

RBC Bearings INC  
Form 10-K  
May 30, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-K**

**(Mark One)**

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

**For the fiscal year ended March 31, 2012**

**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<br>(State or other jurisdiction of<br>incorporation or organization) | 95-4372080<br>(I.R.S. Employer<br>Identification No.) |
|---|---|

|  |                     |
|--|---------------------|
| One Tribology Center, Oxford, CT<br>(Address of principal executive offices) | 06478<br>(Zip Code) |
|--|---------------------|

**(203) 267-7001**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act: None**

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

Class A Common Stock, Par Value \$0.01 per Share

(Title of class)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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):

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

Smaller reporting company

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

The aggregate market value of the registrant's Class A Common Stock held by non-affiliates of the registrant on October 1, 2011 (based on the September 30, 2011 closing sales price of \$33.99 of the registrant's Class A Common Stock, as reported by the Nasdaq National Market) was approximately \$745,859,000.

Number of shares outstanding of the registrant's Class A Common Stock at May 21, 2012:

22,182,080 Shares of Class A Common Stock, par value \$0.01 per share.

Documents Incorporated by Reference:

Portions of the registrant's proxy statement to be filed within 120 days of the close of the registrant's fiscal year in connection with the registrant's Annual Meeting of Shareholders to be held September 11, 2012 are incorporated by reference into Part III of this Form 10-K.

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## **PART I**

### **ITEM 1. BUSINESS**

#### **RBC Bearings Incorporated**

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 25 facilities of which 23 are manufacturing facilities in four countries.

#### **The Bearing Industry**

The bearing industry is a 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 in the diversified industrial market is influenced by growth factors in industrial machinery and equipment shipments and construction, mining, energy and general industrial activity. In addition, usage of existing machinery will impact aftermarket demand for replacement bearing products. In the aerospace market, aging of the existing commercial aircraft fleet along with carrier traffic growth determines demand for our bearing solutions. Lastly, activity 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 aftermarket demand for replacement bearings.

#### **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. Financial information regarding geographic areas is set forth in Part II, Item 8. "Financial Statements and Supplementary Data," Note 19 "Reportable Segments."

*Diversified Industrial Market (53% of net sales for the fiscal year ended March 31, 2012)*

We manufacture bearing products for a wide range of diversified industrial markets, including construction and mining, oil and natural resource extraction, heavy truck, rail, 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 market applications in which our engineering and manufacturing capabilities provide us with a competitive advantage in the marketplace.

Our largest diversified industrial customers include AxleTech International, Caterpillar, Halliburton, Komatsu America, National Oilwell Varco and various aftermarket distributors including Applied Industrial, Kaman Corporation, McMaster Carr and Motion Industries. We believe that the diversification of our sales among the various segments 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 the introduction of new products, the expansion of aftermarket sales and continued cost reduction.

*Aerospace and Defense Market (47% of net sales for the fiscal year ended March 31, 2012)*

We supply bearings for use in commercial, private and military aircraft. We supply bearings for many of the commercial aircraft currently operating worldwide and are the primary supplier for many of their 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.

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 aerospace and defense customers include Airbus, Boeing, Embraer, General Electric, Lockheed Martin, Snecma Group, U.S. Department of Defense and various aftermarket channels. We estimate that over 29% of 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 market will be driven primarily by expanding our international presence, new commercial aircraft introductions, and the refurbishment and maintenance of existing commercial aircraft.

In fiscal 2012, 3.4% of our net sales were made directly, and we estimate that approximately an additional 19.9% of our net sales were made indirectly, to the U.S. government. These indirect net sales include 4.6% from military vehicle business from our diversified industrial customers. These contracts or subcontracts may be subject to renegotiation of profit or termination of contracts at the election of the government. We, based on experience, believe that no material renegotiations or refunds will be required. See Part I, Item 1A. "Risk Factors – Future reductions or changes in U.S. government spending could negatively affect our business."

**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. We operate through operating segments for which separate financial information is available, and for which operating results are evaluated regularly by our 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 that do not exhibit the common attributes mentioned above and do not meet the quantitative thresholds for separate disclosure are combined and disclosed as "Other".

The following table provides a summary of our four reportable product segments: Plain Bearings; Roller Bearings; Ball Bearings; and Other. Within the Plain Bearings, Roller Bearings and Ball Bearings reportable segments, we have not aggregated any operating segments. Within the Other reportable segment, we have aggregated operating segments because they do not meet the quantitative threshold for separate disclosure.



| Segment         | Net Sales for the Fiscal Year Ended |                        |                        | Representative Applications   |
|-----------------|-------------------------------------|------------------------|------------------------|---|
|                 | March<br>31, 2012                   | April 2, 2011          | April 3, 2010          |   |
| Plain Bearings  | \$200,141<br>(50.3 )%               | \$ 168,777<br>(50.3 )% | \$ 134,303<br>(48.9 )% | · Aircraft engine controls and landing gear<br>· Missile launchers<br>· Mining, energy and construction equipment |
| Roller Bearings | \$123,803<br>(31.1 )%               | \$ 98,942<br>(29.5 )%  | \$ 73,164<br>(26.6 )%  | · Aircraft hydraulics<br>· Military and commercial truck chassis<br>· Packaging machinery and gear pumps          |
| Ball Bearings   | \$42,330<br>(10.7 )%                | \$ 40,637<br>(12.1 )%  | \$ 45,442<br>(16.6 )%  | · Radar and night vision systems<br>· Airframe control and actuation<br>· Semiconductor equipment                 |
| Other           | \$31,237<br>(7.9 )%                 | \$ 27,269<br>(7.9 )%   | \$ 21,793<br>(8.1 )%   | · Collets for machine tools<br>· Industrial gears   |

*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.

*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.

*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.

*Other.* Our other products consist primarily of precision mechanical components and machine tool collets. Precision mechanical components are used in all general industrial applications, where some form of movement is required. 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.

### **Product Design and Development**

We produce specialized bearings that 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 sales 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 and 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 thereby 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 Federal Aviation Administration, or “FAA,” which allows us to supply the product to the customer. We currently have in excess of 32,800 of 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 full first shift with 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.

*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. This requires a greater investment in working capital to maintain these levels. 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 affect 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 4,000 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 website, 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 five leased and two company owned and operated warehouses located in the Midwest, Southwest and on the East and West coasts of the U.S. as well as in France and Switzerland. The inventory is located in these warehouses based on analysis of customer demand to provide superior service and product availability.

## **Competition**

Our principal competitors include Kaydon Corporation, McGill Manufacturing Company, Inc., New Hampshire Ball Bearings and Timken 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 and 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 operation of their machinery. We maintain inventory levels of our most popular items for immediate sale and service with 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 fluctuate as a result of supply and demand driven by economic conditions in the marketplace. For further discussion of the possible effects of changes in the cost of raw materials on our business, see Part I, Item 1A. "Risk Factors" in this Annual Report on Form 10-K.

### **Backlog**

As of March 31, 2012, we had order backlog of \$215.9 million compared to a backlog of \$196.7 million in the prior fiscal 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 1,347 hourly employees and 790 salaried employees as of March 31, 2012, of whom 470 were employed in our European and Mexican operations. As of March 31, 2012, 157 of our hourly employees were represented by unions in the U.S. We believe that our employee relations are satisfactory.

We are subject to three collective bargaining agreements with the United Auto Workers covering substantially all of the hourly employees at our Fairfield, Connecticut, West Trenton, New Jersey and Plymouth, Indiana plants. These agreements expire on January 31, 2013, June 30, 2014 and October 30, 2015, respectively.

## **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 84 issued or pending U.S. and 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. Many of our brands are well recognized by our customers and are considered valuable assets of our business. We currently have 164 issued or pending U.S. and foreign trademark registrations and applications. We do not believe, however, that any individual item of intellectual property is material to our business.

## **Regulation**

*Product Approvals.* Essential to servicing the aerospace market is the ability to obtain product approvals. We have a substantial number of product approvals in the form of OEM approvals or Parts Manufacturer Approvals, or “PMAs,” from the FAA. We also have a substantial number of active PMA applications in process. These approvals enable us to provide products used in virtually all domestic aircraft platforms presently in production or operation.

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 compliance in fiscal 2013.

Investigation and remediation of contamination is ongoing at some of our sites. In particular, state agencies have been overseeing groundwater monitoring activities at our facility in Hartsville, South Carolina and a corrective action plan at our Clayton, Georgia facility. At Hartsville, we are monitoring low levels of contaminants in the groundwater caused by former operations. Plans are currently underway to conclude remediation and monitoring activities. 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. In connection with the purchase of our Clayton, Georgia facility, we agreed to take assignment of the hazardous waste permit covering such facility and to assume certain responsibilities to implement a corrective action plan concerning the remediation of certain soil and groundwater contamination present at that facility. The corrective action plan is in the early stages. Although there can be no assurance, we do not expect expenses associated with these activities to be material.



## **Available Information**

We file our annual, quarterly and current reports, proxy statements, and other documents with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 405 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The public can obtain any documents that are filed by us at <http://www.sec.gov>.

In addition, this Annual Report on Form 10-K, as well as our quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to all of the foregoing reports and our governance documents, are made available free of charge on our Internet website (<http://www.rbcbearings.com>) as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. A copy of the above filings will also be provided free of charge upon written request to us.

## **ITEM 1A. RISK FACTORS**

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

This report includes "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. 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, cash flows, 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," "anticipate," the negative of such terms or other comparable terminology.

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, results of operations and cash flows, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed in this Annual Report on Form 10-K. 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:

Weaknesses and cyclicalities 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;

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 acquire and integrate complementary businesses;

Unexpected equipment failures, catastrophic events or capacity constraints;

The costs of defending, or the results 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;

Limitations on our ability to expand our business;

Regulatory changes or developments in the U.S. and foreign countries;

Developments or disputes concerning patents or other proprietary rights;

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;

Investors' perceptions of us and our industry;

General economic, geopolitical, industry and market conditions; and

Changes in tax requirements (including tax rate changes and new tax laws).

Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this Annual Report on Form 10-K, including under Part I, Item 1. “Business,” Part I, Item 1A. “Risk Factors,” Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 8. “Financial Statements and Supplementary Data.”

We are not under any duty to update any forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the Securities and Exchange Commission. All forward-looking statements contained in this report and any subsequently filed reports are expressly qualified in their entirety by these cautionary statements.

Our business, operating results, cash flows 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 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 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, and 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 28% and 30% of our net sales during fiscal 2012 and fiscal 2011, respectively. 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 could affect our customers and reduce 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. Many of our customers have historically experienced periodic downturns, which often have had a negative effect on demand for our products. Previous industry downturns have negatively affected, and future industry downturns will 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 2012, 3.4% of our net sales were made directly, and we estimate that, including our diversified industrial market, approximately an additional 19.9% 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 budget. A shift in government defense spending to other programs in which we are not involved or a reduction in U.S. government defense spending generally could materially reduce our revenues, cash flows 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 flows 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. 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.

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 3 months 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. 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. 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.

**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 a substantial number of 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 PMA process), which enables suppliers who currently sell their products to the Production Approval Holders, to sell products to the aftermarket. Our foreign sales may be subject to similar approvals or U.S. export control restrictions. 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.

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

As of March 31, 2012, approximately 12% of our hourly employees were represented by labor unions in the U.S. and abroad. 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. 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 three collective bargaining agreements, one agreement covering approximately 52 employees will expire in June 2014, one agreement covering approximately 75 employees will expire in January 2013 and one agreement covering approximately 30 employees will expire in October 2015.

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.

**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 full first shift with second and third shifts at some locations, 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.

**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 frequently engage in evaluations of potential acquisitions and negotiations for possible acquisitions, some of which, if consummated, could be significant to us. 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 culture of the acquired business matching with our culture, the ability to retain and assimilate employees of the acquired business, the ability to retain customers and integrate customer bases, 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. As a result of our acquisitions of other businesses, we may be subject to the risk of unforeseen business uncertainties or legal liabilities relating to those acquired businesses for which the sellers may not indemnify us. Future acquisitions may also result in potentially dilutive issuances of securities.

**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 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.

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, Switzerland, China and England. Of our 25 facilities, 5 are located outside the U.S., including 4 manufacturing facilities.

In fiscal 2012, 15% of our net sales were generated by our international operations. 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. 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.

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

Our Swiss operations utilize the Swiss Franc as the functional currency, our French operations utilize the Euro as the functional currency and our English operations utilize the British Pound Sterling as the functional currency. Foreign currency transaction gains and losses are included in earnings. Foreign currency transaction exposure arises primarily from the transfer of foreign currency from one subsidiary to another within the group and to foreign currency denominated trade receivables. Unrealized currency translation gains and losses are recognized upon translation of the foreign subsidiaries' balance sheets to U.S. dollars. Because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our earnings. We periodically enter into derivative financial instruments such as forward exchange contracts to reduce the effect of fluctuations in exchange rates on certain third-party sales transactions denominated in non-functional currencies. Currency fluctuations have not had a material impact on our financial performance in the past, but such fluctuations may affect our financial performance in the future and we cannot predict the impact of future exchange rate fluctuations on our results of operations. See Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Exchange Rates."

