings Incorporated, Roller Bearing Company of America, Inc. ("RBCA") and its wholly-owned subsidiaries, Industrial Tectonics Bearings Corporation ("ITB"), RBC Linear Precision Products, Inc. ("LPP"), RBC Nice Bearings, Inc. ("Nice"), Bremen Bearings, Inc. ("Bremen"), Miller Bearings, Inc. ("Miller"), Tyson Bearings., Inc. ("Tyson"), Schaublin, RBC de Mexico ("Mexico"), RBC Oklahoma, Inc. ("RBC Oklahoma") and RBC Aircraft Products, Inc. ("API"), as well as its Transport Dynamics ("TDC"), Heim ("Heim") and Engineered Components ("ECD") and US Bearings ("USB") divisions. All material intercompany balances and transactions have been eliminated in consolidation.

The Company has a fiscal year consisting of 52 or 53 weeks, ending on the Saturday closest to March 31. Based on this policy, fiscal years 2005 and 2003 contained 52 weeks and fiscal year 2004 contained 53 weeks.

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.

Inventory

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

Shipping and Handling

The sales price billed to customers includes the costs associated with shipping and handling, which is included in net sales. The costs to the Company for shipping and handling are included in cost of sales.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization of property, plant and equipment, including equipment under capital leases, is provided for by the straight-line method over the estimated useful lives of the respective assets or the lease term, if shorter. Amortization of assets under capital leases is reported within depreciation and amortization. The cost of equipment under capital leases is equal to the lower of the net present value of the minimum lease

payments or the fair market value of the leased equipment at the inception of the lease. Expenditures for normal maintenance and repairs are charged to expense as incurred.

The estimated useful lives of the Company's property, plant and equipment follows:

Buildings	10-39 years
Machinery and equipment	3-10 years
Leasehold improvements	Shorter of the term of lease or estimated useful life

Recognition of Revenue and Accounts Receivable and Concentration of Credit Risk

The Company recognizes revenue only after the following four basic criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectibility is reasonably assured.

Revenue is recognized upon the passage of title, which is at the time of shipment. Accounts receivable, net of applicable allowances, is recorded when goods are shipped.

The Company sells to a large number of OEMs and distributors who service the aftermarket. The Company's credit risk associated with accounts receivable is minimized due to its customer base and wide geographic dispersion. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral or charge interest on outstanding amounts. At April 2, 2005 and April 3, 2004, the Company had no significant concentrations of credit risk.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company reviews the collectibility of its receivables on an ongoing basis taking into account a combination of factors. The Company reviews potential problems, such as past due accounts, a bankruptcy filing or deterioration in the customer's financial condition, to ensure the Company is adequately accrued for potential loss. Accounts are considered past due based on when payment was originally due. If a customer's situation changes, such as a bankruptcy or creditworthiness, or there is a change in the current economic climate, the Company may modify its estimate of the allowance for doubtful accounts. The Company will write-off accounts receivable after reasonable collection efforts have been made and the accounts are deemed uncollectible.

Goodwill and Amortizable Intangible Assets

Goodwill (representing the excess of the amount paid to acquire a company over the estimated fair value of the net assets acquired) and intangible assets with indefinite useful lives are not amortized but instead are tested for impairment annually, or when events or circumstances indicate that its value may

have declined. Impairment exists when the carrying amount of goodwill exceeds its fair market value. The Company's goodwill impairment test is performed by comparing the net present value of projected cash flows to the carrying value of goodwill. The Company utilizes discount rates determined by management to be similar with the level of risk in its current business model. The Company performs the annual impairment testing during the fourth quarter of each fiscal year and has determined that, to date, no impairment of goodwill exists. Although no changes are expected, if the actual results of the Company are less favorable than the assumptions the Company makes regarding estimated cash flows, the Company may be required to record an impairment charge in the future.

Definite-lived intangible assets are being amortized on a straight-line basis over their estimated useful lives of 5 to 15 years. Also included in intangible assets is an asset relating to the Company's minimum pension liability, as further described in Note 13.

Deferred Financing Costs

Deferred financing costs are amortized by the effective interest method over the lives of the related credit agreements (5 to 23 years).

Income Taxes

The Company accounts for income taxes using the liability method, which requires it to recognize a current tax liability or asset for current taxes payable or refundable and a deferred tax liability or asset for the estimated future tax effects of temporary differences between the financial statement and tax reporting bases of assets and liabilities to the extent that they are realizable. Deferred tax expense (benefit) results from the net change in deferred tax assets and liabilities during the year.

Temporary differences relate primarily to the timing of deductions for depreciation, goodwill amortization relating to the acquisition of operating divisions, basis differences arising from acquisition accounting, pension and retirement benefits, and various accrued and prepaid expenses. Deferred tax assets and liabilities are recorded at the rates expected to be in effect when the temporary differences are expected to reverse.

Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) available to common stockholders (both Class A and Class B common stockholders share equally in net income (loss)) by the weighted-average number of common shares outstanding. The Company also has outstanding Class B convertible participating preferred stock (the Class B preferred stock participates in all undistributed earnings with the common stock). The Company allocates earnings to common stockholders and the Class B convertible participating preferred stockholders under the two-class method as required by Emerging Issues Task Force Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128." The two-class method is an earnings allocation method under which basic net income per share is calculated for the Company's common stock and its Class B convertible participating preferred stock considering both accrued preferred stock dividends and participation rights in undistributed earnings as if all such earnings had been distributed during the year. Since the Company's Class B convertible participating preferred stock is not contractually

responsible to share in the Company's losses, in applying the two-class method to compute basic net income per common share, no allocation is made to the Class B preferred stock if a net loss exists or if an undistributed net loss results from reducing net income by the accrued preferred stock dividends.

Diluted net income (loss) per common share is computed by dividing net income (loss) by the sum of the weighted-average number of common shares, dilutive common share equivalents then outstanding using the treasury stock method and the assumed conversion of the Class B convertible participating preferred stock to common shares (if-converted method). If the if-converted method is anti-dilutive (that is, the if-converted method results in a higher net income per common share amount than basic net income per share calculated under the two-class method), then the two-class method is used to compute diluted net income (loss) per common share, including the effect of common share equivalents. Common share equivalents consist of the incremental common shares issuable upon the exercise of stock options and warrants.

If the above calculations result in a net loss available to common stockholders (due to a net loss for the period or the effect of accrued preferred stock dividends) and if the effect of including common shares equivalents and the assumed conversion of preferred stock, or use of the two-class method, is anti-dilutive, then diluted net loss per common share will equal basic net loss per common share.

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

	Fiscal Year Ended		
	April 2, 2005	**April 3, 2004 (53 weeks)**	**March 29, 2003**
Numerator:			
Net income	$ 7,260	$ 663	$ 49
Preferred stock dividends	(2,280)	(2,144)	(1,313)
Participation rights of preferred stock in undistributed earnings*	(1,142)		
Numerator for basic and diluted net income (loss) per common share income (loss) available to common stockholders under the two-class method	3,838	(1,481)	(1,264)
Preferred stock dividends and participation rights of preferred stock	3,422	2,144	1,313
Numerator for diluted net income (loss) per common share income (loss) available to common stockholders after assumed conversion of preferred stock	$ 7,260	$ 663	$ 49

	Fiscal Year Ended		
	April 2, 2005	April 3, 2004 (53 weeks)	March 29, 2003
Denominator:			
Denominator for basic net income (loss) per common share weighted-average shares	6,202,615	6,188,903	6,188,903
Effect of dilution due to employee stock options and warrants	2,805,574	2,185,327	2,703,079
Effect of dilution due to convertible preferred stock	1,846,395	1,846,395	1,229,245
Denominator for diluted net income (loss) per common share adjusted weighted-average shares	10,854,584	10,220,625	10,121,227
Basic net income (loss) per common share	$ 0.62	$ (0.24)	$ (0.20)
Diluted net income (loss) per common share	$ 0.35	$ (0.24)	$ (0.20)

*
Since the Company's Class B convertible participating preferred stock is not contractually responsible to share in the Company's losses, in applying the two-class method to compute basic net income per common share, no allocation is made to the Class B preferred stock if an undistributed net loss results from reducing net income by the preferred stock dividends.

For additional disclosures regarding the outstanding preferred stock and the employee stock options and warrants, see Note 16.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, valuation of inventories, accrued expenses, depreciation and amortization, income taxes and tax valuation reserves, pension and post-retirement obligations and the valuation of options and warrants.

Impairment of Long-Lived Assets

The Company assesses the net realizable value of its long-lived assets and evaluates such assets for impairment whenever indicators of impairment are present.

For amortizable long-lived assets to be held and used, if indicators of impairment are present, management determines whether the sum of the estimated undiscounted future cash flows are less than the carrying amount. The amount of asset impairment, if any, is based on the excess of the carrying amount over its fair value, which is estimated based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. To date, no indicators of impairment exist.

Long-lived assets to be disposed of by sale or other means are reported at the lower of carrying amount or fair value, less costs to sell.

Foreign Currency Translation and Transactions

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars using the exchange rate in effect at the balance sheet date. Results of operations are translated using the average exchange rate prevailing throughout the period. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are included in accumulated other comprehensive loss, while gains and losses resulting from foreign currency transactions, which were not material for any of the fiscal years presented, are included in selling, general and administrative expenses. Net income of the Company's foreign operations for fiscal 2005, 2004 and 2003 amounted to $2,148, $2,242 and $3,068, respectively. Net assets of the Company's foreign operations were $24,368 and $22,960 at April 2, 2005 and April 3, 2004, respectively.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheet for cash, accounts receivable, prepaids and other current assets, and accounts payable and accruals approximate their fair value.

The carrying amounts of the Company's senior subordinated notes payable and discount debentures approximate fair value and are estimated based on the quoted market price of similar debt instruments. The carrying amounts of the Company's borrowings under its New Credit Facility, Senior Credit Facility, Swiss Credit Facility and Industrial Development Revenue Bonds approximate fair value, as these obligations have interest rates which vary in conjunction with current market conditions.

Early Extinguishment of Debt

Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections", addresses the reporting of gains and losses resulting from the extinguishment of debt, accounting for sale-leaseback transactions and rescinds or amends other existing authoritative pronouncements. SFAS No. 145 requires that any gain or loss on extinguishment of debt that does not meet the criteria of Accounting Principles Board Opinion ("APB") No. 30 for classification as an extraordinary item shall not be classified as extraordinary and shall be included in earnings from continuing operations. The (loss) gain on early extinguishment of debt in fiscal year 2005 and 2003, respectively, have been classified as non-operating income in the accompanying consolidated statements of operations.

Accumulated Other Comprehensive Loss

The components of comprehensive income (loss) that relate to the Company are net income, foreign currency translation adjustments and pension plan additional minimum liability, all of which are presented in the consolidated statements of stockholders' deficit and comprehensive income (loss).

The following summarizes the activity within each component of accumulated other comprehensive income (loss):

	Currency Translation	Minimum Pension Liability	Total
Balance at March 30, 2002	$ 88	$ (1,112)	$ (1,024)
Currency translation	(1,455)		(1,455)
Minimum pension liability		(1,565)	(1,565)
Balance at March 29, 2003	(1,367)	(2,677)	(4,044)
Currency translation	63		63
Minimum pension liability		638	638
Balance at April 3, 2004	(1,304)	(2,039)	(3,343)
Currency translation	488		488
Minimum pension liability		323	323
Balance at April 2, 2005	$ (816)	$ (1,716)	$ (2,532)

Stock-Based Compensation

The Company accounts for options and warrants granted to employees using the intrinsic value method pursuant to APB No. 25, "Accounting for Stock Issued to Employees," under which compensation cost is recognized only if the exercise price of grants issued is below the fair market value of the Company's common stock at the date of grant. Had compensation cost for these grants been determined based on the fair value at the grant dates consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income would have been reduced to the following pro forma amounts:

	Fiscal Year Ended		
	April 2, 2005	April 3, 2004	March 29, 2003
Net income, as reported	$ 7,260	$ 663	$ 49
Plus: stock-based compensation expense included in reported net income, net of tax	264		
Less: stock-based compensation expense determined under fair value method, net of tax	(540)	(131)	(56)
Pro forma net income (loss)	$ 6,984	$ 532	$ (7)
Net income (loss) per common share, as reported:			
Basic	$ 0.62	$ (0.24)	$ (0.20)
Diluted	$ 0.35	$ (0.24)	$ (0.20)
Net income (loss) per common share, pro forma:			
Basic	$ 0.57	$ (0.26)	$ (0.21)
Diluted	$ 0.33	$ (0.26)	$ (0.21)

For purposes of the pro forma disclosures, the estimated fair value of the options and warrants is amortized to expense over the service period that generally is the option or warrant vesting period. The weighted average fair value per share of options and warrants granted was $8.17 in fiscal 2005, $1.58 in fiscal 2004 and $1.18 in fiscal 2003.

The fair value for the Company's options and warrants was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions.

	Fiscal Year Ended		
	April 2, 2005	**April 3, 2004**	**March 29, 2003**
Dividend yield	0.0%	0.0%	0.0%
Expected weighted-average life	3.0	3.0	3.0
Risk-free interest rate	3.5%	3.5%	3.5%
Expected volatility	0.4%	0.1%	0.1%

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and warrants which have no vesting restrictions and are fully transferable. In addition, option and warrant valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because our warrants have characteristics significantly different from those of traded options and warrants, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of its options and warrants.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. It is not believed that the adoption of SFAS No. 151 will have a material impact on the consolidated financial position, results of operations or cash flows of the Company.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." SFAS No. 123(R) will require that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. SEAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123, as originally issued in 1995, established as preferable a fair value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in APB Opinion No. 25, as long as the footnotes to financial statements disclosed what net income

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this “Agreement”) is made and entered into as of this 26th day of October, 2015, by and between AMERICAN ENTERPRISE BANKSHARES, INC., a Florida corporation (“AEB” and, unless the context otherwise requires, the term “AEB” shall include AEB and its wholly-owned subsidiary bank, AMERICAN ENTERPRISE BANK OF FLORIDA, a Florida bank with its main office in Jacksonville, Florida (the “Bank”)), and FIDELITY SOUTHERN CORPORATION, a Georgia corporation (“Fidelity”).

WHEREAS, the respective boards of directors of AEB and Fidelity deem it advisable and in the best interests of each such entity and their respective shareholders that AEB merge with and into Fidelity (the “Merger”), with Fidelity being the surviving corporation;

WHEREAS, the respective boards of directors of AEB and Fidelity deem it advisable and in the best interests of each such entity and their respective shareholders that the Bank merge with and into Fidelity’s Georgia bank subsidiary, Fidelity Bank (“Fidelity Bank”), with Fidelity Bank being the surviving bank (the “Bank Merger”), all upon the terms hereinafter set forth and as set forth in the Agreement and Plan of Merger attached hereto as Exhibit A and

incorporated herein by reference (the "Bank Merger Agreement");
WHEREAS, the boards of directors of the respective entities believe that the merger of AEB and Fidelity and their subsidiary banks and the operating effectiveness and synergies produced thereby will enhance and strengthen the franchises and future prospects of both companies and each of the banks; and
WHEREAS, Fidelity and AEB intend, (i) for federal income tax purposes, that the Merger qualifies as a "reorganization" described in Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"); (ii) that this Agreement constitute a "plan of reorganization" within the meaning of Section 1.368-2(g) of the regulations promulgated under the Code; and (iii) that Fidelity and AEB will each be a "party to the reorganization" within the meaning of Section 368(a) of the Code;
NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and adequacy of which as legally sufficient consideration are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

MERGER

1.1
The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time, AEB shall merge with and into Fidelity in accordance with Section 607.1101 of the Florida Business Corporation Act and Section 14-2-1101 of the Georgia Business Corporation Code (the "Georgia Code"). Upon consummation of the Merger, the separate corporate existence of AEB (sometimes referred to as the "Merged Corporation") shall cease and Fidelity shall survive and continue to exist as a corporation incorporated under the Georgia Code (Fidelity, as the surviving entity in the Merger, sometimes being referred to herein as the "Surviving Corporation") and shall continue under the name "Fidelity Southern Corporation". The Surviving Corporation shall possess all of the rights, privileges, immunities, powers and franchises, as well of a public nature as of a private nature, of each of the Merged Corporation and the Surviving Corporation; and all property, real, personal and mixed, and all debts due on whatever account, and all other choses in action, and all and every other interest of or belonging to or due to each of the Merged Corporation and the Surviving Corporation shall be taken and deemed to be transferred to and vested in the Surviving Corporation without further act or deed, and the title to any real estate or any interest therein, vested in either of the Merged Corporation or the Surviving Corporation shall not revert or be in any way impaired by reason of the Merger. The Surviving Corporation shall thenceforth be responsible and liable for all the liabilities, obligations and penalties of each of the Merged Corporation and the Surviving Corporation; and any claim existing or action or proceeding, civil or criminal, pending by or against either of the Merged Corporation or the Surviving Corporation may be prosecuted as if the Merger had not taken place, or the Surviving Corporation may be substituted in its place, and any judgment rendered against either of the Merged Corporation or the Surviving Corporation may thenceforth be enforced against the Surviving Corporation; and neither the rights of creditors nor any liens upon the property of either of the Merged Corporation or the Surviving Corporation shall be impaired by the

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Merger. The “Effective Time” shall mean the date and time at which the Merger shall be effective upon the approval of this Agreement by the shareholders of the Merged Corporation and the filing of the articles of merger (the “Articles of Merger”) with the Georgia Secretary of State and Florida Secretary of State pursuant to Section 1.3.

1.2

Merger Consideration. Subject to the provisions of this Agreement, at the Effective Time, automatically by virtue of the Merger and without any action on the part of Fidelity, AEB or the shareholders of either of the foregoing:

(a)

Each share of Fidelity’s common stock, no par value per share, (“Fidelity Stock”) that is issued and outstanding immediately prior to the Effective Time shall remain outstanding following the Effective Time and shall be unchanged by the Merger.

(b)

The holders of common stock, $3.00 par value per share, of AEB (“AEB Stock”), other than holders properly exercising their appraisal rights pursuant to Sections 607.1301 through 607.1333 of the Florida Business Corporation Act, shall receive, in exchange for each outstanding share of AEB Stock, the following number of shares of Fidelity Stock based on the Fidelity VWAP (as defined below) (individually, the “Per Share Purchase Price” and collectively, the “Merger Consideration”). Subject to any adjustments occurring after the date hereof as contemplated by Section 1.2(d) below, in the event that the Fidelity VWAP is:

(i)

equal to or greater than $23.20, then the Merger Consideration shall equal .237 shares of Fidelity Stock;

(ii)

less than $23.20 but greater than $18.98, then the Merger Consideration shall equal the number of shares of Fidelity Stock determined by dividing $5.50 by the Fidelity VWAP; or

(iii)

equal to or less than $18.98, then the Merger Consideration shall equal .290 shares of Fidelity Stock (such ratio in any of (i), (ii) or (iii), the “Exchange Ratio”).

For purposes of this Agreement, “Fidelity VWAP” means the volume weighted average price of a share of Fidelity Stock for a twenty (20) trading day period, starting with the opening of trading on the twentieth (20th) trading day prior to the Effective Time and ending with the closing of trading on the last trading day prior to the Effective Time (as reported in The Wall Street Journal or, if not reported therein, in another authoritative source).

(c)

Also at the Effective Time, all rights with respect to AEB Stock pursuant to stock options (the “AEB Stock Options”) granted by AEB which are outstanding at the Effective Time, whether or not exercisable, shall be terminated by AEB and converted at the Effective Time, subject to any adjustments occurring after the date hereof as contemplated by Section 1.2(e) below, into an amount (computed to the nearest cent) per share of AEB Stock issuable upon the exercise of each such AEB Stock Option in cash, without interest, equal to the difference between (i) the exercise price per share of AEB Stock issuable pursuant to such AEB Stock Option and (ii) an amount as determined by multiplying the Exchange Ratio by the Fidelity VWAP. If such amount is a negative number, the AEB Stock Option shall be terminated without any payment therefor. Prior to the Effective Time, AEB shall (i) obtain any necessary consents or make any necessary amendments to the terms of any outstanding AEB Stock Options to give effect to the transactions contemplated by this Section 1.2(c), (ii) take all actions as may be necessary to terminate (and, except as provided in this Section 1.2(c), ensure that neither AEB nor the Bank remains bound by or liable for) any outstanding AEB Stock Options or other rights to acquire AEB Stock and (iii) ensure that any AEB plans, agreements or other arrangements which allow the grant of AEB Stock Options or other rights to acquire AEB Stock, if any, will be amended to eliminate the ability to grant any such AEB Stock Options or other rights to acquire AEB Stock effective

as of immediately after the Effective Time. All payments under this Section 1.2(c) shall be made at or as soon as administratively practicable (and within thirty (30) days) after the Effective Time, pursuant to the Company's ordinary payroll practices, and shall be subject to any applicable withholdings.

(d)
If either party should change the number of its outstanding shares as a result of a stock split, reverse stock split, stock dividend, recapitalization, reclassification, or similar transaction with respect to such shares prior to the Effective Time, then the shares to be issued hereunder to holders of AEB Stock

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shall be proportionately and appropriately adjusted; provided that, for the avoidance of doubt, no such adjustment shall be made with regard to the Fidelity Stock if (i) Fidelity issues additional shares of Fidelity Stock and receives consideration for such shares in a bona fide merger, acquisition or other business combination or any other third party transaction, or (ii) Fidelity issues stock options, restricted stock or restricted stock units or grants or similar equity awards or Fidelity Stock upon exercise or vesting of any such grants or awards.

(e)
No scrip or fractional share certificates of Fidelity Stock shall be issued in connection with the Merger and an outstanding fractional share interest will not entitle the owner thereof to vote, to receive dividends or to have any of the rights of a shareholder with respect to such fractional interest. In lieu of any fractional interest, there shall be paid in cash, without interest, an amount (computed to the nearest cent) equal to such fraction multiplied by the Fidelity VWAP.

(f)
As soon as practicable after the Effective Time, each holder as of the Effective Time of any of the shares of AEB Stock to be converted as above provided, upon presentation and surrender of the certificates for such shares to Fidelity, shall be entitled to receive in exchange therefor the number of uncertificated, book-entry shares of Fidelity Stock pursuant to Section 14-2-626 of the Georgia Code to which such shareholder shall be entitled according to the terms of this Agreement. Until such surrender, each outstanding share of AEB Stock which prior to the Effective Time represented AEB Stock shall be deemed for all corporate purposes to evidence ownership of the number of shares of Fidelity Stock into which the same shall have been converted, and the right to receive payment for fractional shares.

(g)
No dividends or other distributions with respect to Fidelity Stock shall be paid to the holder of any unsurrendered AEB Stock with respect to the shares of Fidelity Stock represented thereby, in each case unless and until the surrender of each outstanding share of such AEB Stock in accordance with this Section 1.2. Subject to the effect of applicable abandoned property, escheat or similar laws, following surrender of any such share of such AEB Stock in accordance with this Section 1.2, the record holder thereof shall be entitled to receive, without interest, (i) the amount of dividends or other distributions with a record date after the Effective Time theretofore payable with respect to the whole shares of Fidelity Stock represented by such AEB Stock and paid prior to such surrender date, and/or (ii) at the appropriate payment date, the amount of dividends or other distributions payable with respect to shares of Fidelity Stock represented by such AEB Stock with a record date after the Effective Time (but before such surrender date) and with a payment date subsequent to the issuance of the Fidelity Stock issuable with respect to such AEB Stock.

(h)
Any shares of Fidelity Stock that remain unclaimed by the shareholders of AEB will be provided to the appropriate public official pursuant to applicable abandoned property, escheat or similar laws when and as required by applicable law, and Fidelity shall not be liable to any former holder of shares of AEB Stock for any amount so delivered.

