

RBC Bearings INC  
Form 10-Q  
February 01, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended December 26, 2009

OR

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

Commission File Number: 333-124824

RBC Bearings Incorporated  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

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

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

06478  
(Zip Code)

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

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

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

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

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

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

As of January 25, 2010, RBC Bearings Incorporated had 21,717,389 shares of Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

RBC Bearings Incorporated Consolidated Balance Sheets (dollars in thousands, except share and per share data)		
	December 26, 2009 (Unaudited)	March 28, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 34,157	\$ 30,557
Short-term investments	6,306	—
Accounts receivable, net of allowance for doubtful accounts of \$1,555 at December 26, 2009 and \$1,571 at March 28, 2009	46,251	63,692
Inventory	138,194	134,275
Deferred income taxes	10,193	6,677
Prepaid expenses and other current assets	5,187	8,912
<b>Total current assets</b>	<b>240,288</b>	<b>244,113</b>
Property, plant and equipment, net	87,803	87,697
Goodwill	34,695	32,999
Intangible assets, net of accumulated amortization of \$5,979 at December 26, 2009 and \$5,035 at March 28, 2009	12,587	12,673
Other assets	5,250	4,585
<b>Total assets</b>	<b>\$ 380,623</b>	<b>\$ 382,067</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 16,414	\$ 20,525
Accrued expenses and other current liabilities	14,100	16,533
Current portion of long-term debt	1,702	1,151
<b>Total current liabilities</b>	<b>32,216</b>	<b>38,209</b>
Long-term debt, less current portion	52,000	67,000
Deferred income taxes	6,012	6,341
Other non-current liabilities	15,238	14,506
<b>Total liabilities</b>	<b>105,466</b>	<b>126,056</b>
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares: 10,000,000 at December 26, 2009 and March 28, 2009; none issued and outstanding	—	—
Common stock, \$.01 par value; authorized shares: 60,000,000 at December 26, 2009 and March 28, 2009; issued and outstanding shares: 21,882,761 shares at December 26, 2009 and 21,838,486 shares at March 28, 2009	218	218
Additional paid-in capital	189,452	187,139
Accumulated other comprehensive income (loss)	(426)	(3,327)
Retained earnings	90,862	76,142
Treasury stock, at cost, 167,372 shares at December 26, 2009 and 132,230 shares at March 28, 2009	(4,949)	(4,161)
<b>Total stockholders' equity</b>	<b>275,157</b>	<b>256,011</b>

Total liabilities and stockholders' equity		\$ 380,623	\$ 382,067
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See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Net sales	\$ 67,481	\$ 85,281	\$ 194,870	\$ 271,955
Cost of sales	47,042	56,779	135,434	182,681
Gross margin	20,439	28,502	59,436	89,274
Operating expenses:				
Selling, general and administrative	11,936	14,403	34,687	41,482
Other, net	364	1,304	1,594	2,783
Total operating expenses	12,300	15,707	36,281	44,265
Operating income	8,139	12,795	23,155	45,009
Interest expense, net	394	749	1,323	2,080
Loss on early extinguishment of debt	—	—	—	319
Other non-operating expense (income)	(202)	325	(442)	491
Income before income taxes	7,947	11,721	22,274	42,119
Provision for income taxes	2,698	4,021	7,554	14,148
Net income	\$ 5,249	\$ 7,700	\$ 14,720	\$ 27,971
Net income per common share:				
Basic	\$ 0.24	\$ 0.36	\$ 0.68	\$ 1.30
Diluted	\$ 0.24	\$ 0.35	\$ 0.68	\$ 1.29
Weighted average common shares:				
Basic	21,596,344	21,575,756	21,590,362	21,568,227
Diluted	21,768,570	21,745,996	21,735,512	21,763,105

See accompanying notes.