**We may be required to make significant future contributions to our pension plan.**

As of March 31, 2012, we maintained one noncontributory defined benefit pension plan. The plan was underfunded by \$4.8 million as of March 31, 2012 and by \$3.0 million as of April 2, 2011, which are the amounts by which the accumulated benefit obligations are more than the sum of the fair market value of the plan's assets. We are required to make cash contributions to our pension plan to the extent necessary to comply with minimum funding requirements imposed by employee benefit laws and tax laws. The amount of any such required contributions is determined based on annual actuarial valuation of the plan 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 plan 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 plan or if the plan becomes unable to pay benefits, then the Pension Benefit Guaranty Corporation could terminate the plan and take control of its 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 plan and plan liabilities, see Part II, Item 8. "Financial Statements and Supplementary Data," Note 13 "Pension Plans."

**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, use or misuse of any of our products results in personal injury, death, or property damage or our products do 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 regulatory 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 and other agreements 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, trademark registrations and U.S. copyright registrations. We also have U.S. and foreign 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. 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 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 Part I, Item 1. "Business—Intellectual Property."

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

As of March 31, 2012, we had an order backlog of \$215.9 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. To date, we have not detected any material weakness or significant deficiencies in our internal controls 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.

**Risk Factors Related to our Common Stock**

**Provisions in our charter documents may prevent or 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 which might benefit our stockholders or in which our stockholders might otherwise receive a premium for their shares. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management.

Our certificate of incorporation authorizes the issuance of preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors without stockholder approval. Holders of the common stock may 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 us or could impede our stockholders' ability to

approve a transaction they consider in their best interests. Although we have no present intention to issue any new shares of preferred stock, we may do so in the future.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

Our principal executive office is located at One Tribology Center, Oxford, Connecticut 06478. We also use this facility for manufacturing.

We own facilities in the following locations:

|                              |                             |
|------------------------------|-----------------------------|
| Rancho Dominguez, California | Clayton, Georgia            |
| Santa Ana, California        | Bremen, Indiana             |
| Fairfield, Connecticut       | Plymouth, Indiana           |
| Middlebury, Connecticut      | Bishopville, South Carolina |
| Torrington, Connecticut      | Hartsville, South Carolina  |
| Ball Ground, Georgia         | Houston, Texas              |
| Canton, Georgia              |                             |

We have leases in effect with respect to the following facilities:

| <b>Location of Leased Facility</b> | <b>Lease Expiration Date</b> | <b>Location of Leased Facility</b> | <b>Lease Expiration Date</b> |
|------------------------------------|------------------------------|------------------------------------|------------------------------|
| Baldwin Park, California           | April 30, 2013               | Reynosa, Mexico                    | June 13, 2013                |
| Fountain Valley, California        | November 30, 2016            | West Trenton, New Jersey           | February 28, 2015            |
| Huntington Beach, California       | June 30, 2012                | Oklahoma City, Oklahoma            | September 30, 2021           |
| Santa Fe Springs, California       | November 30, 2012            | Horsham, Pennsylvania              | April 14, 2013               |
| Shanghai, China                    | May 31, 2013                 | Bishopville, South Carolina        | January 31, 2016             |
| Oxford, Connecticut                | September 30, 2014           | Hartsville, South Carolina         | September 30, 2014           |
| Gloucestershire, England           | April 30, 2018               | Delemont, Switzerland              | August 31, 2015              |
| Les Ulis, France                   | June 30, 2016                | Grand Prairie, Texas               | February 28, 2015            |
| Hoffman Estates, Illinois          | August 31, 2015              |                                    |                              |

We have several small field offices located in various locations to support field sales operations.

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 JP Morgan Credit Agreement.

### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, we are involved in legal 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, liquidity, cash flow or prospects.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2012.

### **EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers are elected by the Board of Directors normally for a term of one year and until the election of their successors. The executive officers of the company as of May 21, 2012 are as follows:

| <b>Name</b>         | <b>Age</b> | <b>Current Position and Previous Positions During Last Five Years</b>   |
|---------------------|------------|---|
| Michael J. Hartnett | 66         | 1992 Chairman, President and Chief Executive Officer                    |
| Daniel A. Bergeron  | 52         | 2006 Vice President and Chief Financial Officer and Assistant Secretary |
| Thomas C. Crainer   | 54         | 2008 Vice President and General Manager                                 |
| Richard J. Edwards  | 56         | 1996 Vice President and General Manager                                 |
| Thomas J. Williams  | 60         | 2006 Corporate General Counsel and Secretary                            |
| Thomas M. Burigo    | 60         | 2006 Corporate Controller   |



**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Price range of our Common Stock**

Our common stock is quoted on the Nasdaq National Market under the symbol "ROLL." As of May 21, 2012, there were 50 holders of record of our common stock.

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:

|                | Fiscal 2012 |            | Fiscal 2011 |            |
|----------------|-------------|------------|-------------|------------|
|                | <b>High</b> | <b>Low</b> | <b>High</b> | <b>Low</b> |
| First Quarter  | \$40.78     | \$33.78    | \$34.04     | \$25.61    |
| Second Quarter | 40.57       | 29.39      | 34.60       | 26.53      |
| Third Quarter  | 44.01       | 32.00      | 39.40       | 32.39      |
| Fourth Quarter | 48.05       | 41.09      | 40.00       | 32.98      |

The last reported sale price of our common stock on the Nasdaq National Market on May 21, 2012 was \$44.80 per share.

**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.

**Issuer Purchases of Equity Securities**

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

Total share repurchases for the three months ended March 31, 2012, all of which were made under this program, are as follows:

| Period                  | Total number of shares purchased | Average price paid per share | Number of shares purchased as part of the publicly announced program | Approximate dollar value of shares still available to be purchased under the program (000's) |
|-------------------------|----------------------------------|------------------------------|--|--|
| 01/01/2012 – 01/28/2012 | —                                | \$ —                         | —  | \$ 4,909   |
| 01/29/2012 – 02/25/2012 | 1,314                            | 45.88                        | 1,314  | 4,848  |
| 02/26/2012 – 03/31/2012 | —                                | —                            | —  | \$ 4,848   |
| Total                   | 1,314                            | \$ 45.88                     | 1,314  |  |

During the fourth quarter of fiscal 2012, we did not issue any common stock that was not registered under the Securities Act.

## Equity Compensation Plans

Information regarding equity compensation plans required to be disclosed pursuant to this Item is included in Part II, Item 8. “Financial Statements and Supplementary Data,” Note 16 “Stockholders’ Equity-Stock Option Plans” of this Annual Report on Form 10-K.

## Performance Graph

The following graph shows the total return to our stockholders compared to a peer group and the Nasdaq Composite Index over the period from March 31, 2007 to March 31, 2012. Each line on the graph assumes that \$100 was invested in our common stock on March 31, 2007 or in the respective indices at the closing price on March 31, 2007. The graph then presents the value of these investments, assuming reinvestment of dividends, through the close of trading on March 31, 2012.

### Comparison of Five-Year Cumulative Total Return\*

Among RBC Bearings Incorporated, the Nasdaq Composite Index  
and a Peer Group

|                           | March 31,<br>2007 | March 29,<br>2008 | March 28,<br>2009 | April 3,<br>2010 | April 2,<br>2011 | March 31,<br>2012 |
|---------------------------|-------------------|-------------------|-------------------|------------------|------------------|-------------------|
| RBC Bearings Incorporated | \$ 100.00         | \$ 108.26         | \$ 48.43          | \$94.91          | \$116.24         | \$ 137.99         |
| Nasdaq Composite Index    | 100.00            | 94.12             | 64.98             | 101.99           | 119.67           | 134.05            |
| Peer Group                | 100.00            | 98.59             | 59.79             | 115.22           | 144.80           | 161.77            |

The peer group consists of Kaydon Corporation, Moog Inc., NN Inc., Precision Industries Castparts Corp., Timken Company and Triumph Group Inc., which in our opinion, most closely represent the peer group for our business segments.

\*The cumulative total return shown on the stock performance graph indicates historical results only and is not necessarily indicative of future results.



**ITEM 6. SELECTED 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 31, 2012, April 2, 2011, April 3, 2010, March 28, 2009 and March 29, 2008 have been derived from our historical consolidated financial statements audited by Ernst & Young LLP, independent registered public accounting firm. 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, Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included in Part II, Item 8. "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

|   | Fiscal Year Ended                                  |                  |                  |                   |                   |
|---|--|------------------|------------------|-------------------|-------------------|
|   | March 31,<br>2012                                  | April 2,<br>2011 | April 3,<br>2010 | March 28,<br>2009 | March 29,<br>2008 |
|   | (in thousands, except share and per share amounts) |                  |                  |                   |                   |
| Statement of Operations Data:                       |  |                  |                  |                   |                   |
| Net sales <sup>(1)</sup>                            | \$397,511  | \$335,625        | \$274,702        | \$355,796         | \$330,600         |
| Cost of sales                                       | 256,931  | 225,851          | 190,136          | 237,576           | 217,022           |
| Gross margin  | 140,580  | 109,774          | 84,566           | 118,220           | 113,578           |
| Selling, general and administrative                 | 61,303   | 52,706           | 47,367           | 55,779            | 48,904            |
| Other, net  | 1,629  | 875              | 2,529            | 7,471             | 1,824             |
| Operating income                                    | 77,648   | 56,193           | 34,670           | 54,970            | 62,850            |
| Interest expense, net                               | 1,045  | 1,791            | 1,807            | 2,605             | 3,407             |
| Loss on early extinguishment of debt <sup>(2)</sup> | —  | —                | —                | 319               | 27                |
| Other non-operating expense (income)                | 624  | 1,525            | (147)            | 645               | (463)             |
| Income before income taxes                          | 75,979   | 52,877           | 33,010           | 51,401            | 59,879            |
| Provision for income taxes                          | 25,982   | 18,009           | 8,625            | 16,947            | 19,685            |
| Net income  | \$49,997   | \$34,868         | \$24,385         | \$34,454          | \$40,194          |
| Net income per common share: <sup>(3)</sup>         |  |                  |                  |                   |                   |
| Basic   | \$2.28   | \$1.61           | \$1.13           | \$1.60            | \$1.87            |
| Diluted   | \$2.23   | \$1.58           | \$1.12           | \$1.58            | \$1.84            |
| Weighted average common shares: <sup>(3)</sup>      |  |                  |                  |                   |                   |
| Basic   | 21,880,554   | 21,678,626       | 21,590,421       | 21,570,979        | 21,457,846        |
| Diluted   | 22,390,914   | 22,078,711       | 21,747,082       | 21,738,812        | 21,802,711        |
| Other Financial Data:                               |  |                  |                  |                   |                   |
| Capital expenditures                                | \$17,841   | \$10,440         | \$9,906          | \$27,583          | \$17,758          |

As of  
 March 31,  
 2012      April 2,  
 2011      April 3,  
 2010      March 28,  
 2009      March 29,  
 2008  
 (in thousands)

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Balance Sheet Data:

|                            |          |          |          |          |         |
|----------------------------|----------|----------|----------|----------|---------|
| Cash and cash equivalents  | \$68,621 | \$63,975 | \$21,389 | \$30,557 | \$9,859 |
| Working capital            | 270,434  | 215,791  | 202,714  | 205,904  | 176,269 |
| Total assets               | 459,518  | 425,982  | 375,955  | 382,067  | 337,112 |
| Total debt                 | 1,041    | 31,296   | 38,453   | 68,151   | 57,750  |
| Total stockholders' equity | 385,815  | 330,067  | 283,547  | 256,011  | 223,910 |

(1) Net sales were \$397.5 million in fiscal 2012 compared to \$335.6 million in fiscal 2011, an increase of \$61.9 million.

Net sales were \$335.6 million in fiscal 2011 compared to \$274.7 million in fiscal 2010, an increase of \$60.9 million. Net sales in fiscal 2011 included net sales of \$4.4 million for Lubron (acquired in September 2009).

Net sales were \$274.7 million in fiscal 2010 compared to \$355.8 million in fiscal 2009, a decrease of \$81.1 million. Net sales in the compared periods included net sales of \$2.3 million for Lubron, which was acquired in September 2009.

Net sales were \$355.8 million in fiscal 2009 compared to \$330.6 million in fiscal 2008, an increase of \$25.2 million. Net sales in the compared periods included net sales of \$6.6 million for PIC Design (acquired in June 2008), \$6.1 million for AID (acquired in March 2008) and \$4.8 million for BEMD (acquired in March 2008), all in fiscal 2009.

(2) Loss on early extinguishment of debt in fiscal 2009 was \$0.3 million for the non-cash write-off of deferred financing fees associated with the paydown of \$15.5 million of industrial revenue bonds.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The financial and business analysis below provides information which we believe is relevant to an assessment and understanding of our consolidated financial position, results of operations and cash flows. This financial and business analysis should be read in conjunction with the consolidated financial statements and related notes. All references to "Notes" in this Item 7 refer to the Notes to Consolidated Financial Statements included in Item 8 of the Annual Report on Form 10-K.