(i)
If any AEB Stock certificate shall have been lost, stolen or destroyed, Fidelity may, in its reasonable discretion and as a condition precedent to the issuance of any Fidelity Stock, require the owner of such lost, stolen or destroyed AEB Stock certificate to provide a bond and an appropriate affidavit and indemnity agreement (reasonably satisfactory to Fidelity) as indemnification against any claim that may be made against Fidelity with respect to such AEB Stock certificate.

(j)
Fidelity or its paying agent shall be entitled to deduct and withhold from the Merger Consideration and any other amounts otherwise payable pursuant to this Agreement to any individual or entity (a “Person”) such amounts, if any, as it is required to deduct and withhold with respect to the making of such payment under the Code. To the extent that amounts are so withheld and remitted to the appropriate governmental authority by or on behalf of Fidelity, such

amounts withheld shall be treated for all purposes of this Agreement as having been paid to such Person in respect of which such deduction and withholding was made by Fidelity.

1.3

Closing. The transactions contemplated herein shall be consummated (the "Closing") at the offices of Troutman Sanders LLP, 600 Peachtree Street NE, Suite 5200, Atlanta, Georgia 30308, on the first business day of the month that begins immediately following the satisfaction or waiver in accordance with this Agreement of all of the conditions set forth in Articles VI, VII and VIII (other than those conditions

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that by their nature are to be satisfied or waived at the Closing, but subject to the fulfillment or waiver of those conditions) (the "Closing Date"), or at such other time, date and place as may be mutually agreed to in writing by the parties hereto. On the Closing Date, Fidelity shall file the Articles of Merger with the Georgia Secretary of State and the Florida Secretary of State.

1.4
Articles of Incorporation and Bylaws of the Surviving Corporation. The Amended and Restated Articles of Incorporation of Fidelity, as amended, shall at the Effective Time be the Articles of Incorporation of the Surviving Corporation. Until altered, amended or repealed, as therein provided, the Bylaws of Fidelity, as amended, as in effect at the Effective Time shall be the Bylaws of the Surviving Corporation.

1.5
Directors of Surviving Corporation. The directors of the Surviving Corporation immediately after the Merger shall be the directors of Fidelity in office immediately prior to the Effective Time.

1.6
Tax Free Reorganization.

(a)
Each of Fidelity and AEB shall use its commercially reasonable efforts to cause the Merger to qualify as a "reorganization" within the meaning of Section 368(a) of the Code. None of Fidelity, AEB or their respective subsidiaries shall take, or agree to take, fail to take, or agree to fail to take, any action (including any action otherwise permitted by this Agreement) that would reasonably be expected to prevent or impede the Merger from qualifying as a "reorganization" within the meaning of Section 368(a) of the Code. Pursuant to the foregoing, each of Fidelity and AEB agrees to make such commercially reasonable additions or modifications to the terms of this Agreement as may be reasonably necessary to permit the Merger to so qualify.

(b)
Unless otherwise required by applicable law, each of Fidelity and AEB (i) shall report the Merger as a "reorganization" within the meaning of Section 368(a) of the Code, (ii) shall not take any Tax reporting position inconsistent with such characterization and (iii) shall properly file with their federal income Tax Returns all information required by Treasury Regulations Section 1.368-3.

(c)
The parties hereto shall cooperate and use their commercially reasonable efforts to cause their respective Tax counsels to issue the opinions described in Section 6.5 and Section 7.4 and shall deliver to such counsels certificates containing representations reasonably requested by such counsels in connection with the rendering of such opinions to be issued by such counsels with respect to the treatment of the Merger as a "reorganization" within the meaning of Section 368(a) of the Code.

1.7
Bank Merger. Concurrently with the execution and delivery of this Agreement, Fidelity Bank and the Bank shall enter into the Bank Merger Agreement, pursuant to which the Bank will merge with and into Fidelity Bank. The Bank Merger shall not occur prior to the Effective Time.

1.8
Additional Actions. If, at any time after the Effective Time, Fidelity shall consider or be advised that any further deeds, documents, assignments or assurances in law or any other acts are necessary or desirable to (i) vest, perfect or confirm, of record or otherwise, in Fidelity its right, title or interest in, to or under any of the rights, properties or assets of AEB, or (ii) otherwise carry out the purposes of this Agreement, AEB and its officers and directors shall be deemed to have granted to Fidelity an irrevocable power of attorney to execute and deliver, in such official corporate

capacities, all such deeds, assignments or assurances in law or any other acts as are necessary or desirable to (a) vest, perfect or confirm, of record or otherwise, in Fidelity its right, title or interest in, to or under any of the rights, properties or assets of AEB, or (b) otherwise carry out the purposes of this Agreement, and the officers and directors of Fidelity are authorized in the name of AEB or otherwise to take any and all such action.

ARTICLE II
OTHER AGREEMENTS

2.1
Registration and Listing of Fidelity Stock.

(a)
Fidelity agrees to file with the Securities and Exchange Commission (the "SEC") as soon as reasonably practicable a registration statement (the "Fidelity Registration Statement") under the Securities Act of 1933, as amended (the "1933 Act"), on Form S-4 or some other appropriate form covering the issuance of the shares of Fidelity Stock to the shareholders of AEB pursuant to this Agreement and to use

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its commercially reasonable efforts to cause the Fidelity Registration Statement to become effective and to remain effective through the Effective Time. Fidelity agrees to take any action required to be taken under the applicable state securities laws in connection with the issuance of shares of Fidelity Stock upon consummation of the Merger. AEB agrees to provide Fidelity reasonable assistance as necessary in the preparation of the Fidelity Registration Statement, including, without limitation, providing Fidelity with all material facts regarding the operations, business, assets, liabilities and personnel of AEB, together with the audited financial statements of AEB, all as and to the extent required by the 1933 Act and the rules, regulations and practices of the SEC, for inclusion in the Fidelity Registration Statement. The Fidelity Registration Statement shall not cover resales of Fidelity Stock by any of the shareholders of AEB, and Fidelity shall have no obligation to cause the Fidelity Registration Statement to continue to be effective after the Effective Time or to prepare or file any post-effective amendments to the Fidelity Registration Statement after the Effective Time.

(b)

Fidelity agrees to list on the NASDAQ Global Select Stock Market, by the Closing Date, the shares of Fidelity Stock to be issued to the shareholders of AEB pursuant to this Agreement.

2.2

Meeting of AEB Shareholders. AEB shall call a special meeting of its shareholders (the “Special Meeting”) to be held not more than twenty (20) business days after the Fidelity Registration Statement becomes effective under the 1933 Act for the purpose of submitting the Merger and this Agreement to such shareholders for their approval. In connection with the Special Meeting, Fidelity and AEB shall together prepare and submit to the AEB shareholders a notice of meeting, proxy statement and proxy (the “AEB Proxy Materials”), which shall include the final prospectus from the Fidelity Registration Statement in the form filed with the SEC.

2.3

Dissenting Shareholders. Any holder of shares of AEB Stock who perfects such holder’s appraisal rights in accordance with and as contemplated by Sections 607.1301 through 607.1333 of the Florida Business Corporation Act shall be entitled to receive from the Surviving Corporation, in lieu of the Per Share Purchase Price, the value of such shares as to which appraisal rights have been perfected in cash as determined pursuant to such provision of law; provided, that no such payment shall be made to any dissenting shareholder unless and until such dissenting shareholder has complied with all applicable provisions of such law, and surrendered to AEB the certificate or certificates representing the shares for which payment is being made. In the event that, after the Effective Time, a dissenting shareholder of AEB fails to perfect, or effectively withdraws or loses such holder’s right to appraisal of and payment for such holder’s AEB Stock, the Surviving Corporation shall issue and deliver the consideration to which such holder of shares of AEB Stock is entitled under Article I (without interest) upon surrender by such holder of the certificate or certificates representing such shares of AEB Stock held by such holder.

2.4

Access to Properties, Books, Etc. Each party shall allow the other party and its authorized representatives full access, upon reasonable prior notice, during normal business hours from and after the date hereof and prior to the Closing Date to all of such party’s properties, books, contracts, commitments and records and those of its subsidiaries and shall furnish the other party and its authorized representatives such information concerning its affairs and the affairs of its subsidiaries as the other party may reasonably request provided that such request shall be reasonably related to the transactions contemplated by this Agreement and shall not interfere unreasonably with normal operations. Each party shall cause its and its subsidiaries’ personnel, employees and other representatives to assist such other party in making any such investigation. During such investigation, each party and its authorized representatives shall have the right to make copies of such records, files, tax returns and other materials as it may deem advisable and shall advise the other party of those items of which copies are made. No investigation made heretofore or hereafter by either party and its authorized representatives shall affect the representations and warranties of either such party hereunder.

2.5

Confidentiality.   Prior to consummation of the Merger, the parties to this Agreement have provided and will provide one another with information which may be deemed by the party providing the information to be confidential, including, without limitation, information regarding such party's operations, customers (including consumer financial information), business and financial condition. Each party agrees that it will hold confidential and protect all information provided to it by each other party or such party's affiliates or representatives, except that the obligations contained in this Section 2.5 shall not in any way

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restrict the rights of any party to use information that: (a) was known to such party prior to the disclosure by the other party; (b) is or becomes generally available to the public other than by breach of this Agreement; (c) is provided by one party for disclosure concerning such party in the Fidelity Registration Statement; or (d) otherwise becomes lawfully available to a party to this Agreement on a non-confidential basis from a third party who is not under an obligation of confidence to the other party to this Agreement. If this Agreement is terminated prior to the Closing, upon request each party hereto agrees to return all documents, statements and other written materials, whether or not confidential, and all copies thereof, provided to it by or on behalf of the other party to this Agreement. The provisions of this Section 2.5 shall survive termination, for any reason whatsoever, of this Agreement, and, without limiting the remedies of the parties hereto in the event of any breach of this Section 2.4, the parties hereto will be entitled to seek injunctive relief against the other party in the event of a breach or threatened breach of this Section 2.5.

2.6

Cooperation. Subject to the terms and conditions of this Agreement, the parties hereto shall use commercially reasonable efforts in good faith to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary or advisable so as to permit consummation of the Merger as promptly as practicable and shall cooperate fully with each other to that end.

2.7

Expenses. All of the expenses incurred by Fidelity in connection with the authorization, preparation, execution and performance of this Agreement and the Bank Merger Agreement, including, without limitation, all fees and expenses of its agents, representatives, counsel and accountants and the fees and expenses related to filing the Fidelity Registration Statement and all regulatory applications with state and federal authorities in connection with the transactions contemplated hereby and thereby, (the “Fidelity Expenses”) shall be paid by Fidelity. All expenses incurred by AEB in connection with the authorization, preparation, execution and performance of this Agreement and the Bank Merger Agreement, including, without limitation, all fees and expenses of its agents, representatives, counsel and accountants in connection with all regulatory applications with state and federal authorities in connection with the transactions contemplated hereby and thereby and the cost of reproducing and mailing the AEB Proxy Materials (the “AEB Expenses”), shall be paid by AEB.

2.8

Preservation of Goodwill. Each party hereto shall use its commercially reasonable efforts to preserve its business organization and the business organizations of its subsidiaries, to keep available the services of its present employees and of the present employees of its subsidiaries, and to preserve the goodwill of customers and others having business relations with such party or its subsidiaries.

2.9

Approvals and Consents. Each party hereto represents and warrants to and covenants with the other that it will use its commercially reasonable efforts, and will cause its officers, directors, employees and agents and its subsidiaries and any subsidiary’s officers, directors, employees and agents to use their commercially reasonable efforts, to obtain as soon as is reasonably practicable all approvals and consents of state and federal departments or agencies required or deemed necessary for consummation of the transactions contemplated by this Agreement.

2.10

Agreements by Directors and Shareholders. The directors of AEB will, contemporaneously with the execution of this Agreement, execute and deliver to Fidelity an agreement, the form of which is attached hereto as Exhibit B. Within five (5) days after the date of this Agreement, AEB agrees that it will use its best efforts to obtain an agreement in the form attached hereto as Exhibit B from any beneficial owner of five percent (5%) or more of the issued and outstanding shares of AEB Stock who is not an executive officer or director of AEB.

2.11

Press Releases. Prior to the Closing Date, Fidelity and AEB shall each approve the form, substance and timing of any press release or other public disclosure materially related to this Agreement or any other transaction contemplated hereby; provided, however, that nothing in this Section 2.11 shall be deemed to prohibit any party from making any disclosure which its counsel deems necessary or advisable in order to satisfy such party's disclosure obligations imposed by law.

2.12
Employee Benefits.

(a)
Following the Closing Date, Fidelity shall provide to employees of AEB who continue employment with Fidelity ("AEB Continuing Employees") medical, dental, vacation and long-term disability benefits, medical and dependent care flexible spending accounts and life insurance (collectively, "Employee

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Benefits"), on terms and conditions consistent in all material respects with those then currently provided by Fidelity to its other similarly-situated employees. For purposes of eligibility to participate and any vesting determinations (but not benefit accruals) in connection with the provision of any such Employee Benefits by Fidelity to the AEB Continuing Employees, service with AEB prior to the Closing Date shall be counted to the extent such service was counted under the similar plan of AEB. The AEB Continuing Employees' prior service with AEB shall also be credited for purposes of all waiting periods for participation in any of such Employee Benefits to the extent such service was counted under the similar plan of AEB. Fidelity shall also waive all restrictions and limitations for preexisting conditions under Fidelity's Employee Benefit plans, to the extent such restrictions or limitations would not or currently do not apply to the AEB Continuing Employees under the similar plan of AEB.

(b)

Subject to applicable legal requirements, Fidelity and AEB shall take such other actions prior to the Closing Date as may be reasonably necessary to enable the employees of AEB after the Closing Date to transfer the amount credited to their accounts under the Bank 401(k) Plan (the "AEB 401(k) Plan") through a rollover contribution into either the Fidelity 401(k) Plan (the "Fidelity 401(k) Plan"), if such employees are AEB Continuing Employees, or to transfer the amount credited to their accounts (not including outstanding participant loans) through a rollover contribution to a separate third party individual retirement account, or to take a cash distribution from the AEB 401(k) Plan, provided, that (i) AEB's Board of Directors shall adopt resolutions to terminate the AEB 401(k) Plan as of the last day immediately preceding the Closing Date, and (ii) the foregoing shall be subject to the receipt of a favorable IRS determination letter (or prototype sponsor letter) with respect to the AEB 401(k) Plan to the extent reasonably required by Fidelity. For purposes of any vesting determinations (but not benefit accruals) and eligibility to participate (other than with respect to matching or other employer contributions) in connection with the Fidelity 401(k) Plan, service with AEB prior to the Closing Date shall be counted to the extent such service was counted under the AEB 401(k) Plan. For purposes of eligibility to participate in any employer contributions under the Fidelity 401(k) Plan, AEB Continuing Employees shall be eligible on terms and conditions consistent with those then currently provided by Fidelity to its other similarly-situated employees based on their employment date with AEB. Prior to the Closing Date AEB shall make any necessary employer contributions to the AEB 401(k) Plan due such AEB Continuing Employees for compensation paid by AEB prior to termination of the AEB 401(k) Plan. AEB shall take such actions prior to the Closing Date, as directed by Fidelity and as reasonably necessary, to (i) correct or remedy any AEB Plan that is not in compliance with the provisions of ERISA, the Code or other applicable law, (ii) bring any AEB Plan that is subject to Section 409A of the Code and not in compliance therewith into compliance, and (iii) ensure that there are no "excess parachute payments" within the meaning of Section 280G(b) of the Code being made in connection with the consummation of the transactions that are the subject of this Agreement or any events related thereto.

(c)

Subject to applicable legal requirements, Fidelity and AEB shall take such other actions prior to the Closing Date as may be reasonably necessary to terminate the agreements marked with an "*" on Section 3.5(b)(i) of the Disclosure Memorandum. In connection with such terminations, any compensation to be provided thereunder shall be paid in full in exchange for a settlement and release agreement reasonably acceptable to Fidelity.

2.13

Directors' and Officers' Tail Coverage. Prior to the Closing Date, Fidelity shall have, at Fidelity's expense, amended, modified or obtained directors' and officers' liability insurance (either through its existing directors' and officers' liability insurance policies or under AEB's existing directors' and officers' liability insurance policies, in which event AEB will designate Fidelity's insurance broker as AEB's broker-of-record, as determined by Fidelity in its sole discretion) for a period of six (6) years after the Closing Date, covering any person who is now, or has been at any time prior to the date hereof or who becomes prior to the Closing Date, a director or officer of AEB or the Bank, who are currently covered by AEB's policies on terms similar to such existing insurance; provided that Fidelity shall not be obligated to make aggregate annual premium payments for such six (6) year period in respect of such policy which exceed two hundred percent (200%) of the annual premium payments on AEB's current policy in effect as of the date of this Agreement (the "Maximum Amount"). If the amount of the premiums necessary to maintain or procure such insurance

coverage exceeds the Maximum Amount, Fidelity shall use its

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reasonable best efforts to maintain the most advantageous policies of directors' and officers' liability insurance obtainable for a premium equal to the Maximum Amount. The directors and officers of AEB and its subsidiaries shall take all reasonable actions required by the insurance carrier necessary to procure such endorsement.

2.14

Indemnification.

(a)

For a period of six (6) years after the Effective Time (or, in the case of Claims that have not been resolved prior to the sixth (6th) anniversary of the Effective Time, until such Claims are finally resolved), Fidelity shall indemnify, defend, and hold harmless the present and former directors and executive officers of AEB (each, an "Indemnified Party") against all liabilities arising out of, resulting from or related to any claim, action, suit, proceeding, investigation or other legal proceeding, whether civil, criminal, administrative or investigative or investigation (each, a "Claim"), in which an Indemnified Party is, or is threatened to be made, a party or witness arising out of the fact that such Indemnified Party is or was a director or officer of AEB (or, at AEB's request, was a director, officer, manager or trustee of, or in a similar capacity with, another AEB entity or AEB Employee Benefit Plan) prior to the Effective Time if such Claim pertains to any matter of fact arising, existing or occurring at or before the Effective Time (including the Merger and the other transactions contemplated hereby), regardless of whether such Claim is asserted or claimed before, or after, the Effective Time, to the fullest extent permitted by applicable law. Fidelity shall promptly pay reasonable expenses (including reasonable attorneys' fees) in advance of the final disposition of any such Claim to each Indemnified Party to the fullest extent permitted by applicable law upon receipt of an undertaking to repay such advance payments if he or she shall be adjudicated not to be entitled to indemnification under this Section 2.14(a). Fidelity shall not have any obligation hereunder to any Indemnified Party when and if a court of competent jurisdiction shall determine, and such determination shall have become final and non-appealable, that the indemnification of such Indemnified Party in the manner contemplated hereby is prohibited by applicable law (including any law promulgated, interpreted or enforced by any regulatory authority).

(b)

Any Indemnified Party wishing to claim indemnification under paragraph (a) of this Section 2.14, upon learning of any such Claim, shall promptly notify Fidelity thereof in writing (provided that a failure to timely provide such notice shall not relieve Fidelity of any indemnification obligation unless, and to the extent that, Fidelity is materially prejudiced by such failure). In the event of any such Claim (whether arising before or after the Effective Time), (i) Fidelity shall have the right to assume the defense thereof and Fidelity shall not be liable to such Indemnified Parties for any legal expenses of other counsel or any other expenses subsequently incurred by such Indemnified Parties in connection with the defense thereof, except that if Fidelity elects not to assume such defense for the Indemnified Parties, or if there are substantive issues which raise conflicts of interest between Fidelity and the Indemnified Parties, the Indemnified Parties may retain counsel satisfactory to them, and Fidelity shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received; provided, that Fidelity shall be obligated pursuant to this Section 2.14(b) to pay for only one firm of counsel for any Indemnified Party in any jurisdiction; (ii) each Indemnified Party will cooperate in good faith in the defense of any such Claim; (iii) Fidelity shall not be liable for any settlement effected without its prior written consent (which shall not be unreasonably withheld or delayed) and (iv) without the prior written consent of the Indemnified Party (which shall not be unreasonably withheld or delayed), Fidelity shall not agree to any settlement which does not provide for a release of the Indemnified Party.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF AEB

As an inducement to Fidelity to enter into this Agreement and to consummate the transactions contemplated hereby, AEB represents, warrants, covenants and agrees as follows:

3.1

Disclosure Memorandum. AEB has delivered to Fidelity a memorandum (the "Disclosure Memorandum") containing certain information regarding AEB as indicated at various places in this Agreement. All information set forth in the Disclosure Memorandum or in documents incorporated by reference in the Disclosure Memorandum is true, correct and complete, does not omit to state any fact necessary in order to make the statements therein not misleading, and shall be deemed for all purposes of this Agreement to constitute part of the representations and warranties of AEB under this Article III. The

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information contained in the Disclosure Memorandum shall be deemed to qualify all representations and warranties contained in this Article III and the covenants in Article IV to the extent applicable. All information in each of the documents and other writings furnished to Fidelity pursuant to this Agreement or the Disclosure Memorandum is or will be true, correct and complete and does not and will not omit to state any fact necessary in order to make the statements therein not misleading. AEB shall promptly provide Fidelity with written notification of any event, occurrence or other information necessary to maintain the Disclosure Memorandum and all other documents and writings furnished to Fidelity pursuant to this Agreement as true, correct and complete at all times prior to and including the Closing.

3.2
Corporate and Financial.

(a)
Corporate Status. AEB is a corporation duly organized, validly existing and its status is active under the laws of the State of Florida. The Bank is a Florida bank duly organized, validly existing, and its status is active under the laws of the State of Florida. AEB and the Bank have all of the requisite corporate power and authority and are entitled to own or lease their respective properties and assets and to carry on their businesses as and in the places where such properties or assets are now owned, leased or operated and such businesses are now conducted.

(b)
Authority; Enforceability.

(i)
Except as set forth in the Disclosure Memorandum and subject to the required regulatory approvals as stated in Section 3.6(a), and the approval of AEB shareholders, the execution, delivery and performance of this Agreement and the other transactions contemplated or required in connection herewith will not, with or without the giving of notice or the passage of time, or both:

(1)
violate any provision of federal or state law applicable to AEB, the violation of which, singularly or in the aggregate, could reasonably be expected to have a Material Adverse Effect;

(2)
violate any provision of the articles of incorporation, as amended, or bylaws of AEB;

(3)
conflict with or result in a breach of any provision of, or termination of, or constitute a default under any instrument, license, agreement, or commitment to which AEB is a party, which, singularly or in the aggregate, could reasonably be expected to have a Material Adverse Effect; or

(4)
constitute a violation of any order, judgment or decree to which AEB is a party, or by which AEB or any of its assets or properties are bound.

(ii)
AEB and the Bank each have the full power and authority to enter into and perform this Agreement and, as applicable, the Bank Merger Agreement, and the transactions contemplated hereby and thereby. Other than the approval of the AEB shareholders and the Bank shareholder, the execution, delivery, performance and terms of this Agreement and, as applicable, the Bank Merger Agreement, by AEB and the Bank and the consummation by AEB and the Bank of the transactions contemplated hereby and thereby have been duly and validly approved by AEB and the Bank, including all necessary action by the board of directors of AEB and the Bank. Other than the approval of the AEB shareholders

and the Bank shareholder, no other corporate proceedings are necessary on the part of AEB and the Bank to authorize the execution, delivery, and performance of this Agreement and, as applicable, the Bank Merger Agreement, by AEB and the Bank and the consummation by AEB and the Bank of the transactions contemplated hereby and thereby. Assuming this Agreement constitutes the valid and binding obligation of Fidelity, this Agreement constitutes the valid and binding obligation of AEB, and is enforceable in accordance with its terms, except as limited by (i) laws relating to bankruptcy, insolvency, reorganization, receivership, conservatorship, arrangement, fraudulent conveyance, moratorium or other laws affecting or relating to the rights of creditors generally or (ii) the rules governing the availability of specific performance, injunctive relief or other equitable remedies and general principles of equity, regardless of whether considered in a proceeding in equity or at law (the "General Enforceability Exceptions").