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

	Nine Months Ended	
	December 26, 2009	December 27, 2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 14,720	\$ 27,971
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	7,971	8,387
Excess tax benefits from stock-based compensation	(29)	(99)
Deferred income taxes	(3,847)	(18)
Amortization of intangible assets	984	1,159
Amortization of deferred financing costs	154	174
Stock-based compensation	2,278	1,756
Loss on disposition or sale of assets	29	615
Loss on early extinguishment of debt (non-cash portion)	—	319
<b>Changes in operating assets and liabilities, net of acquisitions:</b>		
Accounts receivable	18,548	3,138
Inventory	(1,937)	(10,858)
Prepaid expenses and other current assets	3,766	(1,807)
Other non-current assets	(1,411)	(997)
Accounts payable	(4,682)	(2,506)
Accrued expenses and other current liabilities	(2,318)	3,155
Other non-current liabilities	747	2,176
Net cash provided by operating activities	34,973	32,565
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(7,508)	(17,727)
Purchase of short-term investments	(6,263)	—
Acquisition of businesses, net of cash acquired	(1,924)	(6,579)
Proceeds from sale of assets	—	562
Net cash used in investing activities	(15,695)	(23,744)
<b>Cash flows from financing activities:</b>		
Borrowings under revolving credit facility	—	41,000
Paydown of revolving credit facility	(15,000)	(29,000)
Exercise of stock options	7	253
Excess tax benefits from stock-based compensation	29	99
Repurchase of common stock	(788)	(515)
Retirement of industrial revenue bonds	—	(15,500)
Payments on notes payable	(217)	(60)
Principal payments on capital lease obligations and other	(223)	(171)
Net cash used in financing activities	(16,192)	(3,894)
Effect of exchange rate changes on cash	514	312
<b>Cash and cash equivalents:</b>		
Increase during the period	3,600	5,239

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Cash, at beginning of period	30,557	9,859
Cash, at end of period	\$ 34,157	\$ 15,098
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,168	\$ 1,848
Income taxes	\$ 7,475	\$ 14,154

A note payable of \$775 was used in the acquisition of Lubron.

See accompanying notes.



RBC Bearings Incorporated  
Notes to Unaudited Interim Consolidated Financial Statements  
(dollars in thousands, except share and per share data)

The consolidated financial statements included herein have been prepared by RBC Bearings Incorporated, a Delaware corporation (collectively with its subsidiaries, the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The March 28, 2009 fiscal year end balance sheet data have been derived from the Company’s audited financial statements, but do not include all disclosures required by generally accepted accounting principles in the United States. The interim financial statements included with this report have been prepared on a consistent basis with the Company’s audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 28, 2009.

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”), RBC Precision Products - Bremen, Inc. (“Bremen (MBC)”), RBC Precision Products - Plymouth, Inc. (“Plymouth”), RBC Lubron Bearings Systems, Inc. (“Lubron”), Schaublin Holdings S.A. and its wholly-owned subsidiaries (“Schaublin”), RBC de Mexico S DE RL DE CV (“Mexico”), RBC Oklahoma, Inc. (“RBC Oklahoma”), RBC Aircraft Products, Inc. (“API”), Shanghai Representative office of Roller Bearing Company of America, Inc. (“RBC Shanghai”), RBC Southwest Products, Inc. (“SWP”), All Power Manufacturing Co. (“All Power”), RBC Bearings U.K. Limited and its wholly-owned subsidiary Phoenix Bearings Limited (“Phoenix”) and RBC CBS Coastal Bearing Services LLC (“CBS”), as well as its Transport Dynamics (“TDC”), Heim (“Heim”), Engineered Components (“ECD”), A.I.D. Company (“AID”), BEMD Company (“BEMD”) and PIC Design (“PIC Design”) divisions of RBCA. U.S. Bearings (“USB”) is a division of SWP and Schaublin USA is a division of Nice. All intercompany balances and transactions have been eliminated in consolidation.

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

The 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.

The Company has performed a review of subsequent events through the date of filing (February 1, 2010) of this Form 10-Q.

The results of operations for the three and nine month periods ended December 26, 2009 are not necessarily indicative of the operating results for the full year. The nine month periods ended December 26, 2009 and December 27, 2008 each include 39 weeks. The amounts shown are in thousands, unless otherwise indicated.

#### Adoption of Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, which was later superseded by the FASB Codification and included in ASC 105-10, “Generally Accepted Accounting Principles – Overall” (“ASC 105-10”). ASC 105-10 establishes the FASB Accounting Standards Codification™ (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with

U.S. GAAP. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification is effective for interim and annual periods ending after September 15, 2009, and as of the effective date, all existing accounting standard documents will be superseded. The Codification became effective for the Company in the quarter ending September 26, 2009. Accordingly, all subsequent public filings reference the Codification as the sole source of authoritative literature. The new pronouncement did not have an impact on the Company's results of operations or financial position.