The following discussion and certain other sections of this Annual Report on Form 10-K contain statements reflecting our views about our future performance that constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate and our beliefs and assumptions. Any statements contained herein (including without limitation statements to the effect that we or our management "believes," "expects," "anticipates," "plans" and similar expressions) that are not statements of historical fact should be considered forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. There are a number of important factors that could cause actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth, or incorporated by reference, below under the heading "Cautionary Statements." We do not intend to update publicly any forward-looking statements where as a result of new information, future events or otherwise.

### **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 2012 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 25 facilities of which 23 are manufacturing facilities in four countries.

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

During fiscal 2012, the world economy continued to expand, and we experienced favorable conditions across both our diversified industrial and aerospace and defense markets. Our net sales for diversified industrial increased 18.3% year over year and our net sales for aerospace and defense increased 18.5% year over year.

Approximately 15% to 30% of our costs, depending on mix, are attributable to raw materials, a majority of which are related to steel and related products. During fiscal 2012, steel prices continued to increase at a moderate pace in the first half of the fiscal year and then flattened out over the remainder of fiscal 2012. We offset these cost increases by changing our buying patterns, expanding our vendor network and passing through price increases. The overall impact on costs for the year was immaterial.



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 20 acquisitions which have broadened our end markets, products, customer base and geographic reach.

## **Outlook**

We ended fiscal 2012 with a backlog of \$215.9 million compared to \$196.7 million for the same period last year. Our net sales increased 18.4% year over year with the main contribution from growth in both our diversified industrial and aerospace and defense markets. We expect to see continued strength in the diversified industrial markets resulting from growth in the energy, mining, rail, machine tools, and industrial distribution sectors as well as from the overall economic improvement of the general industrial markets. Our internal goal is to grow our diversified industrial business at a pace of 2.0 to 2.5 times Gross Domestic Product (“GDP”).

Our expansion in the large bearing market has continued in fiscal 2012 with additional investment of approximately \$0.7 million in equipment to tool the Houston, Texas facility to address market opportunities in the mining, construction and energy sectors as well as the wind sector. Over the last four fiscal years we have invested approximately \$18.7 million in this facility offset by a \$4.2 million tax credit associated with the Advanced Energy Manufacturing Credit Program. As we discussed in the past, the overall volume capacity of this new facility is approximately \$20.0 million and was originally designed and tooled to address the wind market. We expect this facility to break even, on a cash basis, in fiscal 2013 and become a gross margin contributor in fiscal 2014. In fiscal 2012 this facility negatively impacted our gross margins by \$3.1 million, of which \$1.2 million was depreciation.

During fiscal 2012, we have begun to experience the favorable impact of increased activity from the commercial aircraft industry, especially Boeing and Airbus, with projected growth rates for new planes in the 50% to 60% range over the next few years. Monthly build rates are up approximately 10% to 20% for Boeing and Airbus and they are both forecasting these levels to continue and grow. This activity is expected to have a favorable impact on our business over the next twelve months. As a result of these trends, we have continued to increment our workforce and to expand and tool our plants to absorb additional volume.

## **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 customers. We recognize revenues principally from the sale of products at the point of passage of title, which is at the time of shipment, except for certain customers for which it occurs when the products reach their destination.

Sales to the diversified industrial market accounted for 53% of our net sales for the fiscal year ended March 31, 2012. Sales to the aerospace and defense markets accounted for 47% of our net sales for the same period.

Aftermarket sales of replacement parts for existing equipment platforms represented approximately 52% of our net sales for fiscal 2012. 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 sector. We believe these activities increase the stability of our revenue base, strengthen our brand identity and provide multiple paths for revenue growth.

Approximately 15% of our net sales were generated by our international facilities for fiscal 2012, compared to 14% for fiscal 2011. We expect that this proportion will increase as we seek to increase our penetration of foreign markets. Our top ten customers generated 28% and 30% of our net sales in fiscal 2012 and fiscal 2011, respectively. Out of the 28% of net sales generated by our top ten customers during the fiscal year ended March 31, 2012, 14% of net sales were generated by our top four customers compared to 16% for the comparable period last fiscal year.

## Cost of Revenues

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

We monitor gross margin performance through a process of monthly operation reviews with all our divisions. We 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, incentive stock compensation, facility costs and information technology. We increased SG&A expenses by \$8.6 million in fiscal 2012 compared to fiscal 2011. The increase of \$8.6 million was primarily attributable to an increase of \$6.8 million in personnel-related costs as a result of headcount and salary increases, \$0.8 million from the impact of foreign exchange, \$0.7 million in travel and entertainment expenses, \$0.2 million in professional fees and \$0.1 million in incentive stock compensation.

## 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    |                     |                     |
|-------------------------------------|----------------------|---------------------|---------------------|
|                                     | March<br>31,<br>2012 | April<br>2,<br>2011 | April<br>3,<br>2010 |
| Statement of Operations Data:       |                      |                     |                     |
| Net sales                           | 100.0%               | 100.0%              | 100.0%              |
| Gross margin                        | 35.4                 | 32.7                | 30.8                |
| Selling, general and administrative | 15.4                 | 15.7                | 17.3                |

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|                                      |        |        |        |
|--------------------------------------|--------|--------|--------|
| Other, net                           | 0.4    | 0.3    | 0.9    |
| Operating income                     | 19.6   | 16.7   | 12.6   |
| Interest expense, net                | 0.3    | 0.5    | 0.7    |
| Other non-operating expense (income) | 0.2    | 0.4    | (0.1 ) |
| Income before income taxes           | 19.1   | 15.8   | 12.0   |
| Provision for income taxes           | 6.5    | 5.4    | 3.1    |
| Net income                           | 12.6 % | 10.4 % | 8.9 %  |

We have a fiscal year consisting of 52 or 53 weeks, ending on the Saturday closest to March 31. Based on this policy, fiscal years 2012 and 2011 contained 52 weeks and fiscal year 2010 contained 53 weeks. Our net sales and operating income were approximately 1.9% higher in 2010 as a result of the extra week in that fiscal year.

***Segment Information***

We have four reportable product segments: Plain Bearings, Roller Bearings, Ball Bearings and Other. Other consists of three operating locations that do not fall into the above segmented categories, primarily machine tool collets, machining for integrated bearing assemblies and aircraft components and tight-tolerance, precision mechanical components. Within the Plain Bearings, Roller Bearings and Ball Bearings segments, we have not aggregated any operating segments. Within the Other reportable segment, we have aggregated operating segments because they do not meet the quantitative threshold for separate disclosure.

***Fiscal 2012 Compared to Fiscal 2011****Net Sales.*

|                 | FY12    | FY11    | \$<br>Change | %<br>Change |   |
|-----------------|---------|---------|--------------|-------------|---|
| Plain Bearings  | \$200.2 | \$168.8 | \$ 31.4      | 18.6        | % |
| Roller Bearings | 123.8   | 98.9    | 24.9         | 25.1        | % |
| Ball Bearings   | 42.3    | 40.6    | 1.7          | 4.2         | % |
| Other           | 31.2    | 27.3    | 3.9          | 14.6        | % |
| Total           | \$397.5 | \$335.6 | \$ 61.9      | 18.4        | % |

Net sales for fiscal 2012 were \$397.5 million, an increase of \$61.9 million, or 18.4%, compared to \$335.6 million for the same period in fiscal 2011. The increase of \$61.9 million was primarily attributable to a \$48.0 million increase in volume, \$7.9 million of product mix and price increases and \$6.0 million of favorable foreign exchange rates. Net sales to diversified industrial customers grew 18.3% in fiscal 2012 compared to the same period last fiscal year. This was mainly the result of strong order volume in construction, energy, mining, semiconductor, military vehicles and the overall general industrial markets. Of this increase of 18.3%, approximately 0.9% was from favorable foreign exchange rates. Net sales to aerospace and defense customers increased 18.5% in fiscal 2012 compared to the same period last fiscal year, mainly driven by increased build rates by major aircraft manufacturers combined with higher demand from the general aerospace aftermarket. Of this increase of 18.5%, approximately 0.9% was from favorable foreign exchange rates.

The Plain Bearings segment achieved net sales of \$200.2 million in fiscal 2012, an increase of \$31.4 million, or 18.6%, compared to \$168.8 million for the same period in the prior fiscal year. This segment was favorably impacted by volume of approximately \$22.9 million, \$4.5 million in product mix and price increases and \$4.0 million from favorable foreign exchange rates. Net sales to diversified industrial customers increased \$11.7 million combined with a \$19.7 million increase in net sales to aerospace and defense customers compared with the same period in the prior fiscal year. This segment was favorably impacted by stronger demand for military vehicles, continued improvement in construction, mining, energy, rail and the general industrial markets as well as increased build rates by aircraft manufacturers.

The Roller Bearings segment achieved net sales of \$123.8 million in fiscal 2012, an increase of \$24.9 million, or 25.1%, compared to \$98.9 million for the same period in the prior fiscal year. This segment was favorably impacted by volume of \$22.1 million, product mix and price increases of \$2.7 million and \$0.1 million from favorable foreign exchange rates. Of this increase, net sales to the industrial sector contributed \$16.6 million combined with an increase of \$8.3 million in net sales to aerospace and defense customers. This performance was favorably impacted by growth in the construction and energy markets, as well as increased activity in the general industrial markets.

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The Ball Bearings segment achieved net sales of \$42.3 million in fiscal 2012, an increase of \$1.7 million, or 4.2%, compared to \$40.6 million for the same period in the prior fiscal year. Of this improvement, approximately \$1.0 million was attributable to volume and \$0.7 million to product mix and price increases. Net sales to diversified industrial customers contributed \$1.5 million to this increase combined with an increase of \$0.2 million in the aerospace and defense sector.

The Other segment, which is focused mainly on the sale of machine tool collets and precision components, achieved net sales of \$31.2 million in fiscal 2012, an increase of \$3.9 million, or 14.6%, compared to \$27.3 million for the same period last fiscal year. The increase in net sales was favorably impacted by approximately \$2.0 million of increased volume and \$1.9 million of favorable foreign exchange rates. Of this increase, \$1.2 million was attributable to improvement in net sales of machine tool collets mainly in Europe and Asia combined with an increase of \$0.8 million due to increased demand for mechanical components mainly in the U.S. market.

*Gross Margin.*

|                 | FY12    | FY11    | \$<br>Change | %<br>Change |   |
|-----------------|---------|---------|--------------|-------------|---|
| Plain Bearings  | \$72.9  | \$58.2  | \$ 14.7      | 25.3        | % |
| Roller Bearings | 45.2    | 32.1    | 13.1         | 40.9        | % |
| Ball Bearings   | 9.3     | 9.2     | 0.1          | 0.5         | % |
| Other           | 13.2    | 10.3    | 2.9          | 28.1        | % |
| Total           | \$140.6 | \$109.8 | \$ 30.8      | 28.1        | % |

Gross margin was \$140.6 million, or 35.4% of net sales, in fiscal 2012, versus \$109.8 million, or 32.7% of net sales, for the comparable period in fiscal 2011. The increase of \$30.8 million in gross margin dollars was driven by approximately \$14.6 million in volume, \$8.5 million in product mix and price increases, \$6.1 million in cost reduction programs and \$1.9 million from favorable exchange rates across both the diversified industrial and aerospace and defense markets. This was offset by a \$0.3 million decrease in gross margin related to our large bearing facility.

Gross margin for the Plain Bearings segment was \$72.9 million, or 36.4%, in fiscal 2012 versus \$58.2 million, or 34.5% in fiscal 2011. Of this increase, approximately \$5.5 million was attributable to volume, \$3.5 million to cost reduction programs, \$4.5 million to product mix and price increases and \$1.2 million to favorable foreign exchange rates. This improvement was primarily driven by stronger demand for military vehicles, growth in construction, mining, energy, rail and the general industrial markets as well as increased build rates by aircraft manufacturers.

The Roller Bearings segment reported gross margin of \$45.2 million, or 36.5%, in fiscal 2012 compared to \$32.1 million, or 32.5%, in the prior fiscal year. This segment was favorably impacted by approximately \$7.8 million in volume, \$2.6 million in cost reduction programs and \$2.7 million in product mix and price increases. This improved performance was impacted by growth in the construction and energy markets, as well as increased activity in the general industrial markets.

The Ball Bearings segment reported gross margin of \$9.3 million, or 21.8%, in fiscal 2012 versus \$9.2 million, or 22.6%, in fiscal 2011. Of this improvement, \$0.3 million was attributable to volume and \$0.1 million to product mix and price increases offset by a \$0.3 million decrease in gross margin related to our large bearing facility.