(iii)
"Material Adverse Effect" shall mean any change, event, development, violation, effect or circumstance which, individually or in the aggregate, (i) has, or is reasonably likely to have, a material adverse effect on the business, operations, properties, assets, financial condition or prospects of AEB on a consolidated basis, or (ii) prevents or materially impairs, or would be reasonably likely to prevent

or materially impair, the ability of AEB to timely consummate the transactions contemplated hereby or to perform its agreements or covenants hereunder; provided that, for purposes of clauses (i) and (ii), Material Adverse Effect shall specifically exclude any adverse effect attributable to or resulting from (1) any change in banking laws, rules or regulations of general applicability, (2) any change in U.S. generally accepted accounting principles ("GAAP") or regulatory accounting principles applicable to banks or their holding companies generally, (3) any action or omission of AEB or the Bank taken with the express prior written consent of Fidelity, (4) general changes in national economic, monetary, market or financial conditions affecting financial institutions, including changes in prevailing interest rates, inflation, credit markets or capital market conditions, except, in all cases, to the extent such changes disproportionately affect AEB, (5) changes in national political conditions, including the outbreak or escalation of acts of terrorism, or (6) the public disclosure of this Agreement or the transactions contemplated hereby.

(c)
Capital Structure.

(i)
As of the date of this Agreement, AEB has authorized capital stock consisting solely of 20,000,000 shares of AEB Stock, of which 4,884,491 shares are issued and outstanding as of the date hereof, (i) assuming that outstanding debentures are converted into approximately 1,829,268 shares of AEB Stock, and (ii) exclusive of (1) 98,000 shares reserved for the issuance upon exercise of outstanding AEB Stock Options, and (2) 40,000 shares to be granted to Bennett Brown at the time of closing. The Bank has authorized capital stock consisting solely of 4,000,000 shares of common stock, $5.00 par value per share ("Bank Stock"), and all outstanding shares of such Bank Stock are owned by AEB. All of the issued and outstanding shares of AEB Stock and Bank Stock are duly and validly issued, fully paid and non-assessable and were offered, issued and sold in compliance with all applicable federal and state securities laws. No Person has any right of rescission or, to the knowledge of AEB, claim for damages under federal or state securities laws with respect to the issuance of any shares AEB Stock or Bank Stock previously issued. None of the shares of AEB Stock or Bank Stock has been issued in violation of any preemptive or other rights of its respective shareholders. All of the issued and outstanding shares of Bank Stock are owned by AEB.

(ii)
Except for the AEB Stock Options described in Section 3.2(c)(ii) of the Disclosure Memorandum, AEB does not have outstanding any options or other securities which are either by their terms or by contract convertible or exchangeable into capital stock of AEB, or any other securities or debt of AEB, or any preemptive or similar rights to subscribe for or to purchase, or any options or warrants or agreements or understandings for the purchase or the issuance (contingent or otherwise) of, rights to acquire or vest in, or any calls, commitments or claims of any character relating to, its capital stock or securities convertible into its capital stock. Except as otherwise described in Section 3.2(c)(ii) of the Disclosure Memorandum, AEB is not subject to any obligation (contingent or otherwise) to issue, repurchase or otherwise acquire or retire, or to register, any shares of its capital stock. All AEB Stock Options have an exercise price that is no less than the fair market value of the underlying AEB Stock as of the date of grant of such AEB Stock Option. There are no outstanding or authorized phantom stock, stock appreciation, profit participation or similar rights with respect to any shares of AEB Stock or Bank Stock.

(iii)
Except as disclosed in Section 3.2(c)(iii) of the Disclosure Memorandum and other than restrictions required by applicable federal and state securities laws, there is no agreement, arrangement or understanding to which AEB is a party restricting or otherwise relating to the transfer of any shares of capital stock of AEB.

(iv)
All shares of AEB Stock or other capital stock, or any other securities or debt, of AEB, which have been purchased or redeemed by AEB have been purchased or redeemed in accordance with all applicable federal, state and local laws, rules, and regulations, including, without limitation, all federal and state securities laws, and no such purchase or redemption has resulted or will, with the giving of notice or lapse of time, or both, result in a default or acceleration of

the maturity of, or otherwise modify, any agreement, note, mortgage, bond, security agreement, loan agreement or other contract or commitment of AEB.

(v)
Except as set forth in Section 3.2(c)(v) of the Disclosure Memorandum, no Person beneficially owns more than five percent (5%) of the issued and outstanding shares of AEB Stock.

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(d)
AEB Subsidiaries. AEB has no subsidiaries other than the Bank and the Bank has no subsidiaries except as set forth in Section 3.2(d) of the Disclosure Memorandum. AEB and the Bank each own all of the equity interests in each of their respective subsidiaries. No subsidiary has outstanding any securities which are either by their terms or by contract convertible or exchangeable into capital stock of such subsidiary, or any other securities or debt of such subsidiary, or any preemptive or similar rights to subscribe for or to purchase, or any options or warrants or agreements or understandings for the purchase or the issuance (contingent or otherwise) of, rights to acquire or vest in, or any calls, commitments or claims of any character relating to, its capital stock or securities convertible into its capital stock. All of the issued and outstanding shares of each subsidiary are duly and validly issued, fully paid and non-assessable and were offered, issued and sold in compliance with all applicable federal and state securities laws. Each subsidiary has all of the requisite corporate power and authority and is entitled to own or lease its properties and assets and to carry on its businesses as and in the places where such properties or assets are now owned, leased or operated and such businesses are now conducted.

(e)
Corporate Records. The stock records and minute books of AEB: (a) fully and accurately reflect all issuances, transfers and redemptions of the AEB Stock; (b) correctly show the record addresses and the number of shares of such stock issued and outstanding on the date hereof held by the shareholders of AEB; (c) correctly show all formal corporate actions taken by the directors and shareholders of AEB (including actions taken by consent without a meeting); and (d) contain true and correct copies or originals of the articles of incorporation, as amended, and bylaws that are currently in force and the minutes of all meetings or consent actions of its directors and shareholders. No resolutions, regulations or bylaws have been passed, enacted, consented to or adopted by such directors or shareholders except those contained in the minute books. All corporate records have been maintained in accordance with all applicable statutory requirements and are complete and accurate in all material respects.

(f)
Tax Returns; Taxes.

(i)
Each of AEB and the Bank has (i) duly and timely filed with the appropriate governmental entity all Tax Returns required to be filed by it (taking into account any applicable extensions), and all such Tax Returns are true, correct and complete in all material respects and prepared in compliance with all applicable laws and (ii) timely paid all Taxes due and owing (whether or not shown due on any Tax Returns). Neither AEB nor the Bank currently is the beneficiary of any extension of time within which to file any Tax Return. No claim has ever been made by a governmental entity in a jurisdiction where AEB and the Bank do not file Tax Returns that AEB or the Bank is or may be subject to taxation by that jurisdiction.

(ii)
The unpaid Taxes of AEB and the Bank (A) did not, as of December 31, 2014, exceed the reserve for Tax liabilities (excluding any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the balance sheets (rather than in any notes thereto) contained in the AEB Financial Statements, which were prepared in accordance with GAAP and (B) do not exceed that reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of AEB and the Bank in filing their tax returns. Since December 31, 2014, neither AEB nor the Bank has incurred any liability for Taxes outside the ordinary course of business or otherwise inconsistent with past custom and practice.

(iii)
There are no liens, charges, restrictions, encumbrances or claims of any kind (collectively, “Liens”) for Taxes upon any property or asset of AEB or the Bank, except for Liens for current Taxes the payment of which is not yet delinquent, or for Taxes contested in good faith through appropriate proceedings and reserved against in accordance with GAAP.

(iv)
There are no deficiencies for Taxes with respect to AEB and the Bank that have been set forth or claimed in writing, or proposed or assessed by a governmental entity with respect to any Taxes due by, Tax Returns of, or any of the assets or properties of AEB or the Bank. There are no pending, proposed or, to the knowledge of AEB, threatened audits, investigations, disputes or claims or other actions for or relating to any Tax Return or material liability for Taxes with respect to AEB and the Bank. No material issues relating to Taxes of AEB or the Bank were raised by the relevant governmental entity in any completed audit or examination that would reasonably be expected to recur in a later taxable period. None of AEB, the Bank or any predecessor has waived any statute of

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limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment, deficiency, or collection, or has made any request in writing for any such extension or waiver, that remains in effect. Except as set forth in Section 3.2(f)(iv) of the Disclosure Memorandum, there is not currently in effect any power of attorney authorizing any Person to act on behalf of AEB or the Bank, or receive information relating to AEB or the Bank, with respect to any Tax matter.

(v)

Neither AEB nor the Bank has requested or received any ruling from any governmental entity, or signed any binding agreement with any governmental entity (including, without limitation, any advance pricing agreement) that would affect any amount of Tax payable after the Closing Date and has not made any request for issuance of a ruling from a governmental entity on behalf of the AEB or the Bank (regardless of whether the requested ruling is still pending or withdrawn).

(vi)

Each of AEB and the Bank has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, shareholder or other third party, and all Tax Returns (including without limitation all IRS Forms W-2 and 1099) required with respect thereto have been properly completed and timely filed with, and supplied to, the appropriate parties.

(vii)

Except for any customary agreements with customers, vendors, lenders, lessors or the like entered into in the ordinary course of business, neither AEB nor the Bank is a party to or bound by or has any obligation under any Tax sharing, allocation or indemnification agreement or similar contract or arrangement or any agreement that obligates it to make any payment computed by reference to the Taxes, taxable income or taxable losses of any other Person.

(viii)

Except for the affiliated group of which AEB is the common parent, each of AEB and the Bank is not and has never been a member of an affiliated group of corporations within the meaning of Section 1504 of the Code or any group that has filed a combined, consolidated or unitary Tax Return. Neither AEB nor the Bank is liable for the Taxes of any Person (including an individual, corporation, general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union or other entity or governmental entity) other than AEB and the Bank (i) under Treasury Regulations Section 1.1502-6 (or any similar provision of state, local or foreign law), (ii) as a transferee or successor, (iii) by contract, or (iv) otherwise.

(ix)

Neither AEB nor the Bank has constituted either a “distributing corporation” or a “controlled corporation” in a distribution of stock intended to qualify for tax-free treatment under Section 355 or Section 361 of the Code.

(x)

Neither AEB nor the Bank has taken any action, failed to take any action, or knows of any fact that would be reasonably expected to prevent the Merger from qualifying as a “reorganization” within the meaning of Section 368(a) of the Code.

(xi)

Neither AEB nor the Bank has been a party to a “reportable transaction,” as such term is defined in Treasury Regulations Section 1.6011-4(b)(1) (other than such transactions that have been properly reported) or any other substantially similar transaction requiring disclosure under analogous provisions of state, local or foreign Tax law.

(xii)

AEB has not taken any action not in accordance with past practice that would have the effect of deferring a measure of Tax from a period (or portion thereof) ending on or before the Closing Date to a period (or portion thereof) beginning

after the Closing Date. AEB has no deferred income or other Tax Liability arising out of any transaction, including, without limitation, any (i) intercompany transaction (as defined in Treasury Regulations Section 1.1502-13), (ii) the disposal of any property in a transaction accounted for under the installment method pursuant to Section 453 of the Code, (iii) excess loss account (as defined in Treasury Regulations Section 1.1502-19) with respect to the stock of any subsidiary of AEB, (iv) use of the long-term contract method of accounting, or (v) receipt of any prepaid amount on or before the Closing Date. Neither AEB nor the Bank has made an election under Section 108(i) of the Code (or any corresponding provision of state, local or foreign law).

(xiii)
AEB has delivered or made available to Fidelity for inspection complete and correct copies of (i) its federal and state income and franchise Tax Returns and reports for the past three (3) taxable

periods ended on or after December 31, 2014, and has indicated those Tax Returns that have been audited and those Tax Returns that are currently the subject of an audit, and (ii) all private letter rulings, revenue agent reports, settlement agreements, a description of all deficiency notices and any similar documents submitted by, received by or agreed to by or on behalf of AEB, the Bank, and any predecessor thereof and relating to Taxes for such taxable periods. AEB has delivered or made available to Fidelity the amount of any net operating loss, net capital loss, unused investment or other credit, unused foreign tax or excess charitable deduction available for use by AEB or the Bank. There is currently no limitation on the use of the Tax attributes of AEB and the Bank under Sections 269, 382, 383, 384 or 1502 of the Code (and similar provisions of state, local or foreign Tax law).

(xiv)
No closing agreement pursuant to Section 7121 of the Code (or any similar provision of state, local or non-U.S. law) has been entered into by or with respect to the AEB or the Bank.

(xv)
At all times since its formation until December 31, 2009, AEB was a validly electing S corporation within the meaning of Sections 1361 and 1362 of the Code (and any comparable provision of state and local Tax law in jurisdictions in which such election was available), and the Bank was a valid qualified subchapter S Subsidiary within the meaning of Sections 1361 and 1362 of the Code (and any comparable provision of state and local Tax law in applicable jurisdictions) during the same period.

For purposes of this Agreement, "Tax" or "Taxes" means all taxes of whatever kind or nature, including, without limitation, those on or measured by or referred to as income, gross receipts, sales, use, ad valorem, franchise, profits, license, estimated, withholding, payroll, employment, social security (or similar), unemployment, disability, excise, severance, stamp, occupation, premium, transfer, registration, alternative or add-on minimum, value added, real property, personal property, escheat, environmental or windfall profits taxes, customs, duties or other similar fees, assessments or charges of any kind whatsoever (together with any interest and any penalties, additions to tax or additional amounts), whether disputed or not, imposed by any governmental entity (domestic or foreign); and "Tax Returns" means any report, return (including information return or declaration of estimated Taxes), claim for refund, statement, disclosure or form relating to Taxes filed or required to be filed with any governmental entity, including any schedule or attachment thereto, and including any amendments thereof.

(g)
Financial Statements.

(i)
AEB has delivered to Fidelity true, correct and complete copies, including notes, of the audited financial statements of AEB for the years ended December 31, 2014, 2013, and 2012, including consolidated balance sheets, consolidated statements of income, consolidated statements of cash flows, consolidated statements of comprehensive income and consolidated statements of changes in shareholders' equity and unaudited financial statements of AEB for the six months ended June 30, 2015 (collectively, the "AEB Financial Statements"). The AEB Financial Statements have been prepared in accordance with GAAP, and present fairly the assets, liabilities and financial condition of AEB as of the dates indicated therein and the results of its operations for the respective periods indicated therein.

(ii)
AEB has maintained a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. No changes have been made to AEB's internal control over financial reporting, as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), since December 31, 2014 that materially affected, or are reasonably likely to

materially affect, its internal control over financial reporting.

(h)
Regulatory Reports. AEB has made available to Fidelity for review and inspection the year-end and quarterly Reports of Condition and Income filed by the Bank with the Federal Deposit Insurance

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Corporation (the "FDIC") and the Forms F.R. Y-6 and F.R. Y-9SP filed by AEB with the Board of Governors of the Federal Reserve System (the "Federal Reserve") for or during each of the three (3) years ended December 31, 2014, 2013 and 2012 and the two (2) quarters ended June 30, 2015 and March 31, 2015, together with all such other reports filed by AEB and the Bank for or during the same three-year period with the Florida Office of Financial Regulation, Division of Financial Institutions (the "FOFR"), if any, and with any other applicable regulatory or governmental agencies (collectively, the "AEB Reports"). All of the AEB Reports have been prepared in accordance with applicable rules and regulations applied on a basis consistent with prior periods and contain all information required to be presented therein in accordance with such rules and regulations.

(i)

Enforcement Actions. Except as set forth in Section 3.2(i) of the Disclosure Memorandum, (i) neither AEB nor any of its subsidiaries is subject to any cease-and-desist or other similar order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is a recipient of any extraordinary supervisory letter from, or is subject to any capital directive by, or has adopted any board resolutions at the request of, the Federal Reserve, the FDIC, the FOFR or with any other applicable regulatory or governmental agency (a "Regulatory Agreement"), (ii) neither AEB nor any of its subsidiaries has been advised by the Federal Reserve, the FDIC, the FOFR or any other applicable regulatory or governmental agency that it is considering issuing, initiating, ordering, or requesting any such Regulatory Agreement, (iii) AEB and each of its subsidiaries are in compliance in all material respects with each Regulatory Agreement to which it is party or subject, and (iv) neither AEB nor any of its subsidiaries has received any notice from the Federal Reserve, the FDIC, the FOFR or any other applicable regulatory or governmental agency indicating that either AEB or any of its subsidiaries is not in compliance in all material respects with any such Regulatory Agreement.

(j)

Accounts. Section 3.2(j) of the Disclosure Memorandum contains a list of each and every bank and other institution in which AEB maintains an account or safety deposit box, the account numbers, and the names of all Persons who are presently authorized to draw thereon, have access thereto or give instructions regarding distribution of funds or assets therein.

(k)

Loans; Nonperforming and Classified Assets; Allowance.

(i)

Except as set forth in Section 3.2(k)(i) of the Disclosure Memorandum or as provided for in the Allowance described in subsection (iv) below, to the knowledge of AEB, all loans, lines of credit, letters of credit and other extensions of credit made by the Bank or due to it ("AEB Loans") shown in the AEB Financial Statements and any such AEB Loans on the date hereof and on the Closing Date, (i) are and will be as of the Closing Date genuine, legal, valid and enforceable (except as enforceability may be limited by the General Enforceability Exceptions) obligations of the respective makers thereof and (ii) are not and will not be as of the Closing Date subject to any right of offset, rescission or set-off or any counterclaim or defense for which there is a reasonable possibility of an adverse determination to the Bank.

(ii)

All of the AEB Loans are evidenced by written agreements, true and correct copies of which will be made available to Fidelity for examination prior to the Closing Date. All currently outstanding AEB Loans were solicited, originated and, currently exist in material compliance with all applicable law and regulations and the Bank's lending policies at the time of origination of such AEB Loans, and the loan documents with respect to each such AEB Loan are complete and correct in all material respects. There are no oral modifications or amendments or additional agreements related to the AEB Loans that are not reflected in the written records of the Bank. Except as set forth in Section 3.2(k)(ii) of the Disclosure Memorandum, all of the AEB Loans are owned by the Bank free and clear of any Liens. Except as set forth

in Section 3.2(k)(ii) of the Disclosure Memorandum, none of the AEB Loans are presently serviced by third parties, and there is no obligation which could result in any AEB Loan becoming subject to any third party servicing.

(iii)
Except as set forth in Section 3.2(k)(iii) of the Disclosure Memorandum, as of the date hereof, no AEB Loans were, as of September 30, 2015, over ninety (90) days delinquent in payment of principal or interest. Section 3.2(k)(iii) of the Disclosure Memorandum contains a complete list of (i) each AEB Loan that as of September 30, 2015 was classified as “Special Mention,” “Substandard,”

"Doubtful," "Loss," "Classified," "Criticized," "Credit Risk Assets," "Concerned Loans," "Watch List" or words of similar im the Bank or any bank examiner, together with the principal amount of and accrued and unpaid interest on each such AEB Loan and the identity of the borrower thereunder and (ii) each asset of the Bank that as of September 30, 2015 was classified as other real estate owned and the book value thereof as of September 30, 2015.

(iv)
The allowance for loan and lease losses (the "Allowance") shown on the balance sheet of AEB included in the most recent AEB Financial Statements dated prior to the date of this Agreement was, and the Allowance shown on the balance sheets of AEB included in the AEB Financial Statements as of dates subsequent to the execution of this Agreement will be, as of the dates thereof, adequate (within the meaning of GAAP and applicable regulatory requirements or guidelines) to provide for all known or reasonably anticipated losses relating to or inherent in the loan and lease portfolios (including accrued interest receivables, letters of credit and commitments to make loans or extend credit), by AEB as of the dates thereof. Prior to the Closing Date, AEB will not make a material change to its methodology for determining the Allowance without providing prior written notice to Fidelity.

(l)
Liabilities. AEB has no debt, liability or obligation of any kind required to be shown pursuant to GAAP on the consolidated balance sheet of AEB, whether accrued, absolute, known or unknown, contingent or otherwise, including, but not limited to: (a) liability or obligation on account of any federal, state or local taxes or penalty, interest or fines with respect to such taxes; (b) liability arising from or by virtue of the distribution, delivery or other transfer or disposition of goods, personal property or services of any type, kind or variety; (c) unfunded liabilities with respect to the AEB 401(k) Plan or any other post-retirement life insurance, pension, profit sharing or employee stock ownership plan, whether operated by AEB or any other entity covering employees of AEB; or (d) environmental liabilities, except: (i) those reflected in the AEB Financial Statements; and (ii) as disclosed in Section 3.2(l) of the Disclosure Memorandum.

(m)
Absence of Changes. Except as specifically provided for in this Agreement or specifically set forth in Section 3.2(m) of the Disclosure Memorandum, since December 31, 2014:

(i)
there has been no change in any of AEB's relationships with customers, employees, lessors or others, other than changes in the ordinary course of business, none of which individually or in the aggregate has had, or which could reasonably be expected to have, a Material Adverse Effect;

(ii)
there has been no damage, destruction or loss to the assets, properties or business of AEB, whether or not covered by insurance, which has had, or which may reasonably be expected to have, a Material Adverse Effect;

(iii)
the business of AEB has been operated in the ordinary course, and not otherwise;

(iv)
the material properties and assets of AEB used in its business have been maintained in good order, repair and condition, ordinary wear and tear excepted;

(v)
the books, accounts and records of AEB have been maintained in the usual, regular and ordinary manner;

(vi)

there has been no declaration, setting aside or payment of any dividend or other distribution on or in respect of the capital stock of AEB other than in the ordinary course and consistent with past practices;

(vii)
there has been no increase in any payment of or commitment to pay any bonus, profit sharing or other extraordinary compensation to any employee or any increase in the level of employee benefits, or the adoption of new employee benefits to any employee;

(viii)
there has been no change in the articles of incorporation or bylaws of AEB or the Bank;

(ix)
there has been no labor dispute, unfair labor practice charge or employment discrimination charge, nor, to the knowledge of AEB, any organizational effort by any union, or institution or threatened institution, of any effort, complaint or other proceeding in connection therewith, involving AEB, or affecting its operations;

(x)
there has been no issuance, sale, repurchase, acquisition, or redemption by AEB of any of its capital stock, bonds, notes, debt or other securities, and there has been no modification or amendment of the rights of the holders of any outstanding capital stock, bonds, notes, debt or other securities thereof;

(xi)
there have been no Liens or security interests (other than purchase money security interests arising in the ordinary course of business) created on or in (including without limitation, any deposit for security) any asset or assets of AEB or assumed by it with respect to any asset or assets;

(xii)
there has been no indebtedness or other liability or obligation (whether absolute, accrued, contingent or otherwise) incurred by AEB which would be required to be reflected on a balance sheet of AEB prepared as of the date hereof in accordance with GAAP, except as incurred in the ordinary course of business;

(xiii)
no material obligation or liability of AEB has been discharged or satisfied, other than in the ordinary course of business;

(xiv)
there have been no sales, transfers or other dispositions of any asset or assets of AEB, other than sales in the ordinary course of business; and

(xv)
there has been no amendment, termination or waiver of any right of AEB under any contract or agreement or governmental license, permit or permission which has had, or could reasonably be expected to have, a Material Adverse Effect.

(n)
Litigation and Proceedings.   Except as set forth in Section 3.2(n) of the Disclosure Memorandum, there are no actions, decrees, suits, counterclaims, claims, proceedings or governmental actions or investigations, pending or, to the knowledge of AEB, threatened against, by or affecting AEB, or any officer, director, employee or agent in such person's capacity as an officer, director, employee or agent of AEB or relating to the business or affairs of AEB, in any court or before any arbitrator or governmental agency, and no judgment, award, order or decree of any nature has been rendered against or with respect thereto by any agency, arbitrator, court, commission or other authority, nor does AEB have any unasserted contingent liabilities which are reasonably likely to have a Material Adverse Effect.