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 157, later superseded by the FASB Codification and included in ASC 820-10, “Fair Value Measurement and Disclosure - Overall” (“ASC 820-10”), in order to establish a single definition of fair value and a framework for measuring fair value that is intended to result in increased consistency and comparability in fair value measurements. The Company completed the adoption of ASC 820-10 as of the beginning of its 2010 fiscal year, which did not have an impact on the Company’s results of operations and financial position.

In December 2008, the FASB issued FASB Staff Position, or FSP, No. FAS 132(R)-1, amending SFAS 132, which was later superseded by the FASB Codification and included in ASC 715-20, “Defined Benefit Plans - General” (“ASC 715-20”). ASC 715-20 requires enhanced disclosures about plan assets in an employer’s defined benefit pension or other postretirement plans. These disclosures are intended to provide users of financial statements with a greater understanding of how investment allocation decisions are made, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets and significant concentrations of risk within plan assets. ASC 715-20 will apply to the Company’s plan asset disclosures in its fiscal year ending April 3, 2010. The Company is currently evaluating the disclosure implications of this pronouncement, however the adoption of it will not have an impact on the Company’s results of operations and financial position.

## 1. Acquisition

On September 29, 2009, the Company acquired certain assets of Lubron Bearing Systems for \$2,951. The purchase price included \$1,967 in cash, a \$775 note payable and the assumption of certain liabilities. The purchase price was allocated as follows: inventory (\$96), fixed assets (\$829), goodwill (\$1,695) and intangible assets (\$331). Lubron, located in Huntington Beach, California, is a manufacturer of highly engineered self-lubricating bearings used in bridge building, power generation, subsea oil production and earthquake seismic isolation. Lubron is included in the Plain Bearings segment. Proforma net sales and net income inclusive of Lubron are not materially different from the amounts as reported in the accompanying consolidated statements of operations.

## 2. Net Income Per Common Share

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

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

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

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	Three Months Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Net income	\$ 5,249	\$ 7,700	\$ 14,720	\$ 27,971
Denominator for basic net income per common share—weighted-average shares	21,596,344	21,575,756	21,590,362	21,568,227
Effect of dilution due to employee stock options	172,226	170,240	145,150	194,878
Denominator for diluted net income per common share— weighted-average shares	21,768,570	21,745,996	21,735,512	21,763,105
Basic net income per common share	\$ 0.24	\$ 0.36	\$ 0.68	\$ 1.30
Diluted net income per common share	\$ 0.24	\$ 0.35	\$ 0.68	\$ 1.29

Basic weighted-average common shares do not include 132,225 and 133,299 unvested restricted stock shares at December 26, 2009 and December 27, 2008, respectively.

At December 26, 2009, 1,144,700 employee stock options have been excluded from the calculation of diluted earnings per share, as the inclusion of these shares would be anti-dilutive. 890,200 such options were excluded at December 27, 2008.

### 3. Cash and Cash Equivalents

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

### 4. Short-term Investments

Short-term investments include corporate bonds that are classified as available-for-sale expected to be sold within the next twelve months. These bonds, with an amortized basis of \$6,136 and with maturity dates ranging from March 2011 to November 2012, were measured at fair value by using quoted prices in active markets for identical assets and are classified as Level 1 of the valuation hierarchy. The impact of these investments on results of operations and financial position was not significant.

### 5. Inventory

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

	December 26, 2009	March 28, 2009
Raw materials	\$ 11,173	\$ 11,325
Work in process	40,499	39,155
Finished goods	86,522	83,795
	\$ 138,194	\$ 134,275

## 6. Comprehensive Income

Total comprehensive income is as follows:

	Three Months Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
Net income	\$ 5,249	\$ 7,700	\$ 14,720	\$ 27,971
Net prior service cost and actuarial losses, net of taxes	16	(14)	48	(41)
Change in fair value of derivatives, net of taxes	83	(969)	237	(552)
Unrealized gain on investments, net of taxes	5	—	77	—
Foreign currency translation adjustments	(831)	682	2,539	(2,007)
Total comprehensive income	\$ 4,522	\$ 7,399	\$ 17,621	\$ 25,371