During fiscal 2012, the Other segment reported gross margin of \$13.2 million, or 42.4%, compared to \$10.3 million, or 37.9%, in the prior fiscal year. This increase in gross margin was primarily driven by approximately \$1.2 million from increased volume and \$1.1 million in product mix and price increases combined with the impact of favorable foreign exchange of \$0.6 million.

*Selling, General and Administrative.*

|                 | FY12    | FY11    | \$<br>Change | %<br>Change |   |
|-----------------|---------|---------|--------------|-------------|---|
| Plain Bearings  | \$ 14.4 | \$ 13.0 | \$ 1.4       | 11.4        | % |
| Roller Bearings | 6.3     | 6.0     | 0.3          | 3.4         | % |
| Ball Bearings   | 3.4     | 3.2     | 0.2          | 6.8         | % |
| Other           | 4.0     | 3.6     | 0.4          | 11.6        | % |
| Corporate       | 33.2    | 26.9    | 6.3          | 23.4        | % |
| Total           | \$61.3  | \$52.7  | \$ 8.6       | 16.3        | % |

SG&A expenses increased by \$8.6 million, or 16.3%, to \$61.3 million in fiscal 2012 compared to \$52.7 million for the same period in fiscal 2011. The increase of \$8.6 million was primarily attributable to an increase of \$6.8 million in personnel-related costs as a result of headcount and salary increases, \$0.8 million from the impact of foreign exchange, \$0.7 million in travel and entertainment expenses, \$0.2 million in professional fees and \$0.1 million in incentive stock compensation. As a percentage of net sales, SG&A was 15.4% in fiscal 2012 compared to 15.7% for the same period in fiscal 2011. While SG&A expenses increased \$8.6 million in fiscal 2012, net sales during the 2012

fiscal period increased by \$61.9 million, contributing to the lower SG&A percentage to net sales of 15.4%.

*Other, net.* Other, net in fiscal 2012 was \$1.6 million compared to \$0.9 million for the same period in fiscal 2011. In fiscal 2012, other, net consisted of \$1.5 million of amortization of intangibles, \$0.2 million of bad debt expense and \$0.1 million of other costs offset by \$0.2 million of other income. In fiscal 2011, other, net consisted of a net gain of \$1.1 million on the sale of assets and \$0.1 million of other income offset by \$1.4 million of amortization of intangibles, \$0.5 million of bad debt expense and \$0.2 million of restructuring costs.



*Operating Income.*

|                 | FY12   | FY11   | \$<br>Change | %<br>Change |   |
|-----------------|--------|--------|--------------|-------------|---|
| Plain Bearings  | \$57.9 | \$45.9 | \$ 12.0      | 26.2        | % |
| Roller Bearings | 41.1   | 28.0   | 13.1         | 46.8        | % |
| Ball Bearings   | 3.5    | 3.6    | (0.1 )       | (2.7 )      | % |
| Other           | 9.0    | 6.6    | 2.4          | 35.5        | % |
| Corporate       | (33.9) | (27.9) | (6.0 )       | 21.2        | % |
| Total           | \$77.6 | \$56.2 | \$ 21.4      | 38.2        | % |

Operating income was \$77.6 million, or 19.5% of net sales, in fiscal 2012 compared to \$56.2 million, or 16.7% of net sales, in fiscal 2011. The increase of \$21.4 million in operating income dollars was driven primarily by \$5.9 million in volume, \$8.5 million in product mix and price increases, \$6.1 million in cost reduction programs and \$1.2 million from favorable exchange rates across both the diversified industrial and aerospace and defense markets. This was offset by a \$0.3 million decrease in operating income related to our large bearing facility.

The increase in operating income was driven primarily by the economic recovery experienced in both our aerospace and defense and diversified industrial markets. Our diversified industrial business was driven by volume increases in construction, energy, mining, semiconductor, military vehicles and the overall general industrial markets. This increase was offset by expansion into our large bearing facility.

The Plain Bearings segment achieved an operating income of \$57.9 million in fiscal 2012 compared to \$45.9 million for the same period last year. This improved contribution resulted from approximately a \$3.2 million increase in volume, \$3.5 million in cost reduction programs, \$4.5 million in product mix and price increases and \$0.8 million of favorable foreign exchange.

The Roller Bearings segment achieved an operating income of \$41.1 million in fiscal 2012 compared to \$28.0 million in fiscal 2011. The increase of \$13.1 million in operating income year over year was mainly the result of approximately \$7.8 million of higher volume, \$2.6 million of cost reduction programs and \$2.7 million of product mix and price increases. This improved performance was impacted by growth in the construction and energy markets, as well as increased activity in the general industrial markets.

The Ball Bearings segment achieved an operating income of \$3.5 million in fiscal 2012 compared to \$3.6 million for the same period last fiscal year. This segment's performance was impacted by a \$0.2 million improvement attributable to product mix and price increases offset by a \$0.3 million decrease in operating income related to our large bearing facility.

The Other segment achieved an operating income of \$9.0 million in fiscal 2012 compared to \$6.6 million for the same period in fiscal 2011. The increase of \$2.4 million was mainly due to approximately \$0.9 million from increased volume and \$1.1 million from product mix and price increases combined with the impact of favorable foreign exchange of \$0.4 million.

*Interest Expense, net.* Interest expense, net was \$1.0 million in fiscal 2012 and \$1.8 million in fiscal 2011, respectively.

*Other Non-Operating Expense (Income).* Other non-operating expense was \$0.6 million in fiscal 2012 compared to \$1.5 million in fiscal 2011. The decrease in expense of \$0.9 million was primarily due to favorable foreign exchange rates on foreign currency deposits.

*Income Before Income Taxes.* Income before taxes was \$76.0 million in fiscal 2012 compared to income before taxes of \$52.9 million in fiscal 2011.

*Income Taxes.* Income tax expense in fiscal 2012 was \$26.0 million compared to \$18.0 million in fiscal 2011. The effective income tax rate in fiscal 2012 was 34.2% compared to 34.1% in fiscal 2011. In addition to discrete items, the effective income tax rates are different from the U.S. statutory rate due to a special manufacturing deduction in the U.S. and foreign income taxed at lower rates which decrease the rate, and state income taxes and an officers' compensation adjustment which increase the rate.

The effective income tax rate for fiscal 2011 of 34.1% includes the reversal of unrecognized tax benefits associated with the conclusion of our IRS audit. A U.S. federal income tax examination by the Internal Revenue Service for the years ended March 31, 2007 and March 31, 2008 was substantially completed during fiscal 2011. The effective income tax rate for fiscal 2011 without this discrete item would have been 35.2%.

*Net Income.* Net income was \$50.0 million in fiscal 2012 compared to net income of \$34.9 million in fiscal 2011.

### ***Fiscal 2011 Compared to Fiscal 2010***

#### *Net Sales.*

|                 | FY11    | FY10    | \$<br>Change | %<br>Change |   |
|-----------------|---------|---------|--------------|-------------|---|
| Plain Bearings  | \$168.8 | \$134.3 | \$34.5       | 25.7        | % |
| Roller Bearings | 98.9    | 73.2    | 25.7         | 35.2        | % |
| Ball Bearings   | 40.6    | 45.4    | (4.8)        | (10.6)      | % |
| Other           | 27.3    | 21.8    | 5.5          | 25.1        | % |
| Total           | \$335.6 | \$274.7 | \$60.9       | 22.2        | % |

Net sales for fiscal 2011 were \$335.6 million, an increase of \$60.9 million, or 22.2%, compared to \$274.7 million for the same period in fiscal 2010. The increase of \$60.9 million was primarily attributable to \$56.3 million of volume, \$2.7 million of product mix and pricing and \$1.9 million of favorable foreign exchange rates. During fiscal 2011, our net sales increase was driven by the economic recovery across our end markets in the diversified industrial sector. Net sales to diversified industrial customers grew 54.4% in fiscal 2011 compared to the fiscal 2010. This was mainly the result of strong orders in construction and mining, semiconductor, military vehicles and the general industrial markets. The inclusion of our Lubron acquisition contributed \$2.1 million to the increased net sales to diversified industrial customers. In addition, of this increase of 54.4%, approximately \$1.0 million was from favorable foreign exchange rates. Net sales to aerospace and defense customers declined 0.9% in fiscal 2011 compared to fiscal 2010, mainly driven by slowness in the business jet market and in the general aerospace aftermarket. This decline was offset by approximately \$0.9 million from favorable foreign exchange rates.

The Plain Bearings segment achieved net sales of \$168.8 million in fiscal 2011, an increase of \$34.5 million, or 25.7%, compared to \$134.3 million for fiscal 2010. This segment was favorably impacted by volume of \$31.7 million, \$1.6 million in product mix and price increases and \$1.2 million of favorable foreign exchange rates. Net sales to diversified industrial customers increased \$27.0 million combined with a \$7.5 million increase in net sales to aerospace and defense customers compared with fiscal 2010. This segment was favorably impacted by stronger demand for military vehicles combined with improvement in construction and mining and the general industrial markets. In addition, the inclusion of our Lubron acquisition contributed \$2.1 million to the increase in net sales to

diversified industrial customers.

The Roller Bearings segment achieved net sales of \$98.9 million in fiscal 2011, an increase of \$25.7 million, or 35.2%, compared to \$73.2 million for fiscal 2010. This segment was favorably impacted by volume of approximately \$24.8 million and \$0.9 million of product mix and price increases. Of this increase in fiscal 2011, net sales to the industrial sector contributed \$23.1 million combined with an increase of \$2.6 million in net sales to aerospace and defense customers. This performance was favorably impacted by growth in the construction and mining markets, as well as increased activities by general industrial distributors.

The Ball Bearings segment achieved net sales of \$40.6 million in fiscal 2011, a decrease of \$4.8 million, or 10.6%, compared to \$45.4 million for fiscal 2010. This segment was impacted by lower volume of approximately \$5.0 million offset by product mix and price increases of \$0.2 million. Net sales to the aerospace and defense sector contributed \$11.0 million to this decline which was offset by an increase of \$6.2 million in the diversified industrial sector. Aerospace and defense was negatively impacted by slowness in the business jet market and the general aerospace aftermarket offset by increased order activity from the general industrial markets.

The Other segment, which is focused mainly on the sale of machine tool collets and precision components, achieved net sales of \$27.3 million in fiscal 2011, an increase of \$5.5 million, or 25.1%, compared to \$21.8 million for fiscal 2010. The increase in net sales was favorably impacted by approximately \$4.8 million of volume and \$0.7 million of favorable foreign exchange rates. Of this increase, \$4.9 million was attributable to improvement in net sales of machine tool collets in Europe combined with an increase of \$0.6 million due to increased demand for mechanical components mainly in the U.S. market.

*Gross Margin.*

|                 | FY11    | FY10   | \$<br>Change | %<br>Change |   |
|-----------------|---------|--------|--------------|-------------|---|
| Plain Bearings  | \$58.2  | \$41.3 | \$ 16.9      | 40.9        | % |
| Roller Bearings | 32.1    | 24.7   | 7.4          | 30.3        | % |
| Ball Bearings   | 9.2     | 11.6   | (2.4 )       | (20.9 )     | % |
| Other           | 10.3    | 7.0    | 3.3          | 47.1        | % |
| Total           | \$109.8 | \$84.6 | \$ 25.2      | 29.8        | % |

Gross margin was \$109.8 million, or 32.7% of net sales, in fiscal 2011, versus \$84.6 million, or 30.8% of net sales, for fiscal 2010. The increase of \$25.2 in gross margin dollars was driven by approximately \$17.1 million in volume, \$5.8 million in cost reduction programs, \$2.7 million in product mix and price increases and \$0.6 million from favorable foreign exchange rates across both the diversified industrial and aerospace and defense markets. This was offset by a \$1.0 million decrease in gross margin related to our large bearing facility.

Gross margin for the Plain Bearings segment was \$58.2 million, or 34.5%, in fiscal 2011 versus \$41.3 million, or 30.7% in fiscal 2010. Of this increase, approximately \$11.2 million was attributable to volume, \$3.7 million to cost reduction programs, \$1.6 million to product mix and price and \$0.4 million from favorable foreign exchange. This improvement was primarily driven by increased business in the military vehicle market in addition to the \$1.0 million contribution of the full year inclusion of our Lubron acquisition.

The Roller Bearings segment reported gross margin of \$32.1 million, or 32.5%, in fiscal 2011 compared to \$24.7 million, or 33.7%, in fiscal 2010. This segment's gross margin dollars was favorably impacted by approximately \$4.6 million in volume, \$1.9 million in cost reduction programs and \$0.9 million in product mix and price increases.

The Ball Bearings segment reported gross margin of \$9.2 million, or 22.6%, in fiscal 2011 versus \$11.6 million, or 25.6%, in fiscal 2010. Of this decline of \$2.4 million, \$0.3 million was attributable to product mix and price increases and \$0.1 million from cost reduction programs offset by \$1.8 million of lower volume and by a \$1.0 million decrease in gross margin related to our large bearing facility.