(o)
Proxy Materials.   Neither the AEB Proxy Materials nor other materials furnished by AEB to the AEB shareholders in connection with the transactions contemplated by this Agreement, or in any amendments thereof or supplements thereto, will, at the times such documents are distributed to the AEB shareholders and through the Closing Date, contain with respect to AEB any untrue statement of a material fact or omit to state any information required to be stated therein or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

3.3
Business Operations.

(a)
Permits; Compliance with Law.

(i)
AEB has all permits, licenses, approvals, authorizations and registrations under all federal, state, local and foreign laws (the "Permits") required for AEB to carry on its business as presently conducted except where the failure to obtain such Permits could not reasonably be expected to have a Material Adverse Effect. AEB is in compliance with the terms and conditions of each such Permit and has received no written notice that it is in violation of any of the terms or conditions of such Permits.

(ii)
AEB has complied with all laws, regulations, ordinances, rules, and orders applicable to it or its business, except for any non-compliance which could not reasonably be expected to have a Material Adverse Effect. Section 3.3(a)(ii) of the Disclosure Memorandum contains a list of any known violations of such laws, regulations, ordinances, rules or orders by any present officer, director, or employee of AEB, and which resulted in any order, proceeding, judgment or decree which would be required to be disclosed pursuant to Item 401(f) of Regulation S-K promulgated by the SEC. No past violation of any such law, regulation, ordinance, rule or order has occurred which could impair the right or ability of AEB to conduct its business.

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(iii)
Except as set forth in Section 3.3(a)(iii) of the Disclosure Memorandum, no notice, inquiry or warning from any governmental authority with respect to any failure or alleged or possible failure of AEB to comply in any respect with any law, regulation, ordinance, rule or order has been received, nor, to the knowledge of AEB, is any such notice or warning proposed or threatened.

(b)
Environmental.

(i)
Except as set forth in Section 3.3(b)(i) of the Disclosure Memorandum:

(1)
AEB has not caused or permitted the generation, manufacture, use, or handling or the release or presence of, any Hazardous Material (as defined below) on, in, under or from any properties or facilities currently owned or leased by AEB or, to its knowledge, adjacent to any properties so owned or leased that requires notification, investigation or remediation pursuant to any environmental law;

(2)
there are no non-compliance orders, warning letters or notices of violations, actions, suits or other claims asserted or, to its knowledge, threatened against AEB or administrative or judicial investigations arising from or relating to the environmental condition of any property currently owned or leased by AEB or the generation, manufacture, use, or handling or the release or presence of, any Hazardous Material at any property currently owned or leased by AEB;

(3)
AEB has complied in all material respects with, and has kept all records and made all filings or reports required by, and is otherwise in compliance with all applicable federal, state and local laws, regulations, orders, permits and licenses relating to the generation, treatment, manufacture, use, handling, release or presence of any Hazardous Material on, in, under or from any properties or facilities currently owned or leased by AEB;

(4)
the improvements on the property owned or leased by AEB are free from the presence or growth of mold, fungi, spores or bacteria that could be reasonably expected to cause property damage or personal injury, and the improvements on the property owned or leased by AEB are, and have been, reasonably free of conditions that could lead to the growth or presence of mold, fungi, spores or bacteria, including, without limitation, air conditioner malfunction, water intrusion, water leaks, sewage backflows and construction defects; and

(5)
there are not now nor have there ever been any underground storage tanks for the storage of Hazardous Material on, in or under any properties or facilities currently owned or leased by AEB.

(ii)
Neither AEB nor, to the knowledge of AEB, any of its officers, directors, employees or agents, in the course of such individual's employment by AEB, has given advice with respect to, or participated in any respect in, the management or operation of any entity or concern regarding the generation, storage, handling, disposal, transfer, production, use or processing of Hazardous Material.

(iii)
To the knowledge of AEB, except as set forth in Section 3.3(b)(iii) of the Disclosure Memorandum, AEB has not foreclosed on any property on which there is a threatened release of any Hazardous Material or on which there has

been a release and remediation has not been completed to the extent required by environmental laws.

(iv)
Except as set forth in Section 3.3(b)(iv) of the Disclosure Memorandum, neither AEB nor any of its executive officers or directors is aware of, has been told of, or has observed, the presence of any Hazardous Material on, in, under, or around property on which AEB holds a legal or security interest, in violation of, or creating a liability under, federal, state, or local environmental statutes, regulations, or ordinances.

(v)
AEB has delivered to Fidelity true, correct and complete copies of all reports or tests with respect to compliance of any of the properties or facilities currently owned or operated by AEB with any environmental laws or the presence of Hazardous Materials that were prepared for AEB or prepared for other Persons and are in the possession, custody or control of AEB.

(vi)
The term "Hazardous Material" means any substance whose nature, use, manufacture, or effect render it subject to federal, state or local regulation governing that material's investigation,

remediation or removal as a threat or potential threat to human health or the environment and includes, without limitation, any substance within the meaning of "hazardous substances" under the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601, "hazardous wastes" within the meaning of the Resource Conservation and Recovery Act, 42 U.S.C. § 6921, any petroleum product, including any fraction of petroleum, or any friable asbestos containing materials. However, the term "Hazardous Material" shall not include those substances which are normally and reasonably used or present in connection with the development, occupancy or operation of office buildings (such as cleaning fluids, and supplies normally used in the day to day operation of business offices) in quantities reasonable in relation to such use and in compliance with applicable law or such that may be naturally occurring in any ambient air, surface water, ground water, land surface or subsurface strata.

(c)

Insurance. Except with respect to insurance policies providing coverage for employees under the AEB Plans, Section 3.3(c) of the Disclosure Memorandum contains a complete list and description (including the expiration date, premium amount and coverage thereunder) of all policies of insurance and bonds presently maintained by, or providing coverage for, AEB or through AEB for any of its officers, directors and employees, all of which are, and will be maintained through the Closing Date, in full force and effect, together with a complete list of all pending claims under any of such policies or bonds. To the knowledge of AEB, all material terms, obligations and provisions of each of such policies and bonds have been complied with, all premiums due thereon have been paid, and no notice of cancellation with respect thereto has been received. Except as set forth in Section 3.3(c) of the Disclosure Memorandum, such policies and bonds provide adequate coverage to insure the properties and businesses of AEB and the activities of its officers, directors and employees against such risks and in such amounts as are customary. Except as set forth in Section 3.3(c) of the Disclosure Memorandum, AEB will not as of the Closing Date have any liability for premiums or for retrospective premium adjustments for any period prior to the Closing Date. AEB has heretofore made available to Fidelity a true, correct and complete copy of each insurance policy and bond currently in effect with respect to the business and affairs of AEB.

(d)

Trust Business; Administration of Fiduciary Accounts. AEB and the Bank do not engage in any trust business, nor does either administer or maintain accounts for which either acts as fiduciary (other than individual retirement accounts, Keogh accounts and health savings accounts), including, but not limited to, accounts for which either serves as a trustee, agent, custodian, personal representative, guardian, conservator or investment advisor.

(e)

Investment Management and Related Activities. Except as set forth in Section 3.3(e) of the Disclosure Memorandum, none of AEB, the Bank or any of their respective directors, officers or employees is required to be registered, licensed or authorized under applicable law as an investment adviser, a broker or dealer, an insurance agency or company, a commodity trading adviser, a commodity pool operator, a futures commission merchant, an introducing broker, a registered representative or associated person, investment adviser, representative or solicitor, a counseling officer, an insurance agent, a sales person or in any similar capacity with a governmental agency.

(f)

CRA, Anti-Money Laundering and Customer Information Security. Other than investments to satisfy regulatory requirements, neither AEB nor the Bank is a party to any agreement with any individual or group regarding Community Reinvestment Act matters and no facts or circumstances exist, which would cause the Bank: (i) to be deemed not to be in satisfactory compliance with the Community Reinvestment Act, and the regulations promulgated thereunder, or to be assigned a rating for Community Reinvestment Act purposes by federal or state bank regulators of lower than "satisfactory"; (ii) to be deemed to be operating in violation of the Bank Secrecy Act and its implementing regulations (31 C.F.R. Part 103), the USA PATRIOT Act, any order issued with respect to anti-money laundering by the U.S. Department of the Treasury's Office of Foreign Assets Control, or any other applicable anti-money laundering statute, rule or regulation; or (iii) to be deemed not to be in satisfactory compliance with the applicable privacy of customer information requirements contained in any federal and state privacy laws and regulations, including, without

limitation, in Title V of the Gramm-Leach-Bliley Act of 1999 and regulations promulgated thereunder, as well as the provisions of the information security program adopted by the Bank pursuant to 12 C.F.R. Part 364, except where the failure to be in such compliance would not reasonably be expected to have a Material Adverse Effect. Furthermore, the board of directors of the Bank has adopted

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and the Bank has implemented an anti-money laundering program that contains adequate and appropriate customer identification verification procedures that has not been deemed ineffective by any governmental agency and that meets the requirements of Sections 352 and 326 of the USA PATRIOT Act.

3.4

Properties and Assets.

(a)

Contracts and Commitments. Section 3.4(a) of the Disclosure Memorandum contains a list identifying and briefly describing all written contracts, purchase orders, agreements, security deeds, guaranties or commitments (other than loans, loan commitments and deposits made by or with AEB in the ordinary course of business), to which AEB is a party or by which it may be bound involving the payment or receipt, actual or contingent, of more than $100,000 or having a term or requiring performance over a period of more than one (1) year and requiring payment of more than $5,000 per year. Each such contract, agreement, guaranty and commitment of AEB is in full force and effect and, to the knowledge of AEB, is valid and enforceable in accordance with its terms, subject to the General Enforceability Exceptions, and constitutes a legal and binding obligation of the respective parties thereto and is not the subject of any notice of default, termination, partial termination or of any ongoing, pending, completed or threatened investigation, inquiry or other proceeding or action that may give rise to any notice of default, termination or partial termination. AEB has complied with the provisions of such contracts, agreements, guaranties and commitments. A true and complete copy of each such document has been made available to Fidelity for examination.

(b)

Licenses; Intellectual Property. AEB has all patents, trademarks, trade names, service marks, copyrights, trade secrets and know-how reasonably necessary to conduct its business as presently conducted and, except as described in Section 3.4(b) of the Disclosure Memorandum, AEB is not a party, either as licensor or licensee, to any agreement for any patent, process, trademark, service mark, trade name, copyright, trade secret or other confidential information and, to the knowledge of AEB, there are no rights of third parties with respect to any trademark, service mark, trade secrets, confidential information, trade name, patent, patent application, copyright, invention, device or process owned or used by AEB or presently expected to be used by it in the future. All patents, copyrights, trademarks, service marks, trade names, and applications therefor or registrations thereof, owned or used by AEB, are listed in Section 3.4(b) of the Disclosure Memorandum. AEB has complied with all applicable laws relating to the filing or registration of "fictitious names" or trade names.

(c)

Personal Property. AEB has good and marketable title to all of its personal property, tangible and intangible, reflected in the most recent AEB Financial Statements (except as since sold or otherwise disposed of by it in the ordinary course of business), free and clear of all Liens of any kind or character, except: (a) those referred to in the notes to the AEB Financial Statements as securing specified liabilities (with respect to which no default exists or, to the knowledge of AEB, is claimed to exist); and (b) those described in Section 3.4(c) of the Disclosure Memorandum.

(d)

AEB Leases.

(i)

All leases (the "AEB Leases") pursuant to which AEB is lessor or lessee of any real or personal property (such property, the "Leased Property") are valid and enforceable in accordance with their terms, subject to the General Enforceability Exceptions; there is not under any of the AEB Leases any default or any claimed default by AEB, AEB's lessor (where AEB is the lessee under a AEB Lease) or AEB's lessee (where AEB is the lessor under a AEB Lease), or event of default or event which with notice or lapse of time, or both, would constitute a default by AEB, AEB's lessor (where AEB is the lessee under a AEB Lease) or AEB's lessee (where AEB is the lessor under a AEB Lease) and in respect of which adequate steps have not been taken to prevent a default from occurring if AEB is the party in breach.

(ii)
The copies of the AEB Leases heretofore furnished or made available by AEB to Fidelity are true, correct and complete, and the AEB Leases have not been modified in any respect other than pursuant to amendments, copies of which have been concurrently delivered or made available to Fidelity, and are in full force and effect in accordance with their terms.

(iii)
Except as set forth in Section 3.4(d)(iii) of the Disclosure Memorandum, there are no contractual obligations, agreements in principle or present plans for AEB to enter into new leases of real property or to renew or amend existing AEB Leases prior to the Closing Date.

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(e)
Real Property.

(i)
AEB does not own any interest in any real property (other than as lessee) except as set forth in Section 3.4(e)(i) of the Disclosure Memorandum (such properties being referred to herein as “AEB Realty”). Except as disclosed in Section 3.4(e)(i) of the Disclosure Memorandum, AEB has good title to the AEB Realty and the titles to the AEB Realty are covered by title insurance policies providing coverage in the amount of the original purchase price, true, correct and complete copies of which have been furnished to Fidelity with the Disclosure Memorandum. AEB has not encumbered the AEB Realty since the effective dates of the respective title insurance policies.

(ii)
Except as set forth in Section 3.4(e)(ii) of the Disclosure Memorandum, the interests of AEB in the AEB Realty and in and under each of the AEB Leases are free and clear of any and all Liens and are subject to no present claim, contest, dispute, action or, to the knowledge of AEB, threatened action at law or in equity.

(iii)
The present use and operations of, and improvements upon, the AEB Realty and all real properties included in the Leased Properties (the “AEB Leased Real Properties”) are in compliance in all material respects with all applicable building, fire, zoning and other applicable laws, ordinances and regulations and with all deed restrictions of record, no notice of any violation or alleged violation thereof has been received, and there are no proposed changes therein that would affect the AEB Realty, the AEB Leased Real Properties or their uses.

(iv)
Except as set forth in Section 3.4(e)(iv) of the Disclosure Memorandum, no rent has been paid in advance and no security deposit has been paid by, nor is any brokerage commission payable by or to, AEB with respect to any AEB Lease.

(v)
Except as set forth in Section 3.4(e)(v) of the Disclosure Memorandum, AEB is not aware of any proposed or pending change in the zoning of, or of any proposed or pending condemnation proceeding with respect to, any of the AEB Realty or the AEB Leased Real Properties which may adversely affect the AEB Realty or the AEB Leased Real Properties or the current or currently contemplated use thereof.

(vi)
The buildings and structures owned, leased or used by AEB are, taken as a whole, in good operating order (except for ordinary wear and tear), usable in the ordinary course of business, and are sufficient and adequate to carry on the business and affairs of AEB.

3.5
Employees and Benefits.

(a)
Directors or Officers of Other Corporations.   Except as set forth in Section 3.5(a) of the Disclosure Memorandum, no director, officer, or employee of AEB serves, or in the past five (5) years has served, as a director or officer of any other corporation on behalf of or as a designee of AEB.

(b)
Employee Benefits.

(i)
Except as set forth in Section 3.5(b)(i) of the Disclosure Memorandum, (i) AEB does not provide and is not obligated to provide, directly or indirectly, nor has any liability (contingent or otherwise) for, any benefits for current or former employees, officers, directors or independent contractors or their dependents or beneficiaries, including, without limitation, any post-retirement life insurance, pension, profit sharing, stock option, retirement, bonus, hospitalization, severance, medical, insurance, vacation, fringe benefits, or other material employee benefits under any plan, practice, agreement or understanding (individually a "AEB Plan" and collectively, the "AEB Plans"), and (ii) AEB does not have any employment, severance, change in control or similar agreements with any of its current or former employees, officers, directors or independent contractors or their dependents or beneficiaries.

(ii)
Section 3.5(b)(ii) of the Disclosure Memorandum lists separately any employee benefit plan within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), sponsored, maintained or contributed to by AEB or its ERISA Affiliates or with respect to which AEB or any of its ERISA Affiliates has any liability (contingent or otherwise) (collectively, "ERISA Plans"). True, correct and complete copies of all ERISA Plans and, to the extent

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applicable, all related trust agreements, insurance contracts, summary plan descriptions, Internal Revenue Service determination letters (or prototype sponsor letters) and filings, the past three (3) years of actuarial reports and valuations, annual reports and Form 5500 filings (including attachments) have been delivered to Fidelity.

(iii)

Except as set forth in Section 3.5(b)(iii) of the Disclosure Memorandum, AEB and its ERISA Affiliates (as defined below) are not currently and have never in the past six years been required to contribute to or had any liability (contingent or otherwise) with respect to (i) a multiemployer plan as defined in Section 3(37)(A) or 4001(a)(3) of ERISA, (ii) an employee benefit plan within the meaning of Section 3(3) of ERISA that is subject to Section 302 or Title IV of ERISA or Section 412 of the Code, (iii) a multiple employer plan within the meaning of Section 413(c) of the Code or Sections 4063, 4064 or 4066 of ERISA or (iv) a multiple employer welfare plan within the meaning of Section 3(40)(A) of ERISA. For purposes of this Section 3.5(b)(iii), the term "ERISA Affiliate" shall mean any person within the meaning of Section 3(9) of ERISA, or any trade or business (whether or not incorporated) that, together with AEB, is treated as a single employer within the meaning of Section 414 of the Code.

(iv)

In all material respects, each AEB Plan has been established, operated and administered in accordance with its terms and in accordance with, and has been amended to comply with (unless such amendment is not yet required), all applicable laws, rules and regulations, including, without limitation, ERISA, the Code, and the regulations issued under ERISA and the Code. With respect to each AEB Plan, other than routine claims for benefits submitted in the ordinary course of the benefits process, no litigation or administrative or other proceeding is pending or, to the knowledge of AEB, threatened involving such AEB Plan or any of its fiduciaries. With respect to each AEB Plan, neither AEB nor any of its directors, officers, employees or agents or any fiduciary of any ERISA Plan has been engaged in or been a party to any transaction relating to the AEB Plan which could reasonably be expected to constitute a breach of fiduciary duty under ERISA or a "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code), unless such transaction is specifically permitted under Sections 407 or 408 of ERISA, Section 4975 of the Code or a class or administrative exemption issued by the Department of Labor. Each AEB Plan that is a group health plan within the meaning of Section 607(l) of ERISA and Section 4980B of the Code is in material compliance with the continuation coverage requirements of Section 501 of ERISA and Section 4980B of the Code and other applicable laws.

(v)

With respect to each AEB Plan, all contributions or other remittances required by such plan or applicable law have been made or will be made on a timely basis.

(vi)

Each AEB Plan that is intended to be qualified under Section 401(a) of the Code, and its related trust, respectively, has received a favorable determination letter (or prototype sponsor letter) from the Internal Revenue Service ("IRS") as to the qualification of such plan in its current form and the tax-exempt status of the related trust (or has timely filed with the IRS a request for such a determination letter within the applicable remedial amendment period or is a prototype plan for which the prototype plan sponsor has received a favorable opinion letter or advisory opinion from the IRS as to the qualification of the prototype plan on which AEB may rely) and no event has occurred, and no condition exists, that would reasonably be expected to cause the loss of such qualified or tax exempt status or the imposition of any liability, tax or penalty under ERISA or the Code.

(vii)

AEB does not provide and has no obligation to provide benefits, including, without limitation, death, health, post-retirement life insurance or medical benefits (whether or not insured) with respect to current or former employees of AEB beyond their retirement or other termination of service with AEB other than: (i) coverage mandated by applicable law; or (ii) benefits under the AEB 401(k) Plan.

(viii)
Except as set forth in Section 3.5(b)(viii) of the Disclosure Memorandum, neither this Agreement nor any transaction contemplated hereby (either alone or in combination with any other event will: (i) entitle any current or former employee, officer or director of AEB to severance pay, unemployment compensation or any similar or other payment; (ii) accelerate the time of payment or vesting of, or increase the amount of compensation or benefits due any such employee, officer or

director; (iii) increase any benefits otherwise payable under any AEB Plan; or (iv) cause the payment of any "excess parachute payment" (as defined in Section 280G of the Code). No AEB Plan provides for the gross up of taxes under Code Sections 409A or 4999.

(ix)
Each AEB Plan that is subject to Section 409A of the Code has been maintained in written form, and administered and operated in compliance in all material respects, with Section 409A and the regulations and rulings thereunder.

(x)
There is no audit or investigation pending with respect to any AEB Plan before any governmental authority and, to the knowledge of AEB, no such audit or investigation is threatened.

(xi)
Except as set forth in Section 3.5(b)(xi) of the Disclosure Memorandum, AEB has properly accrued, to the extent applicable, on its financial statements in all material respects, the correct number of days, for all vacation, sick leave, personal time and paid time off credited to AEB employees and individual consultants as of the date of such financial statements. AEB has, for each AEB Plan and all other purposes, correctly classified all natural persons and, if applicable, their disregarded entities, providing services to AEB as common law employees or independent contractors as appropriate.

(xii)
Except as set forth in Section 3.5(b)(xii) of the Disclosure Memorandum, since December 31, 2014, AEB has not entered into any commitment to modify or amend any AEB Plan (other than in the ordinary course and consistent with past practices or as required by law) nor to establish any new benefit plan, program or arrangement. Except as required under applicable law, there has been no amendment to any AEB Plan, or written notice or announcement, or change in eligibility, participation or coverage under any AEB Plan, that would increase the expense of maintaining any such AEB Plan above the level of expense incurred or with respect to such AEB Plan for the most-recently completed fiscal year of AEB.

(xiii)
No assets of AEB are allocated to or being held in a "rabbi trust" or similar funding vehicle.

(c)
Employment and Labor Matters. AEB is not, and has not been, a party to any collective bargaining agreement or agreement of any kind with any union or labor organization or to any agreement with any of its employees which is not terminable at will or upon ninety (90) days notice at the election of, and without cost or penalty to, AEB. AEB has not received at any time in the past five (5) years, any demand for recognition from any union, and no attempt has been made, or will have been made as of the Closing Date, to organize any of its employees. AEB has complied in all material respects with all obligations under the National Labor Relations Act, as amended, the Age Discrimination in Employment Act, as amended, and all other federal, state and local labor laws and regulations applicable to its employees. Except as described in Section 3.5(c) of the Disclosure Memorandum, (i) there are no unfair labor practice charges pending or, to the knowledge of AEB, threatened against AEB, and (ii) there are, and in the past three (3) years there have been, no charges, complaints, claims or proceedings, pending, to the knowledge of AEB, threatened against, or involving, as the case may be, AEB with respect to any alleged violation of any wage and hour laws, age discrimination act laws, employment discrimination laws or any other claims arising out of any employment relationship as to any of AEB's employees or as to any person seeking employment therefrom, and no such violations exist. All employees and independent contractors of AEB are properly classified as such, including without limitation, the AEB Plans.

(d)

Related Party Transactions. Except for: (a) loans and extensions of credit made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions by AEB with other Persons who are not affiliated with AEB, and which do not involve more than the normal risk of repayment or present other unfavorable features; (b) deposits, all of which are on terms and conditions identical to those made available to all customers of AEB at the time such deposits were entered into; and (c) transactions specifically described in Section 3.5(d) of the Disclosure Memorandum, there are currently no contracts with or commitments to present or former five percent (5%) or greater shareholders, directors, officers, or employees involving the expenditure of more than $60,000 as to any one individual, including with respect to any business directly or indirectly controlled by any such Person, or $100,000 for all such contracts or commitments in the aggregate for all such individuals (other than contracts or commitments relating to services to be performed by any officer, director or employee as a currently-employed employee of, or service provider currently providing services for, AEB).

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3.6
Other Matters.

(a)
Approvals, Consents and Filings. Except for the Federal Reserve, the FDIC, the Georgia Department of Banking and Finance (the "GDBF") and the FOFR, or as set forth in Section 3.6(a) of the Disclosure Memorandum, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby or thereby will: (a) require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority; or (b) violate any order, writ, injunction, decree, statute, rule or regulation applicable to AEB, or any of AEB's assets.

(b)
Default.