## 7. Debt

The balances payable under all borrowing facilities are as follows:

	December 26, 2009	March 28, 2009
KeyBank Credit Agreement, five-year senior secured revolving credit facility; amounts outstanding bear interest at LIBOR plus a specified margin (LIBOR 0.25% and 0.5% at December 26, 2009 and March 28, 2009, respectively)	\$ 52,000	\$ 67,000
Note Payable	1,702	1,151
Total Debt	53,702	68,151
Less: Current Portion	1,702	1,151
Long-Term Debt	\$ 52,000	\$ 67,000

The current portion of long-term debt includes notes payable related to the Lubron, AID, BEMD and All Power acquisitions.

On January 8, 2008, the Company entered into an interest rate swap agreement with a total notional value of \$30,000 to hedge a portion of its variable rate debt. Under the terms of the agreement, the Company pays interest at a fixed rate (3.64%) and receives interest at variable rates. The maturity date of the interest swap is June 24, 2011. The fair value of this swap at December 26, 2009 was a liability of \$1,311, included in other current liabilities, and was measured using observable market inputs such as yield curves (as provided by the financial institution with which the swap has been executed). Based on these inputs, the swap is classified as a Level 2 of the valuation hierarchy. This instrument is designated and qualifies as a cash flow hedge. Accordingly, the gain or loss on both the hedging instrument and the hedged item attributable to the hedged risk are recognized in other comprehensive income.

## 8. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to state or foreign income tax examinations by tax authorities for years ending before March 31, 2002. The Company is no longer subject to U.S. federal tax examination by the Internal Revenue Service for years ending before March 31, 2004. The Company is currently under examination for fiscal years 2007 and 2008.

There have been no material changes to the total amount of unrecognized tax benefits during the three and nine months ended December 26, 2009.

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The effective income tax rates for the three and nine month periods ended December 26, 2009 and December 27, 2008 were 33.9% and 34.3% and 33.9% and 33.6%, respectively. The effective income tax rates are below the U.S. statutory rate due to foreign income taxed at lower rates and a special manufacturing deduction in the U.S.

## 9. Reportable Segments

The Company operates through operating segments for which separate financial information is available, and for which operating results are evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. Those operating segments with similar economic characteristics and that meet all other required criteria, including nature of the products and production processes, distribution patterns and classes of customers, are aggregated as reportable segments. Certain other operating segments do not exhibit the common attributes mentioned above and do not meet the quantitative thresholds for separate disclosure, and their information is combined and disclosed as "Other". There is also a segment reflecting corporate charges.

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

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

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

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

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

**Corporate.** Corporate consists of expenses incurred at the corporate office.

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

	Three Months Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
<b>Net External Sales</b>				
Roller	\$ 18,955	\$ 20,969	\$ 51,834	\$ 71,592
Plain	32,717	39,898	93,979	126,794
Ball	10,112	16,157	33,724	47,758
Other	5,697	8,257	15,333	25,811
	\$ 67,481	\$ 85,281	\$ 194,870	\$ 271,955
<b>Operating Income</b>				
Roller	\$ 4,946	\$ 5,842	\$ 14,779	\$ 19,700
Plain	7,083	9,569	18,845	31,611
Ball	1,127	3,867	4,633	11,108
Other	646	692	761	1,945
Corporate	(5,663)	(7,175)	(15,863)	(19,355)
	\$ 8,139	\$ 12,795	\$ 23,155	\$ 45,009
<b>Geographic External Sales</b>				
Domestic	\$ 56,643	\$ 72,150	\$ 164,895	\$ 229,430
Foreign	10,838	13,131	29,975	42,525
	\$ 67,481	\$ 85,281	\$ 194,870	\$ 271,955
<b>Intersegment Sales</b>				
Roller	\$ 1,894	\$ 2,599	\$ 6,255	\$ 7,828
Plain	431	317	1,131	1,379
Ball	768	2,003	3,471	6,195
Other	3,657	4,977	11,229	14,680
	\$ 6,750	\$ 9,896	\$ 22,086	\$ 30,082

All intersegment sales are eliminated in consolidation.