During fiscal 2011, the Other segment reported gross margin of \$10.3 million, or 37.9%, compared to \$7.0 million, or 32.2%, in fiscal 2010. This increase in gross margin was primarily driven by approximately \$3.1 million from increased volume combined with favorable foreign exchange of \$0.2 million.

*Selling, General and Administrative.*

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|                 | FY11   | FY10   | \$     | %      |   |
|-----------------|--------|--------|--------|--------|---|
|                 |        |        | Change | Change |   |
| Plain Bearings  | \$13.0 | \$12.2 | \$ 0.8 | 6.2    | % |
| Roller Bearings | 6.0    | 5.5    | 0.5    | 9.9    | % |
| Ball Bearings   | 3.2    | 3.1    | 0.1    | 2.9    | % |
| Other           | 3.6    | 3.9    | (0.3 ) | (7.5 ) | % |
| Corporate       | 26.9   | 22.7   | 4.2    | 18.7   | % |
| Total           | \$52.7 | \$47.4 | \$ 5.3 | 11.3   | % |

SG&A expenses increased by \$5.3 million, or 11.3%, to \$52.7 million in fiscal 2011 compared to \$47.4 million for fiscal 2010. The increase of \$5.3 million was attributable to an increase of \$3.1 million in personnel-related costs increases, \$0.9 million in higher incentive stock compensation expense, \$0.6 million in travel and entertainment expenses, \$0.3 million from the impact of foreign exchange, \$0.2 million in professional fees and \$0.2 million in other expenses. As a percentage of net sales, SG&A was 15.7% in fiscal 2011 compared to 17.3% for fiscal 2010. While SG&A expenses increased \$5.3 million in fiscal 2011, net sales during the 2011 fiscal period significantly increased by \$60.9 million, contributing to the lower SG&A percentage to net sales of 15.7%.

*Other, net.* Other, net in fiscal 2011 was \$0.9 million compared to \$2.5 million for the same period in fiscal 2010. In fiscal 2011, other, net consisted of a net gain of \$1.1 million on the sale of assets and \$0.1 million of other income offset by \$1.4 million of amortization of intangibles, \$0.5 million of bad debt expense and \$0.2 million of restructuring costs. In fiscal 2010, other, net included \$1.3 million of amortization of intangibles, \$1.2 million of restructuring and moving expenses, primarily related to reductions in workforce and the consolidation of our Houston, Texas facility, and a loss of \$0.2 million on the disposal of fixed assets offset by \$0.2 million of other miscellaneous income.

*Operating Income.*

|                 | FY11   | FY10   | \$<br>Change | %<br>Change |   |
|-----------------|--------|--------|--------------|-------------|---|
| Plain Bearings  | \$45.9 | \$28.5 | \$ 17.4      | 60.7        | % |
| Roller Bearings | 28.0   | 21.0   | 7.0          | 33.4        | % |
| Ball Bearings   | 3.6    | 5.6    | (2.0 )       | (35.8 )     | % |
| Other           | 6.6    | 2.7    | 3.9          | 147.3       | % |
| Corporate       | (27.9) | (23.1) | (4.8 )       | (20.7 )     | % |
| Total           | \$56.2 | \$34.7 | \$ 21.5      | 62.1        | % |

Operating income was \$56.2 million, or 16.7% of net sales, in fiscal 2011 compared to \$34.7 million, or 12.6% of net sales, in fiscal 2010. The increase of \$21.5 million in operating income dollars was driven primarily by \$13.2 million in volume, \$2.7 million in product mix and price increases, \$5.7 million in cost reduction programs and \$0.3 million from favorable exchange rates across both the diversified industrial and aerospace and defense markets offset by a \$0.4 million decrease in operating income related to our large bearing facility. The full year impact of our Lubron acquisition contributed \$0.8 million to this increase.

The increase in operating income was driven primarily by the economic recovery experienced in our industrial business primarily due to volume increases in construction and mining, semiconductor, military vehicles and the general industrial sector. This increase was offset by expansion into our large bearing facility.

The Plain Bearings segment achieved an operating income of \$45.9 million in fiscal 2011 compared to \$28.5 million in fiscal 2010. This increase of \$17.4 million resulted from approximately a \$11.8 million increase in volume, \$3.7 million in cost reduction programs, \$1.6 million in product mix and price increases and \$0.3 million of favorable foreign exchange. Included in this segment is the full year impact of our Lubron acquisition which contributed \$0.8 million to the increase.

The Roller Bearings segment achieved an operating income of \$28.0 million compared to \$21.0 million in fiscal 2010. The increase of \$7.0 million in operating income year over year was mainly the result of approximately \$4.2 million

of higher volume, \$1.9 million of cost reduction programs and \$0.9 million of product mix and price increases. This improved performance was favorably impacted by increased activity in the construction and mining markets as well as from general industrial distributors.

The Ball Bearings segment achieved an operating income of \$3.6 million in fiscal 2011 compared to \$5.6 million for fiscal 2010. This segment was impacted by approximately \$0.3 million of cost reductions and \$0.1 million from product mix and price increases offset by \$2.0 million of lower volume and a \$0.4 million decrease in operating income related to our large bearing facility.

The Other segment achieved an operating income of \$6.6 million in fiscal 2011 compared to \$2.7 million for fiscal 2010. The increase of \$3.9 million was mainly due to approximately \$2.1 million increased volume from the European and Asian machine tool collet markets, as well as approximately \$1.8 million volume improvements for mechanical components mainly in the U.S. market.

*Interest Expense, net.* Interest expense, net was \$1.8 million in fiscal 2011 and fiscal 2010, respectively.

*Other Non-Operating Expense (Income).* Other non-operating expense was \$1.5 million in fiscal 2011 compared to income of \$0.1 million in fiscal 2010. The increase in expense of \$1.6 million was primarily due to losses resulting from foreign exchange activity.

*Income Before Income Taxes.* Income before taxes was \$52.9 million in fiscal 2011 compared to income before taxes of \$33.0 million in fiscal 2010.



*Income Taxes.* Income tax expense in fiscal 2011 was \$18.0 million compared to \$8.6 million in fiscal 2010. The effective income tax rate in fiscal 2011 was 34.1% compared to 26.1% in fiscal 2010. The effective income tax rate for fiscal 2011 is different from the U.S. statutory rate due to a special manufacturing deduction in the U.S., which decreases the rate, and state income taxes which increase the rate. For fiscal 2010, the income tax expense of \$8.6 million and the effective tax rate of 26.1% include the benefit of the Advanced Manufacturing Tax Credit under Internal Revenue Code 48C (“Section 48C Credit”). Without consideration of this tax credit, the income tax expense would have been \$11.3 million and the effective tax rate would have been 34.2% for fiscal 2010. In addition, the effective tax rate for fiscal 2010 is different from the U.S. statutory rate due to a tax holiday relating to the Schaublin facility in Switzerland, which decreases the rate. This holiday expired in March 2010.

*Net Income.* Net income was \$34.9 million in fiscal 2011 compared to net income of \$24.4 million in fiscal 2010.

## **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. We believe that operating cash flows and available credit under the credit facilities will provide adequate resources to fund internal and external growth initiatives for the foreseeable future.

### ***Liquidity***

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

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

The JP Morgan Credit Agreement requires us to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA not to exceed 3.25 to 1; and (2) a consolidated fixed charge coverage ratio not to exceed 1.5 to 1. As of March 31, 2012, we were in compliance with all such covenants.

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

On November 30, 2010, we borrowed approximately \$30.0 million under the JP Morgan Credit Agreement and used such funds to repay the approximately \$30.0 million balance outstanding under the KeyBank Credit Agreement. In the first quarter of fiscal 2012, we paid down the \$30.0 million outstanding revolver balance; therefore, that balance was classified in the current portion of long-term debt as of April 2, 2011. Amounts outstanding under the new credit agreement are generally due and payable on the expiration date of November 30, 2015. We may elect to prepay some or all of the outstanding balance from time to time without penalty.

Approximately \$5.8 million of the JP Morgan Credit Agreement is being utilized to provide letters of credit to secure RBCA's obligations relating to certain insurance programs. As of March 31, 2012, RBCA had the ability to borrow up to an additional \$144.2 million under the JP Morgan Credit Agreement.

On October 27, 2008, Schaublin entered into a new bank credit facility with Credit Suisse which replaced the prior bank credit facility of December 8, 2003 and its amendment of November 8, 2004. This facility provides for up to 4.0 million Swiss francs, or \$4.4 million, of revolving credit loans and letters of credit. Borrowings under this facility bear interest at Credit Suisse's prevailing prime bank rate. As of March 31, 2012, there were no borrowings under the Swiss Credit Facility.

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

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

As of March 31, 2012, we had cash and cash equivalents of \$68.6 million of which approximately \$35.3 million was cash held by our foreign operations. We expect that our undistributed foreign earnings will be re-invested indefinitely for working capital, internal growth and acquisitions for and by our foreign entities.

### ***Cash Flows***

#### *Fiscal 2012 Compared to Fiscal 2011*

In the fiscal year ended March 31, 2012, we generated cash of \$45.0 million from operating activities compared to \$50.0 million for the fiscal year ended April 2, 2011. The decrease of \$5.0 million was mainly a result of an increase of \$15.1 million in net income and the net of non-cash charges of \$3.6 million offset by a change in operating assets and liabilities of \$23.7 million. The change in working capital investment was primarily attributable to an increase in inventory, an increase in accounts receivable and an increase in other non-current assets offset by a decrease in prepaid expenses and other current assets, an increase in accounts payable, an increase in accrued expenses and other current liabilities and an increase in other non-current liabilities. The change in inventory of \$8.0 million was required to support increased demand as evidenced by an increase in backlog across all markets and is, therefore, realizable. Inventory turnover for the fiscal year ended March 31, 2012 increased to 2.0 as compared to 1.6 for the prior fiscal year. The change in accounts receivable of \$7.2 million was a function of increased net sales combined with strong collection activities as days sales outstanding remained at 60 at the end of fiscal 2012 and fiscal 2011, respectively.

Cash used for investing activities for fiscal 2012 included \$17.8 million relating to capital expenditures compared to \$10.4 million for fiscal 2011.

In fiscal 2012, financing activities used \$27.4 million. This was due to the \$30.0 million paydown of our revolver and \$0.3 million of payments on notes payable offset by \$2.9 million net proceeds from the exercise of stock options and the repurchase of common stock.

*Fiscal 2011 Compared to Fiscal 2010*

In the fiscal year ended April 2, 2011, we generated cash of \$50.0 million from operating activities compared to \$41.2 million for the fiscal year ended April 3, 2010. The increase of \$8.8 million was mainly a result of an increase of \$10.5 million in net income and the net of non-cash charges of \$2.5 million offset by a change in operating assets and liabilities of \$0.8 million. The change in working capital investment was primarily attributable to an increase in inventory, an increase in accounts receivable and an increase in other non-current assets offset by a decrease in prepaid expenses and other current assets, an increase in accounts payable, an increase in accrued expenses and other current liabilities and an increase in other non-current liabilities. The change in inventory of \$5.7 million was required to support increased demand as evidenced by an increase in backlog across all markets and is, therefore, realizable. Inventory turnover for the fiscal year ended April 2, 2011 increased to 1.6 as compared to 1.4 for the prior fiscal year. The change in accounts receivable of \$14.7 million was a function of increased net sales and strong collection activities as days sales outstanding decreased by 4 days to 60 at the end of fiscal 2011 from 64 at the end of fiscal 2010.

Cash used for investing activities for fiscal 2011 included \$10.4 million relating to capital expenditures compared to \$9.9 million for fiscal 2010. This was offset by \$3.2 million, net for the proceeds and purchase of short-term investments and by \$2.4 million of proceeds from the sale of certain assets of our J. Bovagnet sales branch.

In fiscal 2011, financing activities used \$5.4 million. This was primarily due to the \$7.0 million paydown of our revolver and \$1.5 million related to financing fees related to our new credit agreement offset by \$3.1 million, net proceeds from the exercise of stock options and repurchase of common stock.

### *Capital Expenditures*

Our capital expenditures in fiscal 2012 were \$17.8 million. We expect to make capital expenditures of approximately \$12.0 to \$15.0 million during fiscal 2013 in connection with our existing business. We have funded our fiscal 2012 capital expenditures, and expect to fund fiscal 2013 capital expenditures, principally through existing cash and internally generated funds. We may also make substantial additional capital expenditures in connection with acquisitions.