(i)
Except for those consents described in or set forth pursuant to Section 3.6(a) above, neither the execution of this Agreement nor consummation of the transactions contemplated herein:

(1)
constitutes a breach of or default under any contract or commitment to which AEB is a party or by which any of AEB's properties or assets are bound;

(2)
does or will result in the creation or imposition of any Lien, security interest, equity or restriction of any nature whatsoever in favor of any third party upon any assets of AEB; or

(3)
constitutes an event permitting termination of any agreement or the acceleration of any indebtedness of AEB.

(ii)
AEB, to its knowledge, is not in violation of its articles of incorporation or bylaws or in default under any term or provision of any material security deed, mortgage, indenture or security agreement, or of any other material contract or instrument to which AEB is a party or by which it or any of its material properties is bound.

(c)
Representations and Warranties. No representation or warranty contained in this Article III or in any written statement delivered by or at the direction of AEB pursuant hereto or in connection with the transactions contemplated hereby contains or will contain any material untrue statement, nor will such representations and warranties taken as a whole omit any material statement necessary in order to make any statement not misleading. Copies of all documents that have been or will be furnished to Fidelity in connection with this Agreement or pursuant hereto are or shall be true, correct and complete.

(d)
Absence of Brokers. Except for Hovde Group, LLC ("Hovde"), which has provided financial advisory services to AEB, no broker, finder or other financial consultant has acted on AEB's behalf in connection with this Agreement or the transactions contemplated hereby.

(e)
Fairness Opinion. Prior to the execution of this Agreement, AEB has received an opinion from Hovde to the effect that, as of the date of such opinion and based on and subject to the matters set forth in such opinion, the Merger

Consideration is fair to the shareholders of AEB from a financial point of view. Such opinion has not been amended or rescinded as of the date of this Agreement. AEB has provided Fidelity with a true and complete copy of such opinion for informational purposes.

(f)
Takeover Laws and Provisions. AEB has taken all necessary action, if any, to render inapplicable to this Agreement, the Merger and the other transactions contemplated in this Agreement the provisions of any potentially applicable anti-takeover, control share, fair price, moratorium, interested shareholder or similar Law or, if applicable, any shareholder rights, "poison pill" agreement or similar agreement applicable with respect to AEB. No "fair price" law or AEB Certificate of Incorporation or similar AEB Bylaws provision is applicable to this Agreement and the transactions contemplated hereby.

ARTICLE IV
CONDUCT OF BUSINESS OF AEB PENDING CLOSING
Except as expressly otherwise provided herein or in the Disclosure Memorandum, AEB covenants and agrees that, without the prior written consent of Fidelity between the date hereof and the Closing Date:
4.1
Conduct of Business. AEB will conduct its business only in the ordinary course, without the creation of any indebtedness for borrowed money (other than deposit and similar accounts and customary credit arrangements between banks in the ordinary course of business).

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4.2
Maintenance of Properties. AEB will maintain its properties and assets in good operating condition, ordinary wear and tear excepted.

4.3
Insurance. AEB will maintain and keep in full force and effect all of the insurance referred to in Section 3.3(c) hereof or other insurance equivalent thereto.

4.4
Capital Structure. AEB will not make a change in the authorized or issued capital stock or other securities of AEB, and AEB will not issue or grant any right or option to purchase or otherwise acquire any of the capital stock or other securities of AEB. This Section 4.4 prohibits, without limitation, the issuance or sale by AEB of any AEB Stock to the AEB 401(k) Plan.

4.5
Dividends. No dividend, distribution or payment will be declared or made in respect to the AEB Stock, and AEB will not, directly or indirectly, redeem, purchase or otherwise acquire any of its capital stock.

4.6
Amendment of Articles of Incorporation or Bylaws; Corporate Existence. AEB will not amend its articles of incorporation or bylaws, and AEB will maintain its corporate existence and powers.

4.7
No Acquisitions. AEB shall not, without the express written consent of Fidelity, acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other entity or division thereof or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to AEB.

4.8
No Real Estate Acquisitions or Dispositions. AEB will not sell, mortgage, lease, buy or otherwise acquire, transfer or dispose of any real property or interest therein (except for sales in the ordinary course of business, including sales of other real estate owned and properties under contract at or above AEB’s carrying value as of the date hereof) and AEB will not, except in the ordinary course of business, sell or transfer, mortgage, pledge or subject to any Lien any other tangible or intangible asset.

4.9
Loans. AEB shall not make any loan or extension of credit in an amount in excess of $500,000 (excluding any loan or extension of credit of a smaller amount on an outstanding loan or line of credit in excess of $500,000), or with a term of greater than five (5) years (excluding a home equity line of credit, which shall not have a term of greater than ten (10) years), or renew or amend any existing loan or extension of credit that is characterized as “Special Mention”, “Substandard”, “Doubtful”, “Loss” in the books and records of AEB (each, a “Classified Asset”); provided, however, that, if AEB shall request the prior approval of Fidelity in accordance with this Section 4.9 to make a loan or extend credit in an amount in excess of $500,000, or amend or renew any existing loan that is a Classified Asset, and Fidelity shall not have disapproved such request in writing within five (5) business days upon receipt of such request from AEB, then such request shall be deemed to be approved by Fidelity and thus AEB may make the loan or extend the credit referenced in such request on the terms described in such request.

4.10
Banking Arrangements. No change will be made in the banking and safe deposit arrangements referred to in Section 3.2(j) hereof.

4.11
Contracts. AEB will not, without the express written consent of Fidelity, enter into, renew or cancel or terminate any contract of the kind described in Section 3.4(a) hereof.

4.12
Books and Records. The books and records of AEB will be maintained in the usual, regular and ordinary course.

4.13
Taxes and Tax Returns. AEB shall not, and shall not permit the Bank to, without the prior written consent of Fidelity (which consent shall not be unreasonably withheld, conditioned or delayed): prepare or file any Tax Return inconsistent with past practice or, on any Tax Return, take any position, make any election, or adopt any method inconsistent with positions taken, elections made or methods used in preparing or filing similar Tax Returns in prior periods; make or change any express or deemed election related to Taxes; change an annual accounting period; adopt or change any method of accounting, file an amended Tax Return; surrender any right to claim a refund of Taxes; enter into any closing agreements with respect to Tax; or consent to any extension or waiver of the limitation period applicable to any Tax proceedings relating to AEB or the Bank.

4.14

Advice of Changes.   AEB shall promptly advise Fidelity orally and in writing of any change or event having, or which could reasonably be expected to have, a Material Adverse Effect.

4.15

Reports.   AEB shall file all reports required to be filed with any regulatory or governmental agencies between the date of this Agreement and the Closing Date and shall deliver to Fidelity copies of all such reports promptly after the same are filed.

4.16

Benefit Plans and Programs; Severance or Termination Payments.   AEB shall not adopt any new benefit plans or programs or amend any existing benefit plans or programs, the effect of which is to increase benefits to employees, directors, officers or independent contractors or their descendants or beneficiaries or the liabilities of AEB or its successors. Except as disclosed on Section 3.2(m) of the Disclosure Memorandum, AEB shall not grant or institute any new severance pay, termination pay, retention pay or transaction or deal bonus or arrangement or other AEB Plan.

4.17

Limitation on Discussion with Others.

(a)

Except as set forth in this subsection, AEB shall not, and shall not authorize or permit any of its affiliates, officers, directors, employees, agents, or advisors to, directly or indirectly, solicit or entertain offers from, negotiate with or in any manner encourage, discuss, accept, or consider an Acquisition Proposal (defined below) of any other Person. In addition, AEB agrees to immediately cease and cause to be terminated any previously undertaken or ongoing activities, discussions or negotiations with any other Person with respect to any Acquisition Proposal. Furthermore, if AEB or any of its affiliates, officers, directors, employees, agents, or advisors receives any communication regarding an Acquisition Proposal between the date hereof and the Closing Date, then AEB shall immediately notify Fidelity of the receipt of such Acquisition Proposal. Notwithstanding the foregoing, prior to the requisite AEB shareholder approval, this Section 4.17 shall not prohibit AEB from furnishing nonpublic information regarding AEB to, or entering into a confidentiality agreement or discussions or negotiations with, any person or group in response to a bona fide, unsolicited written Acquisition Proposal submitted by such person or group if: (A) the Acquisition Proposal did not result from a breach of this Section 4.17 by AEB or any representative or affiliate thereof; (B) AEB’s board of directors shall have determined in good faith, after consultation with its financial advisors and outside legal counsel, that such Acquisition Proposal constitutes or is reasonably likely to result in a superior proposal; (C) AEB’s board of directors concludes in good faith, after consultation with its outside counsel, that the failure to take such action would be inconsistent with its fiduciary duties to AEB and its shareholders under applicable law; (D) (1) AEB gives Fidelity prompt (but in no event later than twenty-four (24) hours) notice (which notice may be oral, and, if oral, shall be subsequently confirmed in writing) (x) of AEB’s or any of its directors, officers, employees, representatives, agents or advisors receipt of any Acquisition Proposal (which notice shall include the identity of such person or group and the material terms and conditions of any proposals or offers (including, if applicable, copies of any written requests, proposals or offers, including proposed agreements) and (y) of AEB’s furnishing nonpublic information to, or entering into discussions or negotiations with, such person or group, and (2) AEB receives from such person or group an executed confidentiality agreement containing terms no less favorable to AEB than the confidentiality terms of the non-disclosure agreement entered into by AEB and Fidelity dated as of July 14, 2015, and (E) contemporaneously with, or promptly after, furnishing any such nonpublic information to such person or group, AEB furnishes such nonpublic information to Fidelity (to the extent such nonpublic information has not been previously furnished by AEB to Fidelity). In addition to the foregoing, AEB shall keep Fidelity reasonably informed on a prompt basis of the status and material terms of any such Acquisition Proposal, including any material amendments or proposed amendments as to price and other material terms thereof and any change in AEB’s intentions with respect to the transactions contemplated hereby.

(b)
The term “Acquisition Proposal” means (a) any proposal or offer with respect to a merger, joint venture, partnership, consolidation, dissolution, liquidation, tender offer, recapitalization, reorganization, rights offering, share exchange, business combination or similar transaction, involving AEB or any of its subsidiaries; and (b) any acquisition by any Person resulting in, or proposal or offer, which, if consummated, would result in, any Person becoming the beneficial owner, directly or indirectly, of more than ten percent (10%) of the total voting power of any class of equity securities of AEB or any of its subsidiaries, or ten percent (10%) or more of the consolidated total assets of AEB, in each case, other than the transactions contemplated by this Agreement.

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ARTICLE V

REPRESENTATIONS AND WARRANTIES OF Fidelity

As an inducement to AEB to enter into this Agreement and to consummate the transactions contemplated hereby, Fidelity represents, warrants, covenants and agrees as follows:

5.1

Corporate and Financial.

(a)

Corporate Status. Fidelity is a corporation duly organized, validly existing and in good standing under the laws of the State of Georgia. Fidelity has all of the requisite corporate power and authority and is entitled to own or lease its properties and to carry on its business in the places where such properties are now owned, leased or operated and such business is now conducted.

(b)

Authority; Enforceability.

(i)

Subject to the required regulatory approvals as stated in Section 3.6(b), and the approval of the AEB shareholders, the execution, delivery and performance of this Agreement and the other transactions contemplated or required in connection herewith will not, with or without the giving of notice or the passage of time, or both:

(1)

violate any provision of federal or state law applicable to Fidelity, the violation of which could be reasonably expected to have an adverse effect on the business, operations, properties, assets, financial condition or prospects of Fidelity;

(2)

violate any provision of the articles of incorporation or bylaws of Fidelity;

(3)

conflict with or result in a breach of any provision of, or termination of, or constitute a default under any instrument, license, agreement, or commitment to which Fidelity is a party, which, singularly or in the aggregate, could reasonably be expected to have an adverse effect on the business, operations, properties, assets, financial condition or prospects of Fidelity; or

(4)

constitute a violation of any order, judgment or decree to which Fidelity is a party, or by which Fidelity or any of its assets or properties are bound.

(ii)

Fidelity has full power and authority to enter into and perform this Agreement and the transactions contemplated hereby and thereby. The execution, delivery, performance and terms of this Agreement by Fidelity and the consummation by Fidelity of the transactions contemplated hereby and thereby have been duly and validly approved by Fidelity, including all necessary action by the board of directors of Fidelity. No other corporate proceedings are necessary on the part of Fidelity to authorize the execution, delivery, and performance of this Agreement by Fidelity and the consummation by Fidelity of the transactions contemplated hereby. Assuming this Agreement constitutes the valid and binding obligation of AEB, this Agreement constitutes the valid and binding obligation of Fidelity, and is enforceable in accordance with its terms, except as limited by the General Enforceability Exceptions.

5.2

Disclosure Reports.   Fidelity has a class of securities registered pursuant to Section 12(g) of the 1934 Act. Fidelity's (a) Annual Report on Form 10-K for its fiscal year ended December 31, 2014; (b) Proxy Statement for its 2015 Annual Meeting of Shareholders; (c) Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 2015; and (d) other reports filed by Fidelity pursuant to Sections 13(a) or 15(d) of the Exchange Act since December 31, 2014 (collectively, the "Fidelity SEC Reports"), taken together, correctly describe, among other things, the business, operations and principal properties of Fidelity in accordance with the requirements of the applicable report forms of the SEC. As of the respective dates of filing (or, if amended or superseded by a filing prior to the date of this Agreement, then on the date of such amended or superseded filing), none of the Fidelity SEC Reports contained any untrue statement of a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

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5.3
Business Operations.

(a)
Permits; Compliance with Law.

(i)
Fidelity has all Permits required for Fidelity to carry on its business as presently conducted except where the failure to obtain such Permits could not reasonably be expected to have a Material Adverse Effect. Fidelity is in compliance with the terms and conditions of each such Permit and has received no written notice that it is in violation of any of the terms or conditions of such Permits.

(ii)
Fidelity has complied with all laws, regulations, ordinances, rules, and orders applicable to it or its business, except for any non-compliance which could not reasonably be expected to have a Material Adverse Effect. No past violation of any such law, regulation, ordinance, rule or order has occurred which could impair the right or ability of Fidelity to conduct its business.

(iii)
No notice, inquiry or warning from any governmental authority with respect to any failure or alleged or possible failure of Fidelity to comply in any respect with any law, regulation, ordinance, rule or order has been received, nor, to the knowledge of Fidelity, is any such notice or warning proposed or threatened.

(b)
Environmental.

(i)
Fidelity has not caused or permitted the generation, manufacture, use, or handling or the release or presence of, any Hazardous Material on, in, under or from any properties or facilities currently owned or leased by Fidelity or, to its knowledge, adjacent to any properties so owned or leased that requires notification, investigation or remediation pursuant to any environmental law.

(ii)
There are no non-compliance orders, warning letters or notices of violations, actions, suits or other claims asserted or, to its knowledge, threatened against Fidelity or administrative or judicial investigations arising from or relating to the environmental condition of any property currently owned or leased by Fidelity or the generation, manufacture, use, or handling or the release or presence of, any Hazardous Material at any property currently owned or leased by Fidelity.

(iii)
Fidelity has complied in all material respects with, and has kept all records and made all filings or reports required by, and is otherwise in compliance with all applicable federal, state and local laws, regulations, orders, permits and licenses relating to the generation, treatment, manufacture, use, handling, release or presence of any Hazardous Material on, in, under or from any properties or facilities currently owned or leased by Fidelity.

(iv)
The improvements on the property owned or leased by Fidelity are free from the presence or growth of mold, fungi, spores or bacteria that could be reasonably expected to cause property damage or personal injury, and the improvements on the property owned or leased by Fidelity are, and have been, reasonably free of conditions that could lead to the growth or presence of mold, fungi, spores or bacteria, including, without limitation, air conditioner malfunction, water intrusion, water leaks, sewage backflows and construction defects.

(v)
There are not now nor have there ever been any underground storage tanks for the storage of Hazardous Material on, in or under any properties or facilities currently owned or leased by Fidelity.

(vi)
Neither Fidelity nor, to the knowledge of Fidelity, any of its officers, directors, employees or agents, in the course of such individual's employment by Fidelity, has given advice with respect to, or participated in any respect in, the management or operation of any entity or concern regarding the generation, storage, handling, disposal, transfer, production, use or processing of Hazardous Material.

(vii)
To the knowledge of Fidelity, Fidelity has not foreclosed on any property on which there is a threatened release of any Hazardous Material or on which there has been a release and remediation has not been completed to the extent required by environmental laws.

(viii)
Neither Fidelity nor any of its executive officers or directors is aware of, has been told of, or has observed, the presence of any Hazardous Material on, in, under, or around property on which Fidelity holds a legal or security interest, in violation of, or creating a liability under, federal, state, or local environmental statutes, regulations, or ordinances.

5.4
Enforcement Actions. Neither Fidelity nor any of its subsidiaries is subject to any Regulatory Agreement that restricts the conduct of its business or that in any manner relates to its capital adequacy, its credit policies, its management or its business, nor has Fidelity or any of its subsidiaries been advised by the Federal Reserve, GDBF, or any other applicable regulatory or governmental agency that it is considering issuing or requesting any Regulatory Agreement.

5.5
Approvals. Fidelity knows of no reason why all regulatory approvals required for the consummation of the transactions contemplated by this Agreement should not be obtained.

5.6
Representations and Warranties. No representation or warranty contained in this Article V or in any written statement delivered by or at the direction of Fidelity pursuant hereto or in connection with the transactions contemplated hereby contains or will contain any untrue statement, nor will such representations and warranties taken as a whole omit any statement necessary in order to make any statement not misleading. Copies of all documents that have been or will be furnished to AEB in connection with this Agreement or pursuant hereto are or shall be true, correct and complete.

5.7
Other Matters.

(a)
Approvals, Consents and Filings. Except for the Federal Reserve, the FDIC, the GDBF and the FOFR, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby or thereby will: (a) require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority; or (b) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Fidelity, or any of Fidelity's assets.

(b)
Absence of Brokers. Except for FIG Partners LLC, which has provided financial advisory services to Fidelity, no broker, finder or other financial consultant has acted on Fidelity's behalf in connection with this Agreement or the transactions contemplated hereby.

ARTICLE VI
CONDITIONS TO OBLIGATIONS OF FIDELITY

All of the obligations of Fidelity under this Agreement are subject to the fulfillment prior to or at the Closing Date of each of the following conditions, any one or more of which may be waived by Fidelity:

6.1
Veracity of Representations and Warranties. The representations and warranties of AEB contained herein shall be true and correct in all respects (without giving effect to any limitation as to "materiality" or "Material Adverse Effect" set forth therein) as of the date of this Agreement and at and as of the Closing Date as though made at and as of the Closing Date (unless any such representation or warranty is made only as of a specific date, in which case as of such specific date), except, at each such time, as a result of changes or events expressly permitted or contemplated herein or where the failure to be so true and correct (without giving effect to any limitation as to "materiality" or "Material Adverse Effect" set forth therein), either individually or in the aggregate, is not reasonably likely to have a Material Adverse Effect.

6.2

Performance of Agreements. AEB shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it prior to or on the Closing Date.

6.3

Compliance by AEB Executive Officers, Directors and Shareholders. The executive officers and directors of AEB shall have complied in full with the requirements of Section 2.10 hereof. Additionally, AEB shall have used its best efforts to obtain an agreement in the form attached hereto as Exhibit B from any beneficial owner of five percent (5%) or more of the issued and outstanding shares of AEB Stock who is not an executive officer or director of AEB.

6.4

Certificates, Resolutions, Opinion. AEB shall have delivered to Fidelity:

(a)

a certificate executed by the Chief Executive Officer or President of AEB, dated as of the Closing Date, and certifying in such detail as Fidelity may reasonably request to the fulfillment of the conditions specified in Section 6.1 and Section 6.2 hereof;

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(b)
a certificate executed by the Secretary of AEB, dated as of the Closing Date, certifying and attesting to the: (i) articles of incorporation of AEB, as amended; (ii) bylaws of AEB; and (iii) duly adopted resolutions of the Board of Directors and shareholders of AEB (1) authorizing and approving the execution of this Agreement and the consummation of the transactions contemplated herein in accordance with its terms; and (2) authorizing all other necessary and proper corporate action to enable AEB to comply with the terms hereof;

(c)
a certificate executed by the Secretary or equivalent officer of the Bank, dated as of the Closing Date, certifying and attesting to the: (i) articles of incorporation of the Bank; (ii) bylaws of the Bank; and (iii) duly adopted resolutions of the Board of Directors and sole shareholder of the Bank (1) authorizing and approving the execution of the Bank Merger Agreement and the consummation of the transactions contemplated therein; and (2) authorizing all other necessary and proper corporate action to enable the bank to comply with the terms thereof;

(d)
a certificate of the valid existence of AEB and the Bank under the laws of the State of Florida, executed by the Florida Secretary of State, and dated not more than ten (10) business days prior to the Closing Date; and

(e)
an opinion of Smith, Gambrell & Russell, LLP, counsel for AEB, dated the Closing Date, in the form attached hereto as Exhibit C.

6.5
Tax Opinion.   Fidelity shall have received the written opinion of its counsel, Troutman Sanders LLP, in form and substance reasonably satisfactory to Fidelity, on the basis of facts, representations and assumptions set forth in such opinion and dated the Closing Date, to the effect that the Merger will be treated as a “reorganization” described in Section 368(a) of the Code. In rendering such opinion, counsel may require and rely upon representations contained in letters or certificates of officers of Fidelity and AEB, reasonably satisfactory in form and substance to it.

6.6
Accountants’ Letter.   Fidelity shall have received a letter from Saltmarsh, Cleaveland & Gund dated the Closing Date, to the effect that: At the request of AEB they have carried out procedures to a specified date not more than five (5) business days prior to the Closing Date, which procedures did not constitute an examination in accordance with generally accepted auditing standards, of the financial statements of AEB, as follows:

(a)
read the unaudited consolidated balance sheets, consolidated statements of earnings, consolidated statements of cash flows, consolidated statements of comprehensive income and consolidated statements of changes in shareholders’ equity, of AEB from December 31, 2014 or the most recent year end, through the date of the most recent monthly financial statements available in the ordinary course of business; and

(b)
consulted with certain officers and employees of AEB responsible for financial and accounting matters and, based on such procedures, nothing has come to their attention which would cause them to believe that:

(i)
such unaudited financial statements are not fairly presented in conformity with GAAP;

(ii)

as of said date not more than five (5) business days prior to the Closing Date, the shareholders’ equity, long-term debt, reserve for possible loan losses and total assets of AEB, in each case as compared with the amounts shown in the December 31, 2014 AEB Financial Statements or most recent year end AEB Financial Statements, are not different except as set forth in such letter, or

(iii)
for the period from December 31, 2014 or the most recent year end, to said date not more than five (5) business days prior to the Closing Date, the net interest income, total and per-share amounts of consolidated income and net income of AEB, as compared with the corresponding portion of the preceding twelve (12) month period, are not different except as set forth in such letter.

6.7
Memorandum of Understanding.   That certain Memorandum of Understanding dated December 19, 2013 between the FDIC and the Bank shall have been terminated prior to the closing of the transactions contemplated by this Agreement.

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ARTICLE VII

CONDITIONS TO OBLIGATIONS OF AEB

All of the obligations of AEB under this Agreement are subject to the fulfillment prior to or at the Closing Date of each of the following conditions, any one or more of which may be waived by it:

7.1

Veracity of Representations and Warranties. The representations and warranties of Fidelity contained herein shall be true and correct in all respects (without giving effect to any limitation as to "materiality" set forth therein) as of the date of this Agreement and at and as of the Closing Date as though made at and as of the Closing Date, except, at each such time, as a result of changes or events expressly permitted or contemplated herein or where the failure to be so true and correct (without giving effect to any limitation as to "materiality" set forth therein), either individually or in the aggregate, is not reasonably likely to have a material adverse effect on the business, operations or financial condition of Fidelity on a consolidated basis, or prevent or impair, or would be reasonably likely to prevent or impair, the ability of Fidelity to timely consummate the transactions contemplated hereby or to perform its agreements or covenants hereunder.

7.2

Performance of Agreements. Fidelity shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it prior to or at the Closing Date.