#### 10. Subsequent Event

The American Recovery and Reinvestment Act of 2009 provides for a new Advanced Energy Manufacturing Credit under Internal Revenue Code 48C ("Section 48C credit"). This 30% investment credit on qualified property is a collaborative effort of the Internal Revenue Service and the Department of Energy. Its purpose is to encourage the re-equipment, expansion, or establishment of a manufacturing facility for the production of qualified advanced energy property. This Section 48C credit is generally allowed in the taxable year in which the eligible property is placed in service by the taxpayer.

On January 7, 2010, the Company was notified by the Internal Revenue Service in acceptance letters that it has received two awards totaling over \$8 million to support the development of its wind turbine bearing facility in Houston, Texas. The first 48C award is a tax credit of approximately \$4.2 million related to the recently completed investment in the Company's Houston, Texas facility. This facility was placed in service by the Company in its fiscal 2010 year. The second is a tax credit of \$4.2 million to support future expansion of the Houston facility. To qualify for the second award, the eligible property for the future expansion would have to be placed in service within three years from the date of certification of the project.





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

### Cautionary Statement As To Forward-Looking Information

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

The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation: (a) the bearing industry is highly competitive, and this competition could reduce our profitability or limit our ability to grow; (b) the loss of a major customer could result in a material reduction in our revenues and profitability; (c) weakness in any of the industries in which our customers operate, as well as the cyclical nature of our customers' businesses generally, could materially reduce our revenues and profitability; (d) future reductions or changes in U.S. government spending could negatively affect our business; (e) fluctuating supply and costs of raw materials and energy resources could materially reduce our revenues, cash flow from operations and profitability; (f) our products are subject to certain approvals, and the loss of such approvals could materially reduce our revenues and profitability; (g) restrictions in our indebtedness agreements could limit our growth and our ability to respond to changing conditions; (h) work stoppages and other labor problems could materially reduce our ability to operate our business; (i) our business is capital intensive and may consume cash in excess of cash flow from our operations; (j) unexpected equipment failures, catastrophic events or capacity constraints may increase our costs and reduce our sales due to production curtailments or shutdowns; (k) we may not be able to continue to make the acquisitions necessary for us to realize our growth strategy; (l) the costs and difficulties of integrating acquired businesses could impede our future growth; (m) we depend heavily on our senior management and other key personnel, the loss of whom could materially affect our financial performance and prospects; (n) our international operations are subject to risks inherent in such activities; (o) currency translation risks may have a material impact on our results of operations; (p) we may be required to make significant future contributions to our pension plan; (q) we may incur material losses for product liability and recall related claims; (r) environmental regulations impose substantial costs and limitations on our operations, and environmental compliance may be more costly than we expect; (s) our intellectual property and other proprietary rights are valuable, and any inability to protect them could adversely affect our business and results of operations; in addition, we may be subject to infringement claims by third parties; (t) cancellation of orders in our backlog of orders could negatively impact our revenues; (u) if we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud; and (v) provisions in our charter documents may prevent or hinder efforts to acquire a controlling interest in us. Additional information regarding these and other risks and uncertainties is contained in our periodic filings with the SEC, including, without limitation, the risks identified under the heading "Risk Factors" set forth in the Annual Report on Form 10-K for the year ended March 28, 2009. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not intend, and undertake no obligation, to update or alter any forward-looking statement. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Quarterly Report.



## Overview

We are an 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 have been providing bearing solutions to our customers since 1919. Over the past ten years, we have significantly broadened our end markets, products, customer base and geographic reach. We currently have 26 facilities, of which 23 are manufacturing facilities, in four countries.

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

## Outlook

Backlog, as of December 26, 2009, was \$155.6 million versus \$221.4 million as of December 27, 2008. Management believes that operating cash flows and available credit under the credit facility will provide adequate resources to fund internal and external growth initiatives for the foreseeable future.