### *Obligations and Commitments*

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Because these estimates are necessarily subjective, our actual payments in future periods are likely to vary from those presented in the table. The following table summarizes certain of our contractual obligations and principal and interest payments under our debt instruments and leases as of March 31, 2012:

| <b>Contractual Obligations<sup>(1)</sup></b> | <b>Payments Due By Period</b> |                             |                         |                         |                              |
|--|-------------------------------|-----------------------------|-------------------------|-------------------------|------------------------------|
|  | <b>Total</b>                  | <b>Less than<br/>1 Year</b> | <b>1 to<br/>3 Years</b> | <b>3 to<br/>5 Years</b> | <b>More than<br/>5 Years</b> |
|  | <b>(in thousands)</b>         |                             |                         |                         |                              |
| Total debt                                   | \$1,041                       | \$ 1, 041                   | \$—                     | \$—                     | \$—                          |
| Capital lease obligations                    | 184                           | 97                          | 87                      | —                       | —                            |
| Operating leases                             | 17,051                        | 4,900                       | 7,407                   | 2,322                   | 2,422                        |
| Interest on fixed rate debt                  | 18                            | 17                          | 1                       | —                       | —                            |
| Pension and postretirement benefits          | 18,517                        | 1,692                       | 3,551                   | 3,744                   | 9,530                        |
| Total contractual cash obligations           | \$36,811                      | \$ 7,747                    | \$11,046                | \$ 6,066                | \$ 11,952                    |

<sup>(1)</sup> We cannot make a reasonably reliable estimate of when (or if) the unrecognized tax liability of \$11.2 million will be paid to the respective taxing authorities. These obligations are therefore excluded from the above table.

### **Quarterly Results of Operations**

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Quarter Ended

|                              | Mar. 31,<br>2012                      | Dec.<br>31,<br>2011 | Oct. 1,<br>2011 | July 2,<br>2011 | Apr. 2,<br>2011 | Jan. 1,<br>2011 | Oct. 2,<br>2010 | July 3,<br>2010 |
|------------------------------|---------------------------------------|---------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                              | (Unaudited)                           |                     |                 |                 |                 |                 |                 |                 |
|                              | (in thousands, except per share data) |                     |                 |                 |                 |                 |                 |                 |
| Net sales                    | \$111,323                             | \$95,104            | \$97,751        | \$93,333        | \$88,898        | \$81,258        | \$83,095        | \$82,374        |
| Gross margin                 | 41,174                                | 33,626              | 33,984          | 31,796          | 30,319          | 25,964          | 27,238          | 26,253          |
| Operating income             | 24,064                                | 18,204              | 18,367          | 17,013          | 16,054          | 12,204          | 13,888          | 14,047          |
| Net income                   | \$15,526                              | \$12,167            | \$11,592        | \$10,712        | \$9,867         | \$7,386         | \$8,554         | \$9,061         |
| Net income per common share: |                                       |                     |                 |                 |                 |                 |                 |                 |
| Basic <sup>(1)(2)</sup>      | \$0.71                                | \$0.56              | \$0.53          | \$0.49          | \$0.45          | \$0.34          | \$0.40          | \$0.42          |
| Diluted <sup>(1)(2)</sup>    | \$0.69                                | \$0.54              | \$0.52          | \$0.48          | \$0.44          | \$0.33          | \$0.39          | \$0.41          |

(1) See Part II, Item 8. "Financial Statements and Supplementary Data," Note 2 "Summary of Significant Accounting Policies-Net Income Per Common Share."

(2) Net income 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.

## 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 postretirement 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.* In accordance with SEC Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements as amended by Staff Accounting Bulletin 104," we recognize revenues principally from the sale of products at the point of passage of title, which is at the time of shipment, except for certain customers for which it occurs when the products reach their destination.

*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.* Goodwill (representing the excess of the amount paid to acquire a company over the estimated fair value of the net assets acquired) is not amortized but instead is 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 the combination of a present value of future cash flow method and a multiple of EBITDA method. Although no changes are expected as a result of the comparison, 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.

*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, accrual for uncertain tax positions and any valuation allowance recognized against net deferred tax assets.

*Pension Plan and Postretirement Health Care.* We have a noncontributory defined benefit pension plan covering union employees in our Heim division plant in Fairfield, Connecticut, our Bremen subsidiary plant in Plymouth, Indiana and former union employees of our Tyson subsidiary in Glasgow, Kentucky and Nice subsidiary in Kulpsville, Pennsylvania.



Our pension plan 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 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 6.00% at April 3, 2010, to 5.30% at April 2, 2011 and to 4.20% at March 31, 2012. 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 expected long-term rate of return on the assets of our pension plan was 8.25% in fiscal 2012 and fiscal 2011, respectively.

Lowering the discount rate assumption used to determine net periodic pension cost by 1.00% (from 5.30% to 4.30%) would have increased our pension expense for fiscal 2012 by approximately \$0.2 million. Increasing the discount rate assumption used to determine net periodic pension cost by 1.00% (from 5.30% to 6.30%) would have decreased our pension expense for fiscal 2012 by approximately \$0.2 million.

Lowering the expected long-term rate of return on the assets of our pension plan by 1.00% (from 8.25% to 7.25%) would have increased our pension expense for fiscal 2012 by approximately \$0.2 million. Increasing the expected long-term rate of return on the assets of our pension plan by 1.00% (from 8.25% to 9.25%) would have reduced our pension expense for fiscal 2012 by approximately \$0.2 million.

Lowering the discount rate assumption used to determine the funded status as of March 31, 2012 by 1.00% (from 4.20% to 3.20%) would have increased the projected benefit obligation of our pension plans by approximately \$3.0 million. Increasing the discount rate assumption used to determine the funded status as of March 31, 2012 by 1.00% (from 4.20% to 5.20%) would have reduced the projected benefit obligation of our pension plans by approximately \$2.5 million.

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 actual target allocation of plan assets was 60% equity and 40% fixed income investments as of March 31, 2012 and April 2, 2011.

*Stock-Based Compensation.* The Company recognizes compensation cost relating to all share-based payment transactions in the financial statements based upon the grant-date fair value of the instruments issued over the requisite

service period.

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

|                                       | Fiscal Year Ended    |                  |                  |
|---------------------------------------|----------------------|------------------|------------------|
|                                       | March<br>31,<br>2012 | April 2,<br>2011 | April 3,<br>2010 |
| Dividend yield                        | 0.0 %                | 0.0 %            | 0.0 %            |
| Expected weighted-average life (yrs.) | 4.8                  | 4.8              | 4.7              |
| Risk-free interest rate               | 0.98 %               | 1.48 %           | 2.25 %           |
| Expected volatility                   | 47.6 %               | 47.1 %           | 39.8 %           |

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because our options have characteristics significantly different from those of traded options, 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.

*Derivative Instruments.* We recognize all derivatives on the balance sheet at fair value. We utilize forward contracts and average rate options to mitigate the impact of currency fluctuations on monetary assets and liabilities denominated in currencies other than the applicable functional currency as well as on forecasted transactions denominated in currencies other than the applicable functional currency. These are considered derivative instruments and are recorded as either assets or liabilities which are measured at fair value using models based on observable market inputs such as spot and forward rates and are classified as Level 2 on the valuation hierarchy. For instruments that are designated and qualify as cash flow hedges, the unrealized gains or losses are reported as a component of other comprehensive income (“OCI”) and are reclassified from accumulated other comprehensive income (“AOCI”) into earnings on the consolidated statement of operations when the hedged transaction affects earnings.

### **Impact of Inflation, Changes in Prices of Raw Materials and Interest Rate Fluctuations**

To date, inflation in the economy as a whole has not significantly affected our operations. However, we purchase steel at market prices, which fluctuate as a result of supply and demand in the marketplace. 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 3 months or more between the time a price 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 offset these cost increases by changing our buying patterns, expanding our vendor network and passing through price increases. The overall impact on costs for the year was immaterial.

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. 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.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

*Foreign Currency Exchange Rates.* As a result of our operations in Europe, we are exposed to risk associated with fluctuating currency exchange rates between the U.S. dollar, the Euro, the Swiss Franc and the British Pound Sterling. Our Swiss operations utilize the Swiss Franc as the functional currency, our French operations utilize the Euro as the functional currency and our English operations utilize the British Pound Sterling as the functional currency. Foreign currency transaction gains and losses are included in earnings. Approximately 13% of our net sales were impacted by foreign currency fluctuations in fiscal 2012 compared to approximately 12% of our net sales in fiscal 2011. We expect that this proportion is likely to increase as we seek to increase our penetration of foreign markets, particularly within the aerospace and defense markets. Foreign currency transaction exposure arises primarily from the transfer of foreign currency from one subsidiary to another within the group, and to foreign currency denominated trade receivables. Unrealized currency translation gains and losses are recognized upon translation of the foreign subsidiaries' balance sheets to U.S. dollars. Because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our earnings. We periodically enter into derivative financial instruments in the form of forward exchange contracts to reduce the effect of fluctuations in exchange rates on certain third-party sales transactions denominated in non-functional currencies. Based on the accounting guidance related to derivatives and hedging activities, we record derivative financial instruments at fair value. For derivative financial instruments designated and qualifying as cash flow hedges, the effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income ("AOCI"), and is reclassified into earnings when the hedged transaction affects earnings. As of March 31, 2012, the net impact of existing gains or losses expected to be reclassified from AOCI into earnings over the next twelve months is not material.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of RBC Bearings Incorporated

We have audited the accompanying consolidated balance sheets of RBC Bearings Incorporated as of March 31, 2012 and April 2, 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended March 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 March 31, 2012 and April 2, 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), RBC Bearings Incorporated's internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 30, 2012 expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Hartford, Connecticut

May 30, 2012

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

|  | March 31,<br>2012 | April 2,<br>2011 |
|--|-------------------|------------------|
| <b>ASSETS</b>  |                   |                  |
| Current assets:  |                   |                  |
| Cash and cash equivalents  | \$ 68,621         | \$ 63,975        |
| Short-term investments   | —                 | 3,912            |
| Accounts receivable, net of allowance for doubtful accounts of \$1,816 in 2012 and \$1,490 in 2011 | 72,560            | 60,095           |
| Inventory  | 158,805           | 144,175          |
| Deferred income taxes  | 11,272            | 9,145            |
| Prepaid expenses and other current assets  | 3,040             | 4,040            |
| Total current assets   | 314,298           | 285,342          |
| Property, plant and equipment, net   | 93,373            | 88,408           |
| Goodwill   | 34,713            | 34,713           |
| Intangible assets, net of accumulated amortization of \$9,285 in 2012 and \$7,810 in 2011          | 11,380            | 12,121           |
| Other assets   | 5,754             | 5,398            |
| Total assets   | \$ 459,518        | \$ 425,982       |

See accompanying notes.

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

|   | March 31,<br>2012 | April 2,<br>2011 |
|---|-------------------|------------------|
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                   |                  |
| Current liabilities:  |                   |                  |
| Accounts payable  | \$ 24,720         | \$ 24,245        |
| Accrued expenses and other current liabilities  | 18,103            | 14,760           |
| Current portion of long-term debt   | 1,041             | 30,546           |
| Total current liabilities   | 43,864            | 69,551           |
| Long-term debt, less current portion  | —                 | 750              |
| Deferred income taxes   | 6,851             | 6,591            |
| Other non-current liabilities   | 22,988            | 19,023           |
| Total liabilities   | 73,703            | 95,915           |
| Commitments and contingencies (Note 17)   |                   |                  |
| Stockholders' equity:   |                   |                  |
| Preferred stock, \$.01 par value; authorized shares: 10,000,000 in 2012 and 2011; none issued and outstanding   | —                 | —                |
| Common stock, \$.01 par value; authorized shares: 60,000,000 in 2012 and 2011; issued and outstanding shares: 22,327,295 in 2012 and 22,092,011 in 2011 | 223               | 221              |
| Additional paid-in capital  | 205,333           | 197,644          |
| Accumulated other comprehensive income  | 1,069             | 2,380            |
| Retained earnings   | 185,392           | 135,395          |
| Treasury stock, at cost, 202,271 shares in 2012 and 186,658 shares in 2011  | (6,202 )          | (5,573 )         |
| Total stockholders' equity  | 385,815           | 330,067          |
| Total liabilities and stockholders' equity  | \$ 459,518        | \$ 425,982       |

See accompanying notes.



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

|                                      | Fiscal Year Ended |                  |                  |
|--------------------------------------|-------------------|------------------|------------------|
|                                      | March 31,<br>2012 | April 2,<br>2011 | April 3,<br>2010 |
| Net sales                            | \$397,511         | \$335,625        | \$274,702        |
| Cost of sales                        | 256,931           | 225,851          | 190,136          |
| Gross margin                         | 140,580           | 109,774          | 84,566           |
| Operating expenses:                  |                   |                  |                  |
| Selling, general and administrative  | 61,303            | 52,706           | 47,367           |
| Other, net                           | 1,629             | 875              | 2,529            |
| Total operating expenses             | 62,932            | 53,581           | 49,896           |
| Operating income                     | 77,648            | 56,193           | 34,670           |
| Interest expense, net                | 1,045             | 1,791            | 1,807            |
| Other non-operating expense (income) | 624               | 1,525            | (147 )           |
| Income before income taxes           | 75,979            | 52,877           | 33,010           |
| Provision for income taxes           | 25,982            | 18,009           | 8,625            |
| Net income                           | \$49,997          | \$34,868         | \$24,385         |
| Net income per common share:         |                   |                  |                  |
| Basic                                | \$2.28            | \$1.61           | \$1.13           |
| Diluted                              | \$2.23            | \$1.58           | \$1.12           |
| Weighted average common shares:      |                   |                  |                  |
| Basic                                | 21,880,554        | 21,678,626       | 21,590,421       |
| Diluted                              | 22,390,914        | 22,078,711       | 21,747,082       |

See accompanying notes.