7.3

Certificates, Resolutions, Opinion. Fidelity shall have delivered to AEB:

(a)

a certificate executed by an executive officer of Fidelity, dated the Closing Date, certifying in such detail as AEB may reasonably request to the fulfillment of the conditions specified in Section 7.1 and Section 7.2 hereof;

(b)

a certificate executed by the Secretary or an Assistant Secretary of Fidelity, dated as of the Closing Date, certifying and attesting to the: (i) articles of incorporation of Fidelity; (ii) bylaws of Fidelity; and (iii) duly adopted resolutions of the board of directors of Fidelity (1) authorizing and approving the execution of this Agreement on behalf of Fidelity, and the consummation of the transactions contemplated herein in accordance with its terms; and (2) authorizing all other necessary and proper corporate actions to enable Fidelity to comply with the terms hereof; and

(c)

a certificate of the valid existence of Fidelity and Fidelity Bank, under the laws of the State of Georgia, executed by the Georgia Secretary of State, and dated not more than ten (10) business days prior to the Closing Date.

7.4

Tax Opinion. AEB shall have received the written opinion of its counsel Smith, Gambrell, & Russell, LLP, in form and substance reasonably satisfactory to AEB, on the basis of facts, representations and assumptions set forth in such opinion and dated the Closing Date, to the effect that the Merger will be treated as a "reorganization" described in Section 368(a) of the Code. In rendering such opinion, counsel may require and rely upon representations contained in letters or certificates of officers of Fidelity and AEB, reasonably satisfactory in form and substance to it.

ARTICLE VIII

CONDITIONS TO OBLIGATIONS OF BOTH PARTIES

All of the obligations of both parties under this Agreement are subject to the fulfillment prior to or at the Closing Date of each of the following conditions, any one or more of which may be waived by the parties:

8.1

Shareholder Approval. This Agreement shall have been approved by the vote of the holders of at least a majority of the issued and outstanding shares of AEB Stock.

8.2
Regulatory Approvals. Any and all governmental authorities, bodies or agencies having jurisdiction over the transactions contemplated by this Agreement and the Bank Merger Agreement, including, but not limited to the Federal Reserve, the FDIC, the GDBF and the FOFR shall have granted such consents, authorizations and approvals as are necessary for the consummation hereof and thereof, and all applicable waiting or similar periods required by law shall have expired.

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8.3

No Injunctions or Restraints; Illegality. No order, injunction, decree or judgment preventing the consummation of the Merger or the other transactions contemplated by this Agreement issued by any court or governmental body or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger or the other transactions contemplated by this Agreement shall be in effect. No statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any governmental entity which prohibits or makes illegal consummation of the Merger.

8.4

Effective Registration Statement. The Fidelity Registration Statement shall have been declared effective by the SEC and no stop order shall have been entered with respect thereto.

ARTICLE IX

WARRANTIES AND SURVIVAL

9.1

Warranties. All statements contained in any certificate or other instrument delivered by or on behalf of AEB or Fidelity pursuant hereto or in connection with the transactions contemplated hereby shall be deemed representations and warranties hereunder by them. Unless the context otherwise requires, the representations and warranties required of AEB shall be required to be made, and shall be considered made, on behalf of AEB and the Bank.

9.2

Survival of Provisions. All representations, warranties, covenants, and agreements made by either party hereto in or pursuant to this Agreement or in any instrument, exhibit, or certificate delivered pursuant hereto shall be deemed to have been material and to have been relied upon by the party to which made, but, except as set forth hereafter or specifically stated in this Agreement, such representations, warranties, covenants, and agreements shall expire and be of no further force and effect upon the consummation of the Merger; provided, however, that the following shall survive consummation of the Merger and the transactions contemplated hereby:

(a)

any intentional misrepresentation of any material fact made by either party hereto in or pursuant to this Agreement or in any instrument, document or certificate delivered pursuant hereto;

(b)

the covenants with respect to the confidentiality of certain information contained in Section 2.5 hereof, with respect to tail coverage contained in Section 2.13 hereof; and

(c)

the representations and warranties of AEB and the Bank contained in Article 3.2(f) hereof.

ARTICLE X

TERMINATION

10.1

Change in Fidelity Stock Price. This Agreement may be terminated by AEB, if the Board of Directors of AEB so determines by a vote of the majority of the members of the entire AEB Board of Directors, at any time during the five-day period commencing with the fifth trading day immediately preceding the Effective Date (the “Determination Date”), if both of the following conditions are satisfied:

(a)

The number obtained by dividing the average of the daily closing prices for the shares of Fidelity Stock for the twenty (20) consecutive full trading days on which such shares are actually traded on the NASDAQ (as reported by The Wall

Street Journal ending on the Determination Date) (the “Average Closing Price”) by the Starting Price (as defined below) (the “Fidelity Ratio”) shall be less than 0.85; and

(b)
the Fidelity Ratio shall be less than 0.85 of the quotient of (x) the Final Index Price divided by (y) the Index Price on the Starting Date (each as defined below) (the “Index Ratio”);

provided, however, if AEB elects to exercise its termination right pursuant to this Section 10.1, it shall give prompt written notice to Fidelity (and provided that such notice of election to terminate may be withdrawn at any time within the aforementioned five-day period). During the five-day period commencing with receipt of such notice, Fidelity shall have the option to increase the consideration to be received by the holders of AEB Stock hereunder by increasing the Exchange Ratio (calculated to the nearest one one-thousandth) or making a cash payment of all or part of the increase so that the value of the Per Share Purchase Price (calculated on the basis of the Average Closing Price) to be received by each holder of AEB Stock equals the lesser of:

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(i)
the product of the Starting Price, 0.85 and the Exchange Ratio (as in effect immediately prior to any increase in the Exchange Ratio pursuant to this Section 10.1(b)(i); and

(ii)
an amount equal to (1) the product of the Index Ratio, 0.85, the Exchange Ratio (as in effect immediately prior to any increase in the Exchange Ratio pursuant to this Section 10.1(b)(i)), and the Average Closing Price, divided by (2) the Fidelity Ratio.

If Fidelity so elects within such five-day period, it shall give prompt written notice to AEB of such election and the revised Exchange Ratio whereupon no termination shall have occurred pursuant to this Section 10.1 and this Agreement shall remain in effect in accordance with its terms, provided that any references in this Agreement to the “Exchange Ratio” shall thereafter be deemed to refer to the Exchange Ratio as increased pursuant to this Section 10.1.
For purposes of this Section 10.1, the following terms shall have the meanings indicated:
“Final Index Price” shall mean the average of the Index Prices for the twenty (20) consecutive full trading days ending on the trading day prior to the Determination Date.
“Index Group” shall mean the NASDAQ Bank Index.
“Index Price” shall mean the closing price on such date of the Index Group.
“Starting Date” shall mean the last trading day immediately preceding the date of the first public announcement of entry into this Agreement.
“Starting Price” shall mean the closing price of a share of Fidelity Stock on the NASDAQ (as reported in The Wall Street Journal or, if not reported therein, in another authoritative source) on the Starting Date.

10.2
Material Adverse Change.

(a)
This Agreement may be terminated at any time prior to or on the Closing Date by Fidelity upon written notice to AEB, if, after the date hereof, a Material Adverse Effect shall have occurred, or if AEB shall have suffered a material loss or damage to any of its properties or assets, which change, loss or damage materially affects or impairs its ability to conduct its business.

(b)
This Agreement may be terminated at any time prior to or on the Closing Date by AEB upon written notice to Fidelity, if, after the date hereof, a material adverse change in the business, operations or financial condition of Fidelity on a consolidated basis shall have occurred which change would reasonably be expected to have a material adverse effect on the market price of Fidelity Stock or materially affects or impairs its ability to conduct its business.

10.3
Noncompliance.

(a)
This Agreement may be terminated at any time prior to or on the Closing Date by Fidelity upon written notice to AEB, (i) if the terms, covenants or conditions of this Agreement to be complied with or performed by AEB before the Closing shall not have been substantially complied with or substantially performed at or before the Closing Date and such noncompliance or nonperformance shall not have been waived by Fidelity; or (ii) in the event of a material breach by AEB of any covenant, agreement, or obligation contained in this Agreement which breach has not been cured within twenty (20) days after the giving of written notice by Fidelity of such breach or, if such breach is not capable of being cured within twenty (20) days, AEB has not begun to cure such breach within twenty (20) days after such written notice; provided, however, that in no event shall the cure periods provided in this Section 10.3 extend past the time period in Section 10.6 or otherwise limit Fidelity’s rights thereunder.

(b)
This Agreement may be terminated at any time prior to or on the Closing Date by AEB upon written notice to Fidelity, (i) if the terms, covenants or conditions of this Agreement to be complied with or performed by Fidelity before the Closing shall not have been substantially complied with or substantially performed at or before the Closing Date and such noncompliance or nonperformance shall not have been waived by AEB; or (ii) in the event of a material breach by Fidelity of any covenant, agreement, or obligation contained in this Agreement which breach has not been cured within twenty (20) days after the giving of written notice by AEB of such breach or, if such breach is not capable of being cured within

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twenty (20) days, Fidelity has not begun to cure such breach within twenty (20) days after such written notice; provided, however, that in no event shall the cure periods provided in this Section 10.3 extend past the time period in Section 10.6 or otherwise limit AEB's rights thereunder.

10.4
Failure to Disclose. This Agreement may be terminated at any time prior to or on the Closing Date by Fidelity upon written notice to AEB, if it learns of any fact or condition not disclosed in this Agreement, the Disclosure Memorandum, or the AEB Financial Statements, which was required to be disclosed by AEB pursuant to the provisions of this Agreement with respect to the business, properties, assets or earnings of AEB which materially and adversely affects such business, properties, assets or earnings or the ownership, value or continuance thereof.

10.5
Regulatory Approval. This Agreement may be terminated at any time prior to or on the Closing Date by either party upon written notice to the other party, if any regulatory approval required to be obtained pursuant to Section 8.2 has been denied by the relevant governmental entity or any governmental entity of competent jurisdiction shall have issued a final, nonappealable injunction permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement.

10.6
Termination Date. This Agreement may be terminated at any time prior to or on the Closing Date by either party upon written notice to the other party, if the Closing Date shall not have occurred on or before April 30, 2016, unless otherwise agreed to in writing by the parties.

10.7
Shareholder Vote. This Agreement may be terminated at any time prior to or on the Closing Date by either party upon written notice to the other party, if this Agreement is not approved by any required vote of the holders of AEB Stock as required by applicable law.

10.8
Acquisition Proposal. If, while an Acquisition Proposal is outstanding or after such an offer has been accepted, (i) either party terminates this Agreement pursuant to Section 10.6, (ii) AEB terminates this Agreement other than pursuant to Section 10.1(b) or Section 10.2(b), or (iii) Fidelity terminates this Agreement, then AEB shall pay, or cause to be paid to Fidelity, at the time of the termination of this Agreement, an amount equal to $1.0 million (the "Termination Fee"), which shall be the sole and exclusive remedy of Fidelity for all claims under this Agreement.

10.9
Effect of Termination. Except as set forth in this Section 10.9, in the event of the termination of this Agreement pursuant to this Article X, this Agreement shall become void and have no effect, and neither party shall have any liability of any nature whatsoever under this Agreement or in connection with the transactions contemplated by this Agreement except that (i) the provisions of this Article X and Section 2.5 shall survive any such termination and (ii) such termination shall not relieve any party from liability arising from any willful breach of any provision of this Agreement.

10.10
Dissenters. This Agreement may be terminated at any time prior to or on the Closing Date by Fidelity upon written notice to AEB, if the holders of more than ten percent (10%) of the shares of outstanding AEB Stock elect to exercise their statutory right to dissent from the Merger.

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ARTICLE XI

MISCELLANEOUS

11.1

Notices. All notices or other communications required or permitted to be given or made hereunder shall be in writing and delivered personally or sent by e-mail transmission and by mailing a copy thereof to the recipient on the date of such e-mail to the intended recipient thereof at its e-mail address and address set out below. Any such notice or communication shall be deemed to have been duly given immediately. Either party may change the e-mail address or address to which notices or other communications to such party shall be delivered or mailed by giving notice thereof to the other party hereto in the manner provided herein.

To Fidelity:	To AEB:
Fidelity Southern Corporation 3490 Piedmont Road NE, Suite 1550 Atlanta, GA 30305 Attention: H. Palmer Proctor, Jr. Facsimile: 404.814.8060 E-mail: palmer.proctor@lionbank.com	American Enterprise Bankshares, Inc. 10611 Deerwood Park Blvd. Jacksonville, FL 32256 Attention: Bennett Brown Facsimile: _______________ E-mail: bbrown@aebfl.com
With a copy to:	With a copy to:
Troutman Sanders LLP 600 Peachtree Street NE, Suite 5200 Atlanta, GA 30308 Attention: James W. Stevens Facsimile: 404.962.6501 E-mail: james.stevens@troutmansanders.com	Smith, Gambrell, & Russell LLP 1230 Peachtree Street NE, Suite #3100 Atlanta, GA 30309 Attention: Robert Schwartz Facsimile: 404.685.7058 E-mail: rschwartz@sgrlaw.com

11.2

Entire Agreement. This Agreement and the Bank Merger Agreement supersede all prior discussions and agreements between AEB and Fidelity with respect to the Merger and the other matters contained herein and therein, and this Agreement and the Bank Merger Agreement contain the sole and entire agreement between AEB and Fidelity with respect to the transactions contemplated herein and therein.

11.3

Waiver; Amendment. Prior to or on the Closing Date, Fidelity shall have the right to waive any default in the performance of any term of this Agreement by AEB, to waive or extend the time for the fulfillment by AEB of any or all of AEB’s obligations under this Agreement, and to waive any or all of the conditions precedent to the obligations of Fidelity under this Agreement, except any condition which, if not satisfied, would result in the violation of any law or applicable governmental regulation. Prior to or on the Closing Date, AEB shall have the right to waive any default in the performance of any term of this Agreement by Fidelity, to waive or extend the time for the fulfillment by Fidelity of any or all of Fidelity’s obligations under this Agreement, and to waive any or all of the conditions precedent to the obligations of AEB under this Agreement, except any condition which, if not satisfied, would result in the violation of any law or applicable governmental regulation. This Agreement may be amended by a subsequent writing signed by the parties hereto, provided, however, that the provisions of Section 8.2 requiring regulatory approval shall not be amended by the parties hereto without regulatory approval. An amendment to this Agreement may be made after shareholder approval of this Agreement has been obtained; provided, that after any such approval by the holders of AEB Stock, no amendment shall be made that reduces or modifies in any respect the consideration to be received by holders of AEB Stock.

11.4

Counterparts. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. The headings herein set out are

for convenience of reference only and shall not be deemed a part of this Agreement. This Agreement may be executed by facsimile, photo or electronic signature and such facsimile, photo or electronic signature shall constitute an original for all purposes.

11.5

No Third Party Beneficiaries.   No provision of this Agreement shall be deemed to create any third party beneficiary rights in anyone, including any employee or former employee of AEB (including any beneficiary or dependent thereof).

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11.6
Binding Effect; Assignment. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that this Agreement may not be assigned by either party without the prior written consent of the other party.

11.7
Governing Law. The validity and effect of this Agreement and the Bank Merger Agreement and the rights and obligations of the parties hereto and thereto shall be governed by and construed and enforced in accordance with the laws of the State of Georgia.

11.8
Jurisdiction. The parties expressly agree and acknowledge that the State of Georgia has a reasonable relationship to the parties and/or this Agreement. Each party hereto hereby irrevocably waives, to the fullest extent permitted by law, (a) any objection that it may now or hereafter have to laying venue of any suit, action or proceeding brought in such court, (b) any claim that any suit, action or proceeding brought in such court has been brought in an inconvenient forum, and (c) any defense that it may now or hereafter have based on lack of personal jurisdiction in such forum.

11.9
WAIVER OF JURY TRIAL. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE EXTENT PERMITTED BY LAW AT THE TIME OF INSTITUTION OF THE APPLICABLE LITIGATION, ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT: (I) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER; (II) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (III) EACH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (IV) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 11.9.

11.10
Interpretation. For the purposes of this Agreement, (a) words in the singular shall be held to include the plural and vice versa and words of one gender shall be held to include the other gender as the context requires; (b) the terms “hereof,” “herein,” and “herewith” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole (including all of the Schedules and Exhibits to this Agreement) and not to any particular provision of this Agreement, and Article, Section, paragraph, Schedule and Exhibit references are to the Articles, Sections, paragraphs, Schedules and Exhibits to this Agreement unless otherwise specified; (c) whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation;” (d) the word “or” shall not be exclusive; and (e) all references to any period of days shall be deemed to be to the relevant number of calendar days unless otherwise specified. It is understood and agreed that the specification of any dollar amount in the representations and warranties contained in this Agreement or the inclusion of any specific item in the Disclosure Memorandum is not intended to imply that such amounts or higher or lower amounts, or the items so included or other items, are or are not material, and neither party shall use the fact of the setting of such amounts or the fact of the inclusion of any such item in the Disclosure Memorandum in any dispute or controversy between the parties as to whether any obligation, item or matter not described in this Agreement or included in the Disclosure Memorandum is or is not material for purposes of this Agreement. This Agreement shall not be interpreted or construed to require any party or other Person to take any action, or fail to take any action, if to do so would violate

applicable law.

[Signature Page Follows]

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IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its duly authorized officers as of the day and year first above written.

FIDELITY SOUTHERN CORPORATION

By:

/s/ H. Palmer Proctor, Jr.

H. Palmer Proctor, Jr.

President

AMERICAN ENTERPRISE BANKSHARES, INC.

By:

/s/ Bennett Brown

Name:

Bennett Brown

Title:

President

[Signature Page to Agreement and Plan of Merger]

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EXHIBIT A

FORM OF AGREEMENT AND PLAN OF MERGER

(the Bank Merger Agreement)

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement") is made and entered into as of this [___] day of [_______], 2015, by and between FIDELITY BANK, a Georgia bank ("Fidelity Bank"), and AMERICAN ENTERPRISE BANK OF FLORIDA, a Florida bank (the "Bank", and together with Fidelity Bank, the "Constituent Banks").

WHEREAS, American Enterprise Bankshares, Inc., a Florida corporation ("AEB"), and Fidelity Southern Corporation, a Georgia corporation ("Fidelity"), entered into that certain Agreement and Plan of Merger dated as of the date hereof (the "Merger Agreement"), which provides for the merger of AEB with and into Fidelity (the "Parent Merger");

WHEREAS, the respective boards of directors of the Constituent Banks deem it advisable and in the best interests of each such bank and its shareholders that the Bank merge with and into Fidelity Bank, with Fidelity Bank being the surviving bank; and

WHEREAS, the respective boards of directors of the Constituent Banks, by resolutions duly adopted, have unanimously approved and adopted this Agreement and directed that it be submitted to the sole shareholder of each of the Bank and Fidelity Bank for their approval;

NOW, THEREFORE, in consideration of the above and the mutual warranties, representations, covenants, and agreements set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the Parties, intending to be legally bound, agree as follows:

1. Merger.

Pursuant to and with the effects provided in the applicable provisions of Article 1, Part 10 of the Financial Institutions Code of Georgia (the "Georgia Code") and Chapters 655 and 658 of the Florida Financial Institutions Code (the "Florida Code"), the Bank (sometimes referred to as the "Merged Bank") shall be merged with and into Fidelity Bank (the "Bank Merger"). Fidelity Bank shall be the surviving bank (the "Surviving Bank") and shall continue under the name "Fidelity Bank". At the Effective Time (as defined herein) of the Bank Merger, the individual existence of the Merged Bank shall cease and terminate.

2. Actions to be Taken.

The acts and things required to be done by the Georgia Code in order to make this Agreement effective, including the submission of this Agreement to the shareholders of the Constituent Banks and the filing of the articles of merger relating hereto in the manner provided in said Georgia Code, shall be attended to and done by the proper officers of the Constituent Banks with the assistance of counsel as soon as practicable.

3. Effective Time.

The Bank Merger shall be effective upon the approval of this Agreement by the shareholder of Merged Bank and the filing of the articles of merger in the manner provided in the Georgia Code (the "Effective Time"). The Bank Merger shall not be effective prior to the effective time of the Parent Merger.

4. Articles of Incorporation and Bylaws of the Surviving Bank.

(a) The Articles of Incorporation of Fidelity Bank, as heretofore amended, as in effect at the Effective Time shall be the Articles of Incorporation of the Surviving Bank.

(b) Until altered, amended or repealed, as therein provided, the Bylaws of Fidelity Bank as in effect at the Effective Time shall be the Bylaws of the Surviving Bank.

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5. Directors.

Upon the Bank Merger contemplated herein becoming effective, the directors of the Surviving Bank shall be the individuals set forth on Attachment 1 hereto. Said persons shall hold office until the next annual meeting of the shareholder of the Surviving Bank and until their successors are elected in accordance with the Bylaws of the Surviving Bank. If at the Effective Time any vacancy shall exist on the Board of Directors of the Surviving Bank, such vacancy shall be filled in the manner specified in the Bylaws of the Surviving Bank.

6. Cancellation of Shares of Merged Bank; Capital Structure of the Surviving Bank.

(a) At the Effective Time, each share of the Merged Bank's common stock, $5.00 par value per share (the "Bank Stock") outstanding at the Effective Time shall be cancelled.

(b) At the Effective Time, each share of the Surviving Bank's common stock, par value $10.00 per share, issued and outstanding immediately prior to the Effective Time shall remain outstanding.

7. Termination of Separate Existence.

At the Effective Time, the separate existence of the Merged Bank shall cease and the Surviving Bank shall possess all of the rights, privileges, immunities, powers and franchises, as well of a public nature as of a private nature, of each of the Constituent Banks; and all property, real, personal and mixed, and all debts due on whatever account, and all other choses in action, and all and every other interest of or belonging to or due to each of the Constituent Banks shall be taken and deemed to be vested in the Surviving Bank without further act or deed, and the title to any real estate or any interest therein, vested in either of the Constituent Banks shall not revert or be in any way impaired by reason of the Bank Merger. The Surviving Bank shall thenceforth be responsible and liable for all the liabilities, obligations and penalties of each of the Constituent Banks; and any claim existing or action or proceeding, civil or criminal, pending by or against either of said Constituent Banks may be prosecuted as if the Bank Merger had not taken place, or the Surviving Bank may be substituted in its place, and any judgment rendered against either of the Constituent Banks may thenceforth be enforced against the Surviving Bank; and neither the rights of creditors nor any liens upon the property of either of the Constituent Banks shall be impaired by the Bank Merger.

8. Further Assignments.

If at any time the Surviving Bank shall consider or be advised that any further assignments or assurances in law or any other things are necessary or desirable to vest in said bank, according to the terms hereof, the title to any property or rights of the Merged Bank, the proper officers and directors of the Merged Bank shall and will execute and make all such proper assignments and assurances and do all things necessary and proper to vest title in such property or rights in the Surviving Bank, and otherwise to carry out the purposes of this Agreement.

9. Condition Precedent to Consummation of the Merger.

This Agreement is subject to, and consummation of the Bank Merger is conditioned upon, the consummation of the Parent Merger and the fulfillment as of the Effective Time of approval of this Agreement by the affirmative vote of Fidelity, as sole shareholder of Fidelity Bank, and AEB, as sole shareholder of the Bank.

10. Termination.

This Agreement may be terminated and the Bank Merger abandoned at any time before or after adoption of this Agreement by the directors of either of the Constituent Banks, notwithstanding favorable action on the Bank Merger by the shareholder of the Merged Bank, but not later than the issuance of the certificate of merger by the Secretary of State of Georgia or the Secretary of State of Florida with respect to the Bank Merger in accordance with the provisions of the Georgia Code or the Florida Code, as applicable. This Agreement shall automatically be terminated upon a termination of the Merger Agreement pursuant to Article IX thereof.

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11. Counterparts; Title; Headings.