## Results of Operations

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

	Three Months Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
<b>Statement of Operations Data:</b>				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross margin	30.3	33.4	30.5	32.8
Selling, general and administrative	17.7	16.9	17.8	15.3
Other, net	0.5	1.5	0.8	1.0
Operating income	12.1	15.0	11.9	16.5
Interest expense, net	0.6	0.9	0.7	0.7
Loss on early extinguishment of debt	—	—	—	0.1
Other non-operating income	(0.3)	0.4	(0.2)	0.2
Income before income taxes	11.8	13.7	11.4	15.5
Provision for income taxes	4.0	4.7	3.9	5.2
<b>Net income</b>	<b>7.8</b>	<b>9.0</b>	<b>7.5</b>	<b>10.3</b>



Three Month Period Ended December 26, 2009 Compared to Three Month Period Ended December 27, 2008

**Net Sales.** Net sales for the three month period ended December 26, 2009 were \$67.5 million, a decrease of \$17.8 million, or 20.9%, compared to \$85.3 million for the same period in the prior year. During the three month period ended December 26, 2009, we experienced a net sales decline in all four of our business segments, driven by lower demand across our end markets due to the weak economic climate. Net sales to diversified industrial customers fell 16.6% in the three month period ended December 26, 2009 compared to the same period last fiscal year. This is mainly the result of the overall decline in the global industrial markets. The inclusion of our Lubron acquisition offset the decline in net sales to diversified industrial customers by \$1.3 million. Net sales to aerospace and defense customers declined 23.8% in the three month period ended December 26, 2009 compared to the same period last fiscal year, mainly driven by a slowdown in the business jet market and inventory liquidations by aircraft distributors.

The Plain Bearings segment achieved net sales of \$32.7 million for the three month period ended December 26, 2009, a decrease of \$7.2 million, or 18.0%, compared to \$39.9 million for the same period in the prior fiscal year. The weak economy contributed to an overall net sales decline in this segment, with a \$1.5 million decrease in net sales to diversified industrial customers combined with a \$6.9 million decline in net sales to aerospace and defense customers. The inclusion of our Lubron acquisition offset the decline in net sales to diversified industrial customers by \$1.3 million.

The Roller Bearings segment achieved net sales of \$19.0 million for the three month period ended December 26, 2009, a decrease of \$2.0 million, or 9.6%, compared to \$21.0 million for the same period in the prior fiscal year. The weak economic performance of the industrial sector contributed \$3.4 million of this net sales decline offset by a \$1.4 million increase in net sales to aerospace and defense customers.

The Ball Bearings segment achieved net sales of \$10.1 million for the three month period ended December 26, 2009, a decrease of \$6.1 million, or 37.4%, compared to \$16.2 million for the same period in the prior year. Of this decline, \$0.7 million was attributable to the impact of the economic downturn on the industrial sector while net sales to the aerospace and defense sector declined \$5.4 million compared to the same period in fiscal 2009.

The Other segment, which is focused mainly on the sale of machine tool collets and precision mechanical components, achieved net sales of \$5.7 million for the three month period ended December 26, 2009, a decrease of \$2.6 million, or 31.0%, compared to \$8.3 million for the same period last year.

**Gross Margin.** Gross margin was \$20.4 million, or 30.3% of net sales, for the three month period ended December 26, 2009, versus \$28.5 million, or 33.4% of net sales, for the comparable period in fiscal 2009. The decrease in our gross margin as a percentage of net sales was primarily the result of the current economic downturn combined with start-up costs associated with our expansion into new bearing product lines.

**Selling, General and Administrative.** SG&A expenses decreased by \$2.5 million, or 17.1%, to \$11.9 million for the three month period ended December 26, 2009 compared to \$14.4 million for the same period in fiscal 2009. As a percentage of net sales, SG&A increased to 17.7% for the three month period ended December 26, 2009 compared to 16.9% for the three month period ended December 27, 2008. The decrease of \$2.5 million was primarily attributable to personnel-related cost reductions and reductions in other expenses, offset by higher stock option compensation expense of \$0.2 million.

**Other, net.** Other, net for the three month period ended December 26, 2009 was \$0.4 million, a decrease of \$0.9 million, compared to \$1.3 million for the same period last fiscal year. For the three month period ended December 26, 2009, other, net consisted of \$0.3 million of amortization of intangibles and \$0.1 million of restructuring and moving costs, including costs associated with the consolidation of our Houston, Texas facilities. For the three month period ended December 27, 2008, other, net consisted of \$0.4 million of amortization of intangibles, \$0.8 million of

consolidation expenses related to our South Carolina operations and \$0.1 million of miscellaneous expenses.

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