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|  |            |     |         |          |         |           |         |          |          |
|--|------------|-----|---------|----------|---------|-----------|---------|----------|----------|
| adjustments  |            |     |         |          |         |           |         |          |          |
| Comprehensive income   |            |     |         |          |         |           |         |          | 26,040   |
| Balance at April 3, 2010   | 21,902,761 | 219 | 189,496 | (1,672 ) | 100,527 | (170,338) | (5,023) | 283,547  |          |
| Net income   | —          | —   | —       | —        | 34,868  | —         | —       | 34,868   | 34,868   |
| Stock-based compensation   | —          | —   | 4,057   | —        | —       | —         | —       | 4,057    |          |
| Exercise of equity awards  | 164,450    | 2   | 3,135   | —        | —       | (16,320 ) | (550 )  | 2,587    |          |
| Change in net prior service cost and actuarial losses, net of tax benefit of \$777 | —          | —   | —       | (1,308 ) | —       | —         | —       | (1,308 ) | (1,308 ) |
| Issuance of restricted stock   | 24,800     | —   | —       | —        | —       | —         | —       | —        |          |
| Change in fair value of derivatives, net of taxes of \$349                         | —          | —   | —       | 542      | —       | —         | —       | 542      | 542      |
| Income tax benefit on exercise of non-qualified common stock options               | —          | —   | 956     | —        | —       | —         | —       | 956      |          |
| Unrealized loss on investments, net of tax benefit of \$6                          | —          | —   | —       | (11 )    | —       | —         | —       | (11 )    | (11 )    |
| Currency translation adjustments   | —          | —   | —       | 4,829    | —       | —         | —       | 4,829    | 4,829    |
| Comprehensive income   |            |     |         |          |         |           |         |          | 38,920   |
| Balance at April 2, 2011   | 22,092,011 | 221 | 197,644 | 2,380    | 135,395 | (186,658) | (5,573) | 330,067  |          |
| Net income   | —          | —   | —       | —        | 49,997  | —         | —       | 49,997   | 49,997   |
| Stock-based compensation   | —          | —   | 4,121   | —        | —       | —         | —       | 4,121    |          |
| Exercise of equity awards  | 123,684    | 2   | 2,811   | —        | —       | (15,613 ) | (629 )  | 2,184    |          |
| Change in net prior service cost and actuarial losses, net of tax benefit of       | —          | —   | —       | (1,692 ) | —       | —         | —       | (1,692 ) | (1,692 ) |

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|  |            |        |            |          |            |           |           |            |           |
|--|------------|--------|------------|----------|------------|-----------|-----------|------------|-----------|
| \$1,047  |            |        |            |          |            |           |           |            |           |
| Issuance of restricted stock   | 111,600    | —      | —          | —        | —          | —         | —         | —          |           |
| Change in fair value of derivatives, net of taxes of \$88            | —          | —      | —          | 137      | —          | —         | —         | 137        | 137       |
| Income tax benefit on exercise of non-qualified common stock options | —          | —      | 757        | —        | —          | —         | —         | 757        |           |
| Unrealized loss on investments, net of tax benefit of \$41           | —          | —      | —          | (68 )    | —          | —         | —         | (68 )      | (68 )     |
| Currency translation adjustments, net of taxes of \$6                | —          | —      | —          | 312      | —          | —         | —         | 312        | 312       |
| Comprehensive income   |            |        |            |          |            |           |           |            | \$ 48,686 |
| Balance at March 31, 2012  | 22,327,295 | \$ 223 | \$ 205,333 | \$ 1,069 | \$ 185,392 | (202,271) | \$(6,202) | \$ 385,815 |           |

See accompanying notes.

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

|   | Fiscal Year Ended |                  |                  |
|---|-------------------|------------------|------------------|
|   | March 31,<br>2012 | April 2,<br>2011 | April 3,<br>2010 |
| Cash flows from operating activities:   |                   |                  |                  |
| Net income  | \$49,997          | \$34,868         | \$24,385         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                  |                  |
| Depreciation  | 12,699            | 11,551           | 10,497           |
| Excess tax benefits from stock-based compensation                                 | (757 )            | (956 )           | 87               |
| Deferred income taxes   | (119 )            | (1,146 )         | 1,082            |
| Amortization of intangible assets   | 1,491             | 1,420            | 1,333            |
| Amortization of deferred financing costs  | 325               | 297              | 209              |
| Stock-based compensation  | 4,121             | 4,057            | 3,182            |
| (Gain) loss on disposition of assets  | (10 )             | (1,076 )         | 200              |
| Changes in operating assets and liabilities, net of acquisitions:                 |                   |                  |                  |
| Accounts receivable   | (12,373)          | (5,128 )         | 9,570            |
| Inventory   | (14,293)          | (6,279 )         | (612 )           |
| Prepaid expenses and other current assets   | 1,004             | 5,278            | (341 )           |
| Other non-current assets  | (1,815 )          | (611 )           | (1,155 )         |
| Accounts payable  | 413               | 4,976            | (2,131 )         |
| Accrued expenses and other current liabilities                                    | 3,481             | 2,590            | (6,281 )         |
| Other non-current liabilities   | 865               | 115              | 1,128            |
| Net cash provided by operating activities   | 45,029            | 49,956           | 41,153           |
| Cash flows from investing activities:   |                   |                  |                  |
| Purchase of property, plant and equipment   | (17,841)          | (10,440)         | (9,906 )         |
| Purchase of short-term investments  | —                 | (1,845 )         | (7,219 )         |
| Proceeds from sale or maturities of short-term investments                        | 3,883             | 5,043            | —                |
| Acquisition of businesses, net of cash acquired                                   | —                 | —                | (1,943 )         |
| Proceeds from sale of assets  | 297               | 2,397            | 15               |
| Net cash used in investing activities   | (13,661)          | (4,845 )         | (19,053)         |
| Cash flows from financing activities:   |                   |                  |                  |
| Net decrease in revolving credit facility   | (30,000)          | (7,000 )         | (30,000)         |
| Repurchase of common stock  | (629 )            | (550 )           | (862 )           |
| Exercise of stock options   | 2,813             | 3,137            | 323              |
| Excess tax benefits from stock-based compensation                                 | 757               | 956              | (87 )            |
| Payments of notes payable   | (255 )            | (156 )           | (473 )           |
| Financing fees paid in connection with senior credit facility                     | —                 | (1,515 )         | —                |
| Other, net  | (72 )             | (247 )           | (289 )           |
| Net cash used in financing activities   | (27,386)          | (5,375 )         | (31,388)         |
| Effect of exchange rate changes on cash   | 664               | 2,850            | 120              |
| Cash and cash equivalents:  |                   |                  |                  |

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|                                     |          |          |          |
|-------------------------------------|----------|----------|----------|
| Increase (decrease) during the year | 4,646    | 42,586   | (9,168 ) |
| Cash, at beginning of year          | 63,975   | 21,389   | 30,557   |
| Cash, at end of year                | \$68,621 | \$63,975 | \$21,389 |

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 (the "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 2012, 2011 and 2010, no one customer accounted for more than 8% of the Company's sales. The Company's segments are further discussed in Part II, Item 8. "Financial Statements and Supplemental Data," Note 19 "Reportable Segments."

#### **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"), 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.

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 2012 and 2011 contained 52 weeks and fiscal year 2010 contained 53 weeks. The Company's net sales and operating income were approximately 1.9% higher in fiscal 2010 as a result of the extra week. The amounts are shown in thousands, unless otherwise indicated.

The Company has performed a review of subsequent events through the date of filing.

### **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 reserves, pension and postretirement obligations and the valuation of options.

### **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. A reserve against inventory is recorded for obsolete and slow-moving inventory within each class of inventory.



### **Shipping and Handling**

The sales price billed to customers includes 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. Depreciation 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 and improvements | 20-30 years   |
| Machinery and equipment    | 3-15 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
- Collectability is reasonably assured.

Revenue is recognized upon the passage of title, which generally is at the time of shipment, except for certain customers for which it occurs when the products reach their destination. 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. The Company had no concentrations of credit risk with any one customer greater than 5% and 4% of accounts receivables at March 31, 2012 and April 2, 2011, respectively.

### **Short-Term Investments**

The Company held investments in high grade corporate bonds which were classified in the accompanying consolidated balance sheets based upon the long or short term nature of the investment and the Company's intent and ability to hold to maturity. Investment returns comprise dividends, interest, and gains and losses. The investments are required to be recorded at fair value and are classified as available for sale, with all unrealized gains and losses included in accumulated other comprehensive income, net of applicable taxes and other adjustments. The Company regularly reviews investment securities for impairment using both qualitative and quantitative criteria. As of March 31, 2012, the Company did not hold any short-term investments.

### **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 collectability 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**

Goodwill (representing the excess of the amount paid to acquire a company over the estimated fair value of the net assets acquired) is not amortized but instead is tested for impairment annually, 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, the Company determines the fair value of a reporting unit and compares it to its 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 the Company's reporting units is calculated by comparing the combination of the net present value of future cash flows method (Level 3 inputs) and a market approach method to the reporting units' carrying value. 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.

## **Deferred Financing Costs**

Deferred financing costs are amortized by the effective interest method over the lives of the related credit agreements.

## **Derivative Financial Instruments**

The Company utilizes forward contracts and average rate options to mitigate the impact of currency fluctuations on monetary assets and liabilities denominated in currencies other than the applicable functional currency as well as on forecasted transactions denominated in currencies other than the applicable functional currency. The Company does not engage in other uses of these financial instruments. For a financial instrument to qualify as a hedge, the Company must be exposed to interest rate or price risk, and the financial instrument must reduce the exposure and be designated as a hedge. Financial instruments qualifying for hedge accounting must maintain a high correlation between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. The Company measures the effectiveness of the hedging relationship at the inception of the hedge and quarterly at a minimum.

If derivative financial instruments qualify as fair value hedges, the gain or loss on the instrument and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For derivative financial instruments that qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified

into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a cash flow hedge, if any, is determined based on the dollar-offset method (i.e., the gain or loss on the derivative financial instrument in excess of the cumulative change in the present value of future cash flows of the hedged item) and is recognized in current earnings during the period of change. As long as hedge effectiveness is maintained, interest rate swap arrangements and foreign currency exchange agreements qualify for hedge accounting as cash flow hedges.

All derivatives are recorded in the Consolidated Balance Sheets at their fair values. Changes in fair values of derivatives are recorded in each period in comprehensive income, since the derivative is designated and qualifies as a cash flow hedge.

### **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. A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized.

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 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 year presented as well as the computation of basic and diluted net income per common share:

|  | Fiscal Year Ended |                  |                  |
|--|-------------------|------------------|------------------|
|  | March 31,<br>2012 | April 2,<br>2011 | April 3,<br>2010 |
| Net income   | \$49,997          | \$34,868         | \$24,385         |
| Denominator:   |                   |                  |                  |
| Denominator for basic net income per common share—weighted-average shares            | 21,880,554        | 21,678,626       | 21,590,421       |
| Effect of dilution due to employee stock options                                     | 510,360           | 400,085          | 156,661          |
| Denominator for diluted net income per common share—adjusted weighted-average shares | 22,390,914        | 22,078,711       | 21,747,082       |
| Basic net income per common share  | \$2.28            | \$1.61           | \$1.13           |
| Diluted net income per common share  | \$2.23            | \$1.58           | \$1.12           |

At March 31, 2012, 200,900 employee stock options and 700 restricted shares have been excluded from the calculation of diluted earnings per share. At April 2, 2011, 8,000 employee stock options have been excluded from the calculation of diluted earnings per share. At April 3, 2010, 1,114,700 employee stock options and 98,185 restricted shares were excluded from the calculation of diluted earnings per share. The inclusion of these employee stock options and restricted shares would be anti-dilutive.

### **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 is 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 income (loss), while gains and losses resulting from foreign currency transactions, which were not material for any of the fiscal years presented, are included in other non-operating expense (income). Net income of the Company's foreign operations for fiscal 2012, 2011 and 2010 amounted to \$7,778, \$4,705 and \$3,310, respectively. Net assets of the Company's foreign operations were \$73,230 and \$63,928 at March 31, 2012 and April 2, 2011, respectively.

## **Fair Value of Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Inputs used to measure fair value are within a hierarchy consisting of three levels. Level 1 inputs represent unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs represent unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs represent unobservable inputs for the asset or liability. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities that are measured on a recurring basis at March 31, 2012 consist of the Company's forward contracts and average rate options. The Company has measured the fair value of these forward contracts and average rate options using observable market inputs such as spot and forward rates (as provided by the financial institution with which these instruments has been executed). Based on these inputs, these instruments are classified as Level 2 on the valuation hierarchy.