This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument. The title of this Agreement and the headings herein set out are for the convenience of reference only and shall not be deemed a part of this Agreement.

12. Amendments; Additional Agreements.

At any time before or after approval and adoption by the shareholder of the Bank, this Agreement may be modified, amended or supplemented by additional agreements, articles or certificates as may be determined in the judgment of the respective Boards of Directors of the Constituent Banks to be necessary, desirable or expedient to further the purposes of this Agreement, to clarify the intention of the parties, to add to or modify the covenants, terms or conditions contained herein or to effectuate or facilitate any governmental approval of the Bank Merger or this Agreement, or otherwise to effectuate or facilitate the consummation of the transactions contemplated hereby; provided, however, that no such modification, amendment or supplement shall reduce to any extent the consideration into which shares of the Bank Stock shall be converted in the Bank Merger pursuant to Section 6 hereof.

[Signature Page Follows]

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IN WITNESS WHEREOF, each of the Constituent Banks has caused this Agreement to be executed on its behalf as of the day and year first above written.

FIDELITY BANK

By:

H. Palmer Proctor, Jr.

President

AMERICAN ENTERPRISE BANK OF FLORIDA

By:

Name:

Title:

[Signature Page to Bank Agreement and Plan of Merger]

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Attachment 1

Directors of the Surviving Bank

James B. Miller, Jr.
David R. Bockel
Wm. Millard Choate
Kevin S. King
William C. Lankford, Jr.
H. Palmer Proctor, Jr.
W. Clyde Shepherd III
Rankin M. Smith, Jr.
Donald A. Harp, Jr.

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EXHIBIT B

FORM OF VOTING AGREEMENT

[ ], 2015

Fidelity Southern Corporation
3490 Piedmont Road NE, Suite 1550
Atlanta, GA 30305

Ladies and Gentlemen:

To induce you to agree to the proposed merger (the “Merger”) of AMERICAN ENTERPRISE BANKSHARES, INC., a Florida corporation (“AEB”), with and into FIDELITY SOUTHERN CORPORATION, a Georgia corporation (“Fidelity”), pursuant to the Agreement and Plan of Merger of even date herewith, by and between AEB and Fidelity (the “Merger Agreement”), the undersigned hereby covenants, represents and warrants as follows. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Merger Agreement.

1.
Recommendation for Merger. Subject to any applicable fiduciary duty, the undersigned agrees to recommend to all holders of the capital stock of AEB entitled to vote on the Merger (“AEB Stock”) that they vote in favor of the Merger.

2.
Voting of AEB Stock. The undersigned agrees to vote any and all shares of AEB Stock owned or controlled by him in a non-fiduciary capacity in favor of the Merger.

3.
[Directors only] Restrictive Covenants.

(a)
For a period of one (1) year after Closing Date, the undersigned agrees that he shall not, directly or indirectly, for any reason, for its own account, or on behalf of, or together with or through, any other Person:

(i)
serve as an officer or director of any bank, bank holding company, credit union or finance company located within a radius of twenty (20) miles from each office maintained by American Enterprise Bank of Florida (the “Bank”) as of the Closing Date;

(ii)
solicit or attempt to solicit, any of the Bank’s customers or employees, who are then customers or employees of the Bank or Fidelity, for the benefit of any Person providing products or services that are competitive with those provided by the Bank or Fidelity’s subsidiary bank; or

(iii)
knowingly or intentionally damage or destroy the goodwill and esteem of the Bank or Fidelity’s subsidiary bank, their respective business with its employees, customers, and any others who may at any time have or have had relations with the Bank or Fidelity’s subsidiary bank.

(b)
Although the parties have, in good faith, used their best efforts to make the provisions of this Section 3 reasonable in terms of geographic area, duration and scope of restricted activities in light of AEB and the Bank’s business activities, and it is not anticipated, nor is it intended, by any party hereto that a court of competent jurisdiction would find it necessary to reform the provisions hereof to make them reasonable in terms of geographic area, duration or otherwise, the parties understand and agree that if a court of competent jurisdiction determines it necessary to reform the scope of this Section 3 or any part thereof in order to make it binding and enforceable, such provision shall be considered divisible in all respects and such lesser scope as any such court shall determine to be reasonable shall be effective,

binding and enforceable.

(c)
Because of the difficulty in measuring economic losses that may be incurred by Fidelity as a result of any breach by the undersigned of any of the covenants contained in this Section 3, and because of the immediate and irreparable damage that would be caused Fidelity for which it would have no other adequate remedy, the undersigned agrees that Fidelity may enforce the provisions this Section 3, by any applicable equitable or legal means, including by injunction or restraining order against the undersigned if the undersigned breaches or threatens to breach any provisions of this Section 3.

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4.
The undersigned acknowledges and agrees that any remedy at law for breach of the foregoing provisions shall be inadequate and that, in addition to any other relief which may be available, Fidelity shall be entitled to temporary and permanent injunctive relief without having to prove actual damages.

5.
The foregoing restrictions shall not apply to shares with respect to which the undersigned may have voting power as a fiduciary for others. In addition, this letter agreement shall only apply to actions taken by the undersigned in his or her capacity as a shareholder of AEB and, if applicable, shall not in any way limit or affect actions the undersigned may take in his or her capacity as an executive officer or director of AEB (if applicable).

This Agreement is the complete agreement between Fidelity and the undersigned concerning the subject matters hereof and shall be governed by and construed and enforced in accordance with the laws of the State of Georgia, without regard to its conflicts of laws provisions.

Sincerely,

[Director Brown, McGehee, Linn, Martin, Smith, Chamberlain, Lyons, Kight, Bogan, England and Bacalis or 5% Shareholder]

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EXHIBIT C

FORM OF OPINION

(1) AEB was duly organized as a corporation, and is existing and its status is active under the laws of the State of Florida. The Bank was duly organized as a Florida bank, and its status is active under the laws of the State of Florida.

(2) AEB has the corporate power to execute and deliver the Agreement and to perform its obligations thereunder, to own and use its assets and to conduct its business.

(3) AEB has duly authorized the execution and delivery of the Agreement and all performance by AEB thereunder, and has duly executed and delivered the Agreement.

(4) No consent, approval, authorization or other action filed by, or filing with, any governmental authority of the United States or the State of Florida is required for AEB's execution and delivery of the Agreement and consummation of the transactions contemplated by the Agreement, which consent, approval or authorization has not been previously received.

(5) The Agreement is enforceable against AEB.

(6) As of the date of this Agreement, AEB has authorized capital stock consisting solely of 20,000,000 shares of AEB Stock, of which 4,884,491 shares are issued and outstanding as of the date hereof, (i) assuming that outstanding debentures are converted into approximately 1,829,268 shares of AEB Stock, and (ii) exclusive of (1) 98,000 shares reserved for issuance upon exercise of outstanding AEB Stock Options, and (2) 40,000 shares to be granted to Bennett Brown at the time of closing. The Bank has authorized capital stock consisting solely of 4,000,000 shares of common stock, $5.00 par value per share ("Bank Stock"), and all outstanding shares of such Bank Stock are owned by AEB. All of the issued and outstanding shares of AEB Stock and Bank Stock are duly and validly issued, fully paid and non-assessable and were offered, issued and sold in compliance with all applicable federal and state securities laws. No Person has any right of rescission or claim for damages under federal or state securities laws with respect to the issuance of any shares AEB Stock or Bank Stock previously issued. None of the shares of AEB Stock or Bank Stock has been issued in violation of any preemptive or other rights of its respective shareholders. All of the issued and outstanding shares of Bank Stock are owned by AEB.

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Appendix B

FLORIDA APPRAISAL RIGHTS STATUTES

Fla. Stat. § 607.1301. Appraisal rights; definitions.

The following definitions apply to ss. 607.1302-607.1333:

(1)
"Affiliate" means a person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with another person or is a senior executive thereof. For purposes of s. 607.1302(2)(d), a person is deemed to be an affiliate of its senior executives.

(2)
"Beneficial shareholder" means a person who is the beneficial owner of shares held in a voting trust or by a nominee on the beneficial owner's behalf.

(3)
"Corporation" means the issuer of the shares held by a shareholder demanding appraisal and, for matters covered in ss. 607.1322-607.1333, includes the surviving entity in a merger.

(4)
"Fair value" means the value of the corporation's shares determined:

(a)
Immediately before the effectuation of the corporate action to which the shareholder objects.

(b)
Using customary and current valuation concepts and techniques generally employed for similar businesses in the context of the transaction requiring appraisal, excluding any appreciation or depreciation in anticipation of the corporate action unless exclusion would be inequitable to the corporation and its remaining shareholders.

(c)
For a corporation with 10 or fewer shareholders, without discounting for lack of marketability or minority status.

(5)
"Interest" means interest from the effective date of the corporate action until the date of payment, at the rate of interest on judgments in this state on the effective date of the corporate action.

(6)
"Preferred shares" means a class or series of shares the holders of which have preference over any other class or series with respect to distributions.

(7)
"Record shareholder" means the person in whose name shares are registered in the records of the corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with the corporation.

(8)
"Senior executive" means the chief executive officer, chief operating officer, chief financial officer, or anyone in charge of a principal business unit or function.

(9)
"Shareholder" means both a record shareholder and a beneficial shareholder.

Fla. Stat. § 607.1302. Right of shareholders to appraisal.

(1)

A shareholder of a domestic corporation is entitled to appraisal rights, and to obtain payment of the fair value of that shareholder's shares, in the event of any of the following corporate actions:

(a)

Consummation of a conversion of such corporation pursuant to s. 607.1112 if shareholder approval is required for the conversion and the shareholder is entitled to vote on the conversion under ss. 607.1103 and 607.1112(6), or the consummation of a merger to which such corporation is a party if shareholder approval is required for the merger under s. 607.1103 and the shareholder is entitled to vote on the merger or if such corporation is a subsidiary and the merger is governed by s. 607.1104;

(b)

Consummation of a share exchange to which the corporation is a party as the corporation whose shares will be acquired if the shareholder is entitled to vote on the exchange, except that appraisal rights are not available to any shareholder of the corporation with respect to any class or series of shares of the corporation that is not exchanged;

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(c)
Consummation of a disposition of assets pursuant to s. 607.1202 if the shareholder is entitled to vote on the disposition, including a sale in dissolution but not including a sale pursuant to court order or a sale for cash pursuant to a plan by which all or substantially all of the net proceeds of the sale will be distributed to the shareholders within 1 year after the date of sale;

(d)
An amendment of the articles of incorporation with respect to the class or series of shares which reduces the number of shares of a class or series owned by the shareholder to a fraction of a share if the corporation has the obligation or right to repurchase the fractional share so created;

(e)
Any other amendment to the articles of incorporation, merger, share exchange, or disposition of assets to the extent provided by the articles of incorporation, bylaws, or a resolution of the board of directors, except that no bylaw or board resolution providing for appraisal rights may be amended or otherwise altered except by shareholder approval;

(f)
With regard to a class of shares prescribed in the articles of incorporation prior to October 1, 2003, including any shares within that class subsequently authorized by amendment, any amendment of the articles of incorporation if the shareholder is entitled to vote on the amendment and if such amendment would adversely affect such shareholder by:

1.
Altering or abolishing any preemptive rights attached to any of his or her shares;

2.
Altering or abolishing the voting rights pertaining to any of his or her shares, except as such rights may be affected by the voting rights of new shares then being authorized of any existing or new class or series of shares;

3.
Effecting an exchange, cancellation, or reclassification of any of his or her shares, when such exchange, cancellation, or reclassification would alter or abolish the shareholder's voting rights or alter his or her percentage of equity in the corporation, or effecting a reduction or cancellation of accrued dividends or other arrearages in respect to such shares;

4.
Reducing the stated redemption price of any of the shareholder's redeemable shares, altering or abolishing any provision relating to any sinking fund for the redemption or purchase of any of his or her shares, or making any of his or her shares subject to redemption when they are not otherwise redeemable;

5.
Making noncumulative, in whole or in part, dividends of any of the shareholder's preferred shares which had theretofore been cumulative;

6.
Reducing the stated dividend preference of any of the shareholder's preferred shares; or

7.
Reducing any stated preferential amount payable on any of the shareholder's preferred shares upon voluntary or involuntary liquidation;

(g)

An amendment of the articles of incorporation of a social purpose corporation to which s. 607.504 or s. 607.505 applies;

(h)
An amendment of the articles of incorporation of a benefit corporation to which s. 607.604 or s. 607.605 applies;

(i)
A merger, conversion, or share exchange of a social purpose corporation to which s. 607.504 applies; or

(j)
A merger, conversion, or share exchange of a benefit corporation to which s. 607.604 applies.

(2)
Notwithstanding subsection (1), the availability of appraisal rights under paragraphs (1)(a), (b), (c), and (d) shall be limited in accordance with the following provisions:

(a)
Appraisal rights shall not be available for the holders of shares of any class or series of shares which is:

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1.
Listed on the New York Stock Exchange or the American Stock Exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc.; or

2.
Not so listed or designated, but has at least 2,000 shareholders and the outstanding shares of such class or series have a market value of at least $ 10 million, exclusive of the value of such shares held by its subsidiaries, senior executives, directors, and beneficial shareholders owning more than 10 percent of such shares.

(b)
The applicability of paragraph (a) shall be determined as of:

1.
The record date fixed to determine the shareholders entitled to receive notice of, and to vote at, the meeting of shareholders to act upon the corporate action requiring appraisal rights; or

2.
If there will be no meeting of shareholders, the close of business on the day on which the board of directors adopts the resolution recommending such corporate action.

(c)
Paragraph (a) shall not be applicable and appraisal rights shall be available pursuant to subsection (1) for the holders of any class or series of shares who are required by the terms of the corporate action requiring appraisal rights to accept for such shares anything other than cash or shares of any class or any series of shares of any corporation, or any other proprietary interest of any other entity, that satisfies the standards set forth in paragraph (a) at the time the corporate action becomes effective.

(d)
Paragraph (a) shall not be applicable and appraisal rights shall be available pursuant to subsection (1) for the holders of any class or series of shares if:

1.
Any of the shares or assets of the corporation are being acquired or converted, whether by merger, share exchange, or otherwise, pursuant to the corporate action by a person, or by an affiliate of a person, who:

a.
Is, or at any time in the 1-year period immediately preceding approval by the board of directors of the corporate action requiring appraisal rights was, the beneficial owner of 20 percent or more of the voting power of the corporation, excluding any shares acquired pursuant to an offer for all shares having voting power if such offer was made within 1 year prior to the corporate action requiring appraisal rights for consideration of the same kind and of a value equal to or less than that paid in connection with the corporate action; or

b.
Directly or indirectly has, or at any time in the 1-year period immediately preceding approval by the board of directors of the corporation of the corporate action requiring appraisal rights had, the power, contractually or otherwise, to cause the appointment or election of 25 percent or more of the directors to the board of directors of the corporation; or

2.
Any of the shares or assets of the corporation are being acquired or converted, whether by merger, share exchange, or otherwise, pursuant to such corporate action by a person, or by an affiliate of a person, who is, or at any time in the

1-year period immediately preceding approval by the board of directors of the corporate action requiring appraisal rights was, a senior executive or director of the corporation or a senior executive of any affiliate thereof, and that senior executive or director will receive, as a result of the corporate action, a financial benefit not generally available to other shareholders as such, other than:

a.
Employment, consulting, retirement, or similar benefits established separately and not as part of or in contemplation of the corporate action;

b.
Employment, consulting, retirement, or similar benefits established in contemplation of, or as part of, the corporate action that are not more favorable than those existing before the corporate action or, if more favorable, that have been approved on behalf of the corporation in the same manner as is provided in s. 607.0832; or

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c.
In the case of a director of the corporation who will, in the corporate action, become a director of the acquiring entity in the corporate action or one of its affiliates, rights and benefits as a director that are provided on the same basis as those afforded by the acquiring entity generally to other directors of such entity or such affiliate.

(e)
For the purposes of paragraph (d) only, the term “beneficial owner” means any person who, directly or indirectly, through any contract, arrangement, or understanding, other than a revocable proxy, has or shares the power to vote, or to direct the voting of, shares, provided that a member of a national securities exchange shall not be deemed to be a beneficial owner of securities held directly or indirectly by it on behalf of another person solely because such member is the recordholder of such securities if the member is precluded by the rules of such exchange from voting without instruction on contested matters or matters that may affect substantially the rights or privileges of the holders of the securities to be voted. When two or more persons agree to act together for the purpose of voting their shares of the corporation, each member of the group formed thereby shall be deemed to have acquired beneficial ownership, as of the date of such agreement, of all voting shares of the corporation beneficially owned by any member of the group.

(3)
Notwithstanding any other provision of this section, the articles of incorporation as originally filed or any amendment thereto may limit or eliminate appraisal rights for any class or series of preferred shares, but any such limitation or elimination contained in an amendment to the articles of incorporation that limits or eliminates appraisal rights for any of such shares that are outstanding immediately prior to the effective date of such amendment or that the corporation is or may be required to issue or sell thereafter pursuant to any conversion, exchange, or other right existing immediately before the effective date of such amendment shall not apply to any corporate action that becomes effective within 1 year of that date if such action would otherwise afford appraisal rights.

(4)
A shareholder entitled to appraisal rights under this chapter may not challenge a completed corporate action for which appraisal rights are available unless such corporate action:

(a)
Was not effectuated in accordance with the applicable provisions of this section or the corporation’s articles of incorporation, bylaws, or board of directors’ resolution authorizing the corporate action; or

(b)
Was procured as a result of fraud or material misrepresentation.

Fla. Stat. § 607.1303. Assertion of rights by nominees and beneficial owners.

(1)
A record shareholder may assert appraisal rights as to fewer than all the shares registered in the record shareholder’s name but owned by a beneficial shareholder only if the record shareholder objects with respect to all shares of the class or series owned by the beneficial shareholder and notifies the corporation in writing of the name and address of each beneficial shareholder on whose behalf appraisal rights are being asserted. The rights of a record shareholder who asserts appraisal rights for only part of the shares held of record in the record shareholder’s name under this subsection shall be determined as if the shares as to which the record shareholder objects and the record shareholder’s other shares were registered in the names of different record shareholders.

(2)
A beneficial shareholder may assert appraisal rights as to shares of any class or series held on behalf of the shareholder only if such shareholder:

(a)
Submits to the corporation the record shareholder's written consent to the assertion of such rights no later than the date referred to in s. 607.1322(2)(b)2.

(b)
Does so with respect to all shares of the class or series that are beneficially owned by the beneficial shareholder.

Fla. Stat. § 607.1320. Notice of appraisal rights.
(1)
If proposed corporate action described in s. 607.1302(1) is to be submitted to a vote at a shareholders' meeting, the meeting notice must state that the corporation has concluded that

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shareholders are, are not, or may be entitled to assert appraisal rights under this chapter. If the corporation concludes that appraisal rights are or may be available, a copy of ss. 607.1301-607.1333 must accompany the meeting notice sent to those record shareholders entitled to exercise appraisal rights.

(2)
In a merger pursuant to s. 607.1104, the parent corporation must notify in writing all record shareholders of the subsidiary who are entitled to assert appraisal rights that the corporate action became effective. Such notice must be sent within 10 days after the corporate action became effective and include the materials described in s. 607.1322.

(3)
If the proposed corporate action described in s. 607.1302(1) is to be approved other than by a shareholders' meeting, the notice referred to in subsection (1) must be sent to all shareholders at the time that consents are first solicited pursuant to s. 607.0704, whether or not consents are solicited from all shareholders, and include the materials described in s. 607.1322.

Fla. Stat. § 607.1321. Notice of intent to demand payment.

(1)
If proposed corporate action requiring appraisal rights under s. 607.1302 is submitted to a vote at a shareholders' meeting, or is submitted to a shareholder pursuant to a consent vote under s. 607.0704, a shareholder who wishes to assert appraisal rights with respect to any class or series of shares:

(a)
Must deliver to the corporation before the vote is taken, or within 20 days after receiving the notice pursuant to s. 607.1320(3) if action is to be taken without a shareholder meeting, written notice of the shareholder's intent to demand payment if the proposed action is effectuated.

(b)
Must not vote, or cause or permit to be voted, any shares of such class or series in favor of the proposed action.

(2)
A shareholder who does not satisfy the requirements of subsection (1) is not entitled to payment under this chapter.

Fla. Stat. § 607.1322. Appraisal notice and form.

(1)
If proposed corporate action requiring appraisal rights under s. 607.1302(1) becomes effective, the corporation must deliver a written appraisal notice and form required by paragraph (2)(a) to all shareholders who satisfied the requirements of s. 607.1321. In the case of a merger under s. 607.1104, the parent must deliver a written appraisal notice and form to all record shareholders who may be entitled to assert appraisal rights.

(2)
The appraisal notice must be sent no earlier than the date the corporate action became effective and no later than 10 days after such date and must:

(a)
Supply a form that specifies the date that the corporate action became effective and that provides for the shareholder to state:

1.
The shareholder's name and address.

2.

The number, classes, and series of shares as to which the shareholder asserts appraisal rights.

3.
That the shareholder did not vote for the transaction.

4.
Whether the shareholder accepts the corporation's offer as stated in subparagraph (b)4.

5.
If the offer is not accepted, the shareholder's estimated fair value of the shares and a demand for payment of the shareholder's estimated value plus interest.

(b)
State:

1.
Where the form must be sent and where certificates for certificated shares must be deposited and the date by which those certificates must be deposited, which date may not be earlier than the date for receiving the required form under subparagraph 2.

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2.
A date by which the corporation must receive the form, which date may not be fewer than 40 nor more than 60 days after the date the subsection (1) appraisal notice and form are sent, and state that the shareholder shall have waived the right to demand appraisal with respect to the shares unless the form is received by the corporation by such specified date.

3.
The corporation's estimate of the fair value of the shares.

4.
An offer to each shareholder who is entitled to appraisal rights to pay the corporation's estimate of fair value set forth in subparagraph 3.

5.
That, if requested in writing, the corporation will provide to the shareholder so requesting, within 10 days after the date specified in subparagraph 2., the number of shareholders who return the forms by the specified date and the total number of shares owned by them.

6.
The date by which the notice to withdraw under s. 607.1323 must be received, which date must be within 20 days after the date specified in subparagraph 2.

(c)
Be accompanied by:

1.
Financial statements of the corporation that issued the shares to be appraised, consisting of a balance sheet as of the end of the fiscal year ending not more than 15 months prior to the date of the corporation's appraisal notice, an income statement for that year, a cash flow statement for that year, and the latest available interim financial statements, if any.

2.
A copy of ss. 607.1301-607.1333.

Fla. Stat. § 607.1323. Perfection of rights; right to withdraw.
(1)
A shareholder who wishes to exercise appraisal rights must execute and return the form received pursuant to s. 607.1322(1) and, in the case of certificated shares, deposit the shareholder's certificates in accordance with the terms of the notice by the date referred to in the notice pursuant to s. 607.1322(2)(b)2. Once a shareholder deposits that shareholder's certificates or, in the case of uncertificated shares, returns the executed forms, that shareholder loses all rights as a shareholder, unless the shareholder withdraws pursuant to subsection (2).

(2)
A shareholder who has complied with subsection (1) may nevertheless decline to exercise appraisal rights and withdraw from the appraisal process by so notifying the corporation in writing by the date set forth in the appraisal notice pursuant to s. 607.1322(2)(b)6. A shareholder who fails to so withdraw from the appraisal process may not thereafter withdraw without the corporation's written consent.

(3)
A shareholder who does not execute and return the form and, in the case of certificated shares, deposit that shareholder's share certificates if required, each by the date set forth in the notice described in subsection (2), shall not

be entitled to payment under this chapter.

Fla. Stat. § 607.1324. Shareholder's acceptance of corporation's offer.

(1)

If the shareholder states on the form provided in s. 607.1322(1) that the shareholder accepts the offer of the corporation to pay the corporation's estimated fair value for the shares, the corporation shall make such payment to the shareholder within 90 days after the corporation's receipt of the form from the shareholder.

(2)

Upon payment of the agreed value, the shareholder shall cease to have any interest in the shares.

Fla. Stat. § 607.1326. Procedure if shareholder is dissatisfied with offer.

(1)

A shareholder who is dissatisfied with the corporation's offer as set forth pursuant to s. 607.1322(2)(b)4. must notify the corporation on the form provided pursuant to s. 607.1322(1) of that shareholder's estimate of the fair value of the shares and demand payment of that estimate plus interest.

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(2)
A shareholder who fails to notify the corporation in writing of that shareholder's demand to be paid the shareholder's stated estimate of the fair value plus interest under subsection (1) within the timeframe set forth in s. 607.1322(2)(b)2. waives the right to demand payment under this section and shall be entitled only to the payment offered by the corporation pursuant to s. 607.1322(2)(b)4.

Fla. Stat. § 607.1330. Court action.

(1)
If a shareholder makes demand for payment under s. 607.1326 which remains unsettled, the corporation shall commence a proceeding within 60 days after receiving the payment demand and petition the court to determine the fair value of the shares and accrued interest. If the corporation does not commence the proceeding within the 60-day period, any shareholder who has made a demand pursuant to s. 607.1326 may commence the proceeding in the name of the corporation.

(2)
The proceeding shall be commenced in the appropriate court of the county in which the corporation's principal office, or, if none, its registered office, in this state is located. If the corporation is a foreign corporation without a registered office in this state, the proceeding shall be commenced in the county in this state in which the principal office or registered office of the domestic corporation merged with the foreign corporation was located at the time of the transaction.

(3)
All shareholders, whether or not residents of this state, whose demands remain unsettled shall be made parties to the proceeding as in an action against their shares. The corporation shall serve a copy of the initial pleading in such proceeding upon each shareholder party who is a resident of this state in the manner provided by law for the service of a summons and complaint and upon each nonresident shareholder party by registered or certified mail or by publication as provided by law.

(4)
The jurisdiction of the court in which the proceeding is commenced under subsection (2) is plenary and exclusive. If it so elects, the court may appoint one or more persons as appraisers to receive evidence and recommend a decision on the question of fair value. The appraisers shall have the powers described in the order appointing them or in any amendment to the order. The shareholders demanding appraisal rights are entitled to the same discovery rights as parties in other civil proceedings. There shall be no right to a jury trial.

(5)
Each shareholder made a party to the proceeding is entitled to judgment for the amount of the fair value of such shareholder's shares, plus interest, as found by the court.

(6)
The corporation shall pay each such shareholder the amount found to be due within 10 days after final determination of the proceedings. Upon payment of the judgment, the shareholder shall cease to have any interest in the shares.

Fla. Stat. § 607.1331. Court costs and counsel fees.

(1)
The court in an appraisal proceeding shall determine all costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court shall assess the costs against the corporation, except that the court may assess costs against all or some of the shareholders demanding appraisal, in amounts the court finds equitable, to the extent the court finds such shareholders acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this chapter.

(2)
The court in an appraisal proceeding may also assess the fees and expenses of counsel and experts for the respective parties, in amounts the court finds equitable:

(a)
Against the corporation and in favor of any or all shareholders demanding appraisal if the court finds the corporation did not substantially comply with ss. 607.1320 and 607.1322; or

(b)
Against either the corporation or a shareholder demanding appraisal, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this chapter.

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(3)

If the court in an appraisal proceeding finds that the services of counsel for any shareholder were of substantial benefit to other shareholders similarly situated, and that the fees for those services should not be assessed against the corporation, the court may award to such counsel reasonable fees to be paid out of the amounts awarded the shareholders who were benefited.

(4)

To the extent the corporation fails to make a required payment pursuant to s. 607.1324, the shareholder may sue directly for the amount owed and, to the extent successful, shall be entitled to recover from the corporation all costs and expenses of the suit, including counsel fees.

Fla. Stat. § 607.1332. Disposition of acquired shares.

Shares acquired by a corporation pursuant to payment of the agreed value thereof or pursuant to payment of the judgment entered therefor, as provided in this chapter, may be held and disposed of by such corporation as authorized but unissued shares of the corporation, except that, in the case of a merger or share exchange, they may be held and disposed of as the plan of merger or share exchange otherwise provides. The shares of the surviving corporation into which the shares of such shareholders demanding appraisal rights would have been converted had they assented to the merger shall have the status of authorized but unissued shares of the surviving corporation.

Fla. Stat. § 607.1333. Limitation on corporate payment.

(1)

No payment shall be made to a shareholder seeking appraisal rights if, at the time of payment, the corporation is unable to meet the distribution standards of s. 607.06401. In such event, the shareholder shall, at the shareholder’s option:

(a)

Withdraw his or her notice of intent to assert appraisal rights, which shall in such event be deemed withdrawn with the consent of the corporation; or

(b)

Retain his or her status as a claimant against the corporation and, if it is liquidated, be subordinated to the rights of creditors of the corporation, but have rights superior to the shareholders not asserting appraisal rights, and if it is not liquidated, retain his or her right to be paid for the shares, which right the corporation shall be obliged to satisfy when the restrictions of this section do not apply.

(2)

The shareholder shall exercise the option under paragraph (1)(a) or paragraph (b) by written notice filed with the corporation within 30 days after the corporation has given written notice that the payment for shares cannot be made because of the restrictions of this section. If the shareholder fails to exercise the option, the shareholder shall be deemed to have withdrawn his or her notice of intent to assert appraisal rights.

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APPENDIX C

October 26, 2015

American Enterprise Bankshares, Inc.
10611 Deerwood Park Boulevard
Jacksonville, FL 32256

Dear Members of the Board:

Hovde Group, LLC ("we" or "Hovde") understand that American Enterprise Bankshares, Inc., a Florida corporation ("AEB") and Fidelity Southern Corporation, a Georgia corporation ("Fidelity") are about to enter into an Agreement and Plan of Merger to be dated on or about October 26, 2015 (the "Agreement"). Pursuant and subject to the terms of the Agreement, AEB will merge with and into Fidelity ("Merger"), with Fidelity being the surviving corporation. In connection with the Merger, and pursuant to the Agreement and the Bank Merger Agreement (as defined therein), American Enterprise Bank of Florida, a Florida bank with its main office in Jacksonville, Florida (the "Bank"), will merge with and into Fidelity's Georgia bank subsidiary, Fidelity Bank ("Fidelity Bank"), with Fidelity Bank being the surviving bank (the "Bank Merger"). Capitalized terms used herein that are not otherwise defined shall have the same meanings attributed to them in the Agreement.

Pursuant to and subject to the terms and conditions of the Agreement, at the Effective Time, automatically by virtue of the Merger and without any action on the part of Fidelity, AEB or the shareholders of either of the foregoing, the holders of common stock, $3.00 par value per share, of AEB ("AEB Stock") shall receive, in exchange for each outstanding share of AEB Stock, the following number of shares of Fidelity Stock based on the Fidelity VWAP (as defined below) (individually, the "Per Share Purchase Price" and collectively, the "Merger Consideration").

Subject to any adjustments as contemplated by Section 1.2(d) of the Agreement, in the event that the Fidelity VWAP is:

(i)
equal to or greater than $23.20, then the Merger Consideration shall equal .237 shares of Fidelity Stock;

(ii)
less than $23.20 but greater than $18.98, then the Merger Consideration shall equal the number of shares of Fidelity Stock determined by dividing $5.50 by the Fidelity VWAP; or

(iii)
equal to or less than $18.98, then the Merger Consideration shall equal .290 shares of Fidelity Stock (such ratio in any of (i), (ii) or (iii), the "Exchange Ratio").

We note that for purposes of the Agreement, "Fidelity VWAP" means the volume weighted average price of a share of Fidelity Stock for a twenty (20) trading day period, starting with the opening of trading on the twentieth (20th) trading day prior to the Effective Time and ending with the closing of trading on the last trading day prior to the Effective Time (as reported in The Wall Street Journal or, if not reported therein, in another authoritative source).

Since the Fidelity VWAP as of its respective determination date, and the related amounts derived from those figures cannot be determined until dates after the date of this opinion, potential future adjustments to the Exchange Ratio, Per Share Purchase Price, or Merger Consideration, if any, attributable to changes in the Fidelity VWAP, as applicable, if any, cannot be predicted with precision. However, you have instructed us to assume, for purposes of the foregoing and our opinion, that based on the Fidelity VWAP of $21.09 as of October 23, 2015, the estimated value of the Merger Consideration to be paid in connection with the Merger is $27,084,701. We have assumed that these amounts are reasonable estimates or projections of the corresponding actual amounts as of the date the Merger Consideration will be determined, and that any difference between amounts assumed in this letter would be immaterial.

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Board of Directors
American Enterprise Bankshares, Inc.
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You have requested our opinion as to the fairness, from a financial point of view, of the Merger Consideration to the shareholders of AEB. This opinion addresses only the fairness of the Merger Consideration to be paid in connection with the Merger, and we are not opining on any individual or separate components of the Merger Consideration.

During the course of our engagement and for the purposes of the opinion set forth herein, we have:

(i)
reviewed a draft of the Agreement dated October 16, 2015, as provided to Hovde by AEB;

(ii)
reviewed unaudited financial statements for AEB, the Bank, and Fidelity for the nine-month period ended September 30, 2015;

(iii)
reviewed certain historical annual reports of each of AEB and Fidelity, including audited annual reports for the year ending December 31, 2014;

(iv)
reviewed certain historical publicly available business and financial information concerning each of AEB, the Bank, and Fidelity;

(v)
reviewed certain internal financial statements and other financial and operating data concerning of AEB, the Bank, and Fidelity;

(vi)
reviewed financial projections prepared by certain members of senior management of AEB and the Bank;

(vii)
discussed with certain members of senior management of AEB and Fidelity the business, financial condition, results of operations and future prospects of AEB, the Bank, and Fidelity; the history and past and current operations of AEB, the Bank, and Fidelity; AEB's convertible subordinated debenture and terms thereof; AEB's, the Bank's, and Fidelity's historical financial performance; and their assessment of the rationale for the Merger;

(viii)
reviewed the terms of recent merger, acquisition and control investment transactions, to the extent publicly available, involving financial institutions and financial institution holding companies that we considered relevant;

(ix)
assessed general economic and market conditions;

(x)
reviewed the pro forma impact of the Merger on the combined company's earnings per share, consolidated capitalization and financial ratios;

(xi)
taken into consideration our experience in other similar transactions and securities valuations as well as our knowledge of the banking and financial services industry;

(xii)
reviewed historical market prices and trading volumes of Fidelity's common stock;

(xiii)
reviewed certain publicly available financial and stock market data relating to selected public companies that we deemed relevant to our analysis; and

(xiv)
performed such other analyses and considered such other factors as we have deemed appropriate.

We have assumed, without independent verification, that the representations and financial and other information included in the Agreement or otherwise provided to us by AEB, the Bank, or Fidelity are true and complete. Hovde has relied upon the management of AEB and the Bank as to the reasonableness and achievability of the financial forecasts and projections provided to Hovde by AEB, the Bank, and Fidelity, and Hovde assumed such forecasts and projections have been reasonably prepared by AEB, the Bank, and Fidelity on a basis reflecting the best currently available information and AEB's, the Bank's, and Fidelity's judgments and estimates. We have assumed that such forecasts would be realized in the amounts and at the times contemplated thereby. We have assumed that each party to the Agreement would advise us promptly if any information previously provided to us became inaccurate or was required to be updated during the period of our review. We have relied on these forecasts without independent verification or analysis and do not in any respect assume any responsibility for the accuracy or completeness thereof.

We are not experts in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for losses with respect thereto. We have assumed that such allowances for the AEB, the Bank and Fidelity are, in the aggregate, adequate to cover such losses, and will be adequate on a pro forma basis for the combined entity. We were not requested to make, and have not made, an independent evaluation, physical inspection or appraisal of the assets, properties, facilities, or liabilities (contingent or otherwise) of AEB, the Bank, or Fidelity, the collateral securing any such assets or liabilities, or the collectability of any such assets and we were not furnished with any such evaluations or appraisals; nor did we review any loan or credit files of AEB, the Bank, or Fidelity.

We have assumed that the Merger will be consummated substantially in accordance with the terms set forth in the Agreement, without any waiver of material terms or conditions by AEB or any other party to the Agreement and that the final Agreement will not differ materially from the draft we reviewed. We have assumed that the Merger will be consummated in compliance with all applicable laws and regulations. AEB has advised us that there are no factors that would impede any necessary regulatory or governmental approval of the Merger. We have assumed that the necessary regulatory and governmental approvals as granted will not be subject to any conditions that would be unduly burdensome on AEB or Fidelity or would have a material adverse effect on the contemplated benefits of the Merger.

Our opinion does not consider, include or address: (i) the legal, tax, accounting, or regulatory consequences of the Merger on AEB, or its shareholders; (ii) any advice or opinions provided by any other advisor to the Board or AEB; or (iii) any other strategic alternatives that might be available to AEB.

Our opinion does not constitute a recommendation to AEB as to whether or not AEB should enter into the Agreement or to any shareholders of AEB as to how such shareholders should vote at any meetings of shareholders called to consider and vote upon the Merger. Our opinion does not address the underlying business decision to proceed with the Merger or the fairness of the amount or nature of the compensation, if any, to be received by any of the officers, directors or employees of AEB relative to the Merger Consideration. Our opinion should not be construed as implying that the Merger Consideration is necessarily the highest or best price that could be obtained in a sale, merger, or combination transaction with a third party. We do not express any opinion as to the value of AEB's common stock or Fidelity's common stock following the announcement of the proposed Merger, the value of AEB's common stock or Fidelity's common stock following the consummation of the Merger, or the prices at which shares of AEB's common stock or Fidelity's common stock may be purchased or sold at any time. Other than as specifically set forth herein, we are not expressing any opinion with respect to the terms and provisions of the Agreement or the enforceability of any such terms or provisions. Our opinion is not a solvency opinion and does not in any way address the solvency or financial condition of AEB.

This opinion was approved by Hovde's fairness opinion committee. This letter is directed solely to the board of directors of AEB and is not to be used for any other purpose or quoted or referred to, in whole or in part, in any registration statement, prospectus, proxy statement, or any other document, except in each case in accordance with our prior written consent; provided, however, that we hereby consent to the inclusion and reference to this letter in any registration statement, proxy statement, information statement or tender offer document to be delivered to the holders of AEB's common stock in connection with the Merger if, and only if, this letter is quoted in full or attached as an exhibit to such document and this letter has not been withdrawn prior to the date of such document.

Our opinion is based solely upon the information available to us, and the economic, market and other circumstances as they exist as of the date hereof. Events occurring and information that becomes available after the date hereof could materially affect the assumptions and analyses used in preparing this opinion. We have not undertaken to reaffirm or revise this opinion or otherwise comment upon any events occurring or information that becomes available after the date hereof.

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In arriving at this opinion, Hovde did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Hovde believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering all analyses, would create an incomplete view of the process underlying this opinion.

Hovde, as part of its investment banking business, regularly performs valuations of businesses and their securities in connection with mergers and acquisitions and other corporate transactions. In addition to being retained to render this opinion letter, we were retained by AEB to act as their financial advisor in connection with the Merger.

In connection with our services, we will receive from AEB a fairness opinion fee that is contingent upon the issuance of this opinion letter and a completion fee that is contingent upon the consummation of the Merger. AEB has agreed to indemnify us and our affiliates for certain liabilities that may arise out of our engagement. We, or our affiliates, may presently or in the future, seek or receive compensation from Fidelity in connection with future transactions, or in connection with potential advisory services and corporate transactions, although to our knowledge none are expected at this time. In the ordinary course of our business as a broker dealer, we may purchase securities from and sell securities to Fidelity and its affiliates. We may also trade the securities of Fidelity and its affiliates for our own account and the accounts of our customers. Except for the foregoing, during the past two years there have not been, and there are no mutual understandings contemplating in the future, any material relationships between Hovde and AEB or Fidelity.

Based upon and subject to the foregoing, we are of the opinion, as of the date hereof, that the Merger Consideration to be paid in connection with the Merger is fair to the shareholders of AEB from a financial point of view.

Sincerely,

HOVDE GROUP, LLC

/s/ HOVDE GROUP, LLC

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PART II.

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. Indemnification of Directors and Officers.

Sections 14-2-851 and 14-2-857 of the Georgia Business Corporation Code provide that a corporation may indemnify its directors and officers against civil and criminal liabilities. Directors and officers may be indemnified if they acted in good faith and in a manner reasonably believed to be in or not opposed to the best interest of the corporation, if they have not been adjudged liable on the basis of the improper receipt of a personal benefit and, with respect to any criminal action, if they had no reasonable cause to believe their conduct was unlawful. A director or officer may be indemnified against expenses incurred in connection with a derivative suit if he or she acted in good faith and in a manner reasonably believed to be in or not opposed to the best interest of the corporation, except that no indemnification may be made without court approval if such person was adjudged liable for negligence or misconduct in the performance of his or her duty to the corporation. Statutory indemnification is not exclusive of any rights provided by any bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

Fidelity's bylaws contain indemnification provisions that provide that directors and officers of Fidelity will be indemnified if they are successful on the merits or otherwise in the defense of any proceeding or any claim, issue or matter involved in the proceeding. The indemnification provisions also provide that Fidelity will indemnify directors and officers when they meet the applicable standard of conduct, regardless if they are successful in the defense of the proceeding or claim, issue or matter. The applicable standard of conduct is met if the director or officer acted in a manner he or she reasonably believed to be in, or not opposed to, the best interests of Fidelity. The standard of conduct with respect to any criminal action or proceeding is met if the director had no reasonable cause to believe his or her conduct was unlawful. Whether the applicable standard of conduct has been met is determined by the board of directors, the shareholders or independent legal counsel in each specific case.

Fidelity may also provide for greater indemnification than that set forth in its by-laws if it chooses to do so, subject to approval by Fidelity's shareholders. Fidelity may not, however, indemnify a director for liability arising out of circumstances that constitute exceptions to limitation of a director's liability for monetary damages, as described below. Fidelity may purchase and maintain insurance on behalf of any director against any liability asserted against such person and incurred by him or her in any such capacity, whether or not Fidelity would have had the power to indemnify against such liability.

In addition, Article 5 of Fidelity's amended and restated articles of incorporation, as amended, subject to certain exceptions, eliminates the potential personal liability of a director for monetary damages to Fidelity and to the shareholders of Fidelity for breach of a duty as a director. There is no elimination of liability for:

- any appropriation, in violation of his duties, of any of Fidelity's business opportunities;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- the types of liability set forth in the Official Code of Georgia Section 14-2-832; or
- any transaction from which the director derived an improper personal benefit.

Fidelity's amended and restated articles of incorporation, as amended, do not eliminate or limit the right of Fidelity or its shareholders to seek injunctive or other equitable relief not involving monetary damages.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Fidelity's directors and officers are insured against losses arising from any claim against them as such for wrongful acts or omissions, subject to limitations.

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Item 21. Exhibits and Financial Statement Schedules.

(a)

Exhibits.

Exhibit No.	Exhibit
2.1	Agreement and Plan of Merger, dated as of October 26, 2015 by and between Fidelity and AEB (attached as Appendix A to the document that is a part of this Registration Statement).
3.1	Restated Articles of Incorporation of Fidelity Southern Corporation, as amended effective December 16, 2008 (incorporated herein by reference to Exhibit 3(a) to Fidelity Southern Corporation's Form 10-K filed with the SEC on March 17, 2009).
3.2	Articles of Amendment to the Articles of Incorporation of Fidelity Southern Corporation (incorporated herein by reference to Exhibit 3.1 to Fidelity Southern Corporation's Form 8-K filed with the SEC on November 23, 2010).
3.3	Bylaws of Fidelity Southern Corporation, as amended (incorporated herein by reference to Exhibit 3(b) to Fidelity Southern Corporation's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007).
3.4	Amendment to Bylaws of Fidelity Southern Corporation (incorporated herein by reference to Exhibit 3.2 to Fidelity Southern Corporation's Form 8-K filed with the SEC on November 23, 2010).
4.1	See Exhibits 3.1 through 3.4 for provisions of the Amended and Restated Articles of Incorporation, as amended, and Bylaws, as amended, which define the rights of shareholders.
4.2	Warrant to Purchase up to 2,266,458 shares of Common Stock, dated December 19, 2008 (incorporated herein by reference to Exhibit 4.1 to Fidelity Southern Corporation's Form 8-K filed with the SEC December 19, 2008).
5.1	Opinion and Consent of Troutman Sanders LLP.
8.1	Opinion and Consent of Troutman Sanders LLP as to the federal income tax consequences of the merger to Fidelity Southern Corporation and American Enterprise Bankshares, Inc.
8.2	Opinion and Consent of Smith, Gambrell & Russell, LLP as to the federal income tax consequences of the merger to Fidelity Southern Corporation and American Enterprise Bankshares, Inc.
23.1	Consent of Ernst & Young LLP.
23.2	Consent of Troutman Sanders LLP (included as part of Exhibit 5.1 and 8.1).
23.3	Consent of Smith, Gambrell & Russell, LLP (included as part of Exhibit 8.2).
23.4	Consent of Hovde Group, LLC.
24.1	Power of Attorney (included on the Signature Page to the Registration Statement).
99.1	Form of Proxy.*

*

To be filed by amendment.

(b)

To be filed by amendment. Financial Statement Schedules: No financial statements schedules are required to be filed as part of this Registration Statement.

(c)

Report, Opinion or Appraisal: The opinion of Hovde Group, LLC is included as Appendix C to the materials filed as a part of this Registration Statement.

Item 22. Undertakings

(a)

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

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(b)

The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus, to each person to whom the prospectus is sent or given, the latest annual report to security holders that is incorporated by reference in the prospectus and furnished pursuant to and meeting the requirements of Rule 14a-3 or Rule 14c-3 under the Securities Exchange Act of 1934; and, where interim financial information required to be presented by Article 3 of Regulation S-X is not set forth in the prospectus, to deliver, or cause to be delivered to each person to whom the prospectus is sent or given, the latest quarterly report that is specifically incorporated by reference in the prospectus to provide such interim financial information.

(c)

The undersigned registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(d)

The undersigned registrant hereby undertakes that every prospectus (i) that is filed pursuant to paragraph (c) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Securities Act of 1933 and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(e)

The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11, or 13 of this Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(f)

The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

(g)

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, Fidelity Southern Corporation has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on November 25, 2015.

FIDELITY SOUTHERN CORPORATION

By: /s/ James B. Miller, Jr.

James B. Miller, Jr.
Chief Executive Officer and Chairman of the Board (Principal Executive Officer)

By: /s/ Stephen H. Brolly

Stephen H. Brolly
Chief Financial Officer (Principal Financial and Accounting Officer)

POWER OF ATTORNEY AND SIGNATURES

Know all men by these presents, that each person whose signature appears below constitutes and appoints James B. Miller, Jr. and Stephen H. Brolly, or either of them, as attorney-in-fact, with each having the power of substitution, for him in any and all capacities, to sign any amendments to this Registration Statement on Form S-4 and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on November 25, 2015.

Signature	Title
/s/ James B. Miller, Jr. James B. Miller, Jr.	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
/s/ Stephen H. Brolly Stephen H. Brolly	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ David R. Bockel Major General (Ret) David R. Bockel	Director
/s/ Wm. Millard Choate Wm. Millard Choate	Director
/s/ Donald A. Harp, Jr. Donald A. Harp, Jr.	Director
/s/ Kevin S. King Kevin S. King	Director
/s/ William C. Lankford, Jr. William C. Lankford, Jr.	Director
/s/ H. Palmer Proctor, Jr. H. Palmer Proctor, Jr.	Director
/s/ W. Clyde Shepherd III	Director

W. Clyde Shepherd III

/s/ Rankin M. Smith, Jr. Rankin M. Smith, Jr.	Director

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EXHIBIT INDEX

Exhibit	Description of Exhibit
5.1	Opinion and Consent of Troutman Sanders LLP.
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