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 due to their short-term nature.

The carrying amounts of the Company's borrowings under its JP Morgan Credit Agreement and Swiss Credit Facility approximate fair value, as these obligations have interest rates which vary in conjunction with current market conditions.

## **Accumulated Other Comprehensive Income (Loss)**

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

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

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|   | Currency<br>Translation | Fair Value<br>of<br>Derivatives | Pension and<br>Postretirement<br>Liability | Investments | Total     |
|---|-------------------------|---------------------------------|--|-------------|-----------|
| Balance at March 28, 2009                                 | \$ (463 )               | \$ (1,046 )                     | \$ (1,818 )                                | \$ —        | \$(3,327) |
| Currency translation                                      | 3,412                   | —                               | —  | —           | 3,412     |
| Change in fair value of derivatives, net of taxes         | —                       | 353                             | —  | —           | 353       |
| Net prior service cost and actuarial losses, net of taxes | —                       | —                               | (2,189 )                                   | —           | (2,189)   |
| Unrealized gain on investments, net of taxes              | —                       | —                               | —  | 79          | 79        |
| Balance at April 3, 2010                                  | 2,949                   | (693 )                          | (4,007 )                                   | 79          | (1,672)   |
| Currency translation                                      | 4,829                   | —                               | —  | —           | 4,829     |
| Change in fair value of derivatives, net of taxes         | —                       | 542                             | —  | —           | 542       |
| Net prior service cost and actuarial losses, net of taxes | —                       | —                               | (1,308 )                                   | —           | (1,308)   |
| Unrealized loss on investments, net of taxes              | —                       | —                               | —  | (11 )       | (11 )     |
| Balance at April 2, 2011                                  | 7,778                   | (151 )                          | (5,315 )                                   | 68          | 2,380     |
| Currency translation, net of taxes                        | 312                     | —                               | —  | —           | 312       |
| Change in fair value of derivatives, net of taxes         | —                       | 137                             | —  | —           | 137       |
| Net prior service cost and actuarial losses, net of taxes | —                       | —                               | (1,692 )                                   | —           | (1,692)   |
| Unrealized loss on investments, net of taxes              | —                       | —                               | —  | (68 )       | (68 )     |
| Balance at March 31, 2012                                 | \$ 8,090                | \$ (14 )                        | \$ (7,007 )                                | \$ —        | \$1,069   |

### Stock-Based Compensation

The Company recognizes compensation cost relating to all share-based payment transactions in the financial statements based upon the grant-date fair value of the instruments issued over the requisite service period. The fair value of each option grant was estimated on the date of grant using the Black-Scholes pricing model.



## Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2009-13, “Multiple-Deliverable Revenue Arrangements.” This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor’s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require disclosure of the significant judgments made and changes to those judgments and how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. This new ASU did not have an impact on the determination or reporting of the Company’s financial results for its fiscal year ended March 31, 2012.

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

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

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

conducts its annual goodwill impairment testing in its fiscal year beginning April 1, 2012 but no material impact is expected.

In December 2011, the FASB issued ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05". This ASU defers the requirement in ASU 2011-05 that companies present reclassification adjustments for each component of accumulated other comprehensive income (AOCI) in both net income and other comprehensive income (OCI) on the face of the financial statements. The effective dates of ASU 2011-12 are consistent with the effective dates of ASU 2011-05, which is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

### **3. Acquisitions and Dispositions**

On June 28, 2010, RBC France SAS, a subsidiary of Schaublin SA, sold certain assets relating to its J. Bovagnet sales branch. The assets sold included the trade name, inventory, equipment, and a building. Simultaneously, Schaublin SA entered into a long-term distribution agreement for the continued distribution of Schaublin products by the J. Bovagnet sales operation into a defined territory. A gain in the amount of \$1,066 was realized from the sale of the assets in fiscal 2011.

On September 29, 2009, Lubron acquired certain assets of Lubron Bearing Systems, a manufacturer of highly engineered self-lubricating bearings used in bridge building, power generation, subsea oil production and earthquake seismic isolation, located in Huntington Beach, California for \$2,976. The purchase price included \$1,943 in cash, a \$775 note payable and the assumption of certain liabilities. The purchase price allocation is as follows: inventory (\$103), fixed assets (\$829), goodwill (\$1,713) and intangible assets (\$331). The products associated with the acquisition are complementary with products already provided by other Company businesses. Lubron is included in the Plain Bearings segment.

#### 4. Short-term Investments

Short-term investments include corporate bonds that are classified as available-for-sale expected to be sold within the next twelve months. These bonds, with an amortized basis of \$0 and \$3,804 at March 31, 2012 and April 2, 2011 respectively, were measured at fair value by using quoted prices in active markets for identical assets and were classified as Level 1 of the valuation hierarchy. All such bonds reached their respective maturities as of July 2011. Corporate bonds in the amount of \$3,799 were either sold or matured during the fiscal year ended March 31, 2012. As a result, the Company recognized a gain of \$84 which was recorded in other non-operating expense in the fiscal period ended March 31, 2012.

#### 5. Allowance for Doubtful Accounts

The activity in the allowance for doubtful accounts consists of the following:

| Fiscal Year Ended | Balance at<br>Beginning of<br>Year | Additions | Other* | Write-offs | Balance at<br>End of Year |
|-------------------|------------------------------------|-----------|--------|------------|---------------------------|
| March 31, 2012    | \$ 1,490                           | \$ 473    | \$ 10  | \$ (157 )  | \$ 1,816                  |
| April 2, 2011     | 1,242                              | 478       | 57     | (287 )     | 1,490                     |
| April 3, 2010     | 1,571                              | 273       | 30     | (632 )     | 1,242                     |

\*Foreign currency and acquisition transactions.

#### 6. Inventory

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

|                 | March 31,<br>2012 | April 2,<br>2011 |
|-----------------|-------------------|------------------|
| Raw materials   | \$ 15,056         | \$ 12,594        |
| Work in process | 39,480            | 35,709           |
| Finished goods  | 104,269           | 95,872           |
|                 | \$ 158,805        | \$ 144,175       |

#### 7. Property, Plant and Equipment

Property, plant and equipment consist of the following:

|   | March 31,<br>2012 | April 2,<br>2011 |
|---|-------------------|------------------|
| Land  | \$ 11,590         | \$ 9,782         |
| Buildings and improvements                      | 38,042            | 35,070           |
| Machinery and equipment                         | 153,976           | 141,842          |
|   | 203,608           | 186,694          |
| Less: accumulated depreciation and amortization | 110,235           | 98,286           |
|   | \$ 93,373         | \$ 88,408        |

## **8. Restructuring of Operations**

In March 2010, the Company finished the consolidation of its Houston, Texas facilities. This resulted in a total charge of \$620 of which \$350 was related to the remaining months on the original lease and \$270 was for moving expenses.

## 9. Goodwill and Amortizable Intangible Assets

### *Goodwill*

Goodwill balances, by segment, consist of the following:

|        | March 31,<br>2012 | April 2,<br>2011 |
|--------|-------------------|------------------|
| Roller | \$ 15,684         | \$ 15,684        |
| Plain  | 17,190            | 17,190           |
| Ball   | 671               | 671              |
| Other  | 1,168             | 1,168            |
|        | \$ 34,713         | \$ 34,713        |

### *Intangible Assets*

|                                  | Weighted<br>Average<br>Useful Lives | March 31, 2012              |                             | April 2, 2011               |                             |
|----------------------------------|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                  |                                     | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Product approvals                | 15                                  | \$6,181                     | \$ 2,232                    | \$6,189                     | \$ 1,819                    |
| Customer relationships and lists | 11                                  | 5,556                       | 3,007                       | 5,558                       | 2,578                       |
| Trade names                      | 15                                  | 1,386                       | 972                         | 1,387                       | 840                         |
| Distributor agreements           | 5                                   | 722                         | 722                         | 722                         | 722                         |
| Patents and trademarks           | 15                                  | 5,404                       | 1,359                       | 4,658                       | 917                         |
| Domain names                     | 10                                  | 437                         | 167                         | 437                         | 124                         |
| Other                            | 4                                   | 979                         | 826                         | 980                         | 810                         |
| Total                            |                                     | \$20,665                    | \$ 9,285                    | \$19,931                    | \$ 7,810                    |

Amortization expense for definite-lived intangible assets during fiscal year 2012, 2011 and 2010 was \$1,491, \$1,420 and \$1,333, respectively. Estimated amortization expense for the five succeeding fiscal years and thereafter is as follows:

|                     |         |
|---------------------|---------|
| 2013                | \$1,518 |
| 2014                | 1,420   |
| 2015                | 1,422   |
| 2016                | 1,413   |
| 2017                | 1,303   |
| 2018 and thereafter | 4,304   |

## 10. Accrued Expenses and Other Current Liabilities

The significant components of accrued expenses and other current liabilities are as follows:

|  | March 31,<br>2012 | April 2,<br>2011 |
|--|-------------------|------------------|
| Employee compensation and related benefits | \$ 8,202          | \$6,303          |
| Taxes                                      | 3,725             | 3,248            |
| Insurance                                  | 1,698             | 1,670            |
| Interest rate swap                         | —                 | 240              |
| Other                                      | 4,478             | 3,299            |
|  | \$ 18,103         | \$14,760         |

## 11.

## Debt

On November 30, 2010, the Company and RBCA terminated the previous credit agreement and the related credit, security and ancillary agreements, and entered into a new credit agreement (the “JP Morgan Credit Agreement”) and related security and guaranty agreements with certain banks, J.P. Morgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Chase Bank, N.A. and KeyBank National Association as Co-Lead Arrangers and Joint Lead Book Runners. The JP Morgan Credit Agreement provides RBCA, as borrower, with a \$150,000 five-year senior secured revolving credit facility which can be increased by up to \$100,000, in increments of \$25,000, under certain circumstances and subject to certain conditions (including the receipt from one or more lenders of the additional commitment).

Amounts outstanding under the JP Morgan Credit Agreement generally bear interest at the prime rate or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based upon the Company's consolidated ratio of net debt to adjusted EBITDA from time to time. As of March 31, 2012, the Company's margin is 0.5% for prime rate loans and 1.5% for LIBOR rate loans.

On November 30, 2010, the Company borrowed approximately \$30,000 under the JP Morgan Credit Agreement and used such funds to repay the approximately \$30,000 balance outstanding under the KeyBank Credit Agreement. Amounts outstanding under the new credit agreement are generally due and payable on the expiration date of November 30, 2015. The Company may elect to prepay some or all of the outstanding balance from time to time without penalty.

The JP Morgan Credit Agreement requires the Company to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA not to exceed 3.25 to 1; and (2) a consolidated fixed charge coverage ratio not to exceed 1.5 to 1. The credit agreement allows the Company to, among other things, make distributions to shareholders, repurchase its stock, incur other debt or liens, or acquire or dispose of assets provided that the Company complies with certain requirements and limitations of the agreement. As of March 31, 2012, the Company was in compliance with all such covenants.

Approximately \$5,771 of the JP Morgan Credit Agreement is being utilized to provide letters of credit to secure RBCA's obligations relating to certain insurance programs. As of March 31, 2012, RBCA had the ability to borrow up to an additional \$144,229 under the JP Morgan Credit Agreement.

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

On October 27, 2008, Schaublin entered into a new bank credit facility with Credit Suisse (the "Swiss Credit Facility") which replaced the prior bank credit facility of December 8, 2003 and its amendment of November 8, 2004. This facility provides for up to 4,000 Swiss francs, or \$4,428, of revolving credit loans and letters of credit. Borrowings under the Swiss Credit Facility bear interest at Credit Suisse's prevailing prime bank rate. As of March 31, 2012, there were no borrowings under the Swiss Credit Facility.

The balances payable under all borrowing facilities are as follows:

|   | March 31,<br>2012 | April 2,<br>2011 |
|---|-------------------|------------------|
| JP Morgan Credit Agreement  |                   |                  |
| Five-year senior secured revolving credit facility; amounts outstanding bear interest at LIBOR<br>(0.25% plus a margin of 1.50% at April 2, 2011) | \$ —              | \$ 30,000        |
| Notes Payable   | 1,041             | 1,296            |
| Total Debt  | 1,041             | 31,296           |
| Less: Current Portion   | 1,041             | 30,546           |
| Long-Term Debt  | \$ —              | \$ 750           |

The current portion of long-term debt as of March 31, 2012 includes a \$291 note payable related to the acquisition of Lubron and a \$750 note payable related to the AllPower acquisition. During the first quarter of fiscal 2012, the Company paid off the \$30,000 outstanding under the revolving credit facility. As a result, the \$30,000 borrowing was included in the current portion of long-term debt as of April 2, 2011, along with a \$546 note payable related to the acquisition of Lubron.



## 12. Other Non-Current Liabilities

The significant components of other non-current liabilities consist of:

|                                  | March 31,<br>2012 | April 2,<br>2011 |
|----------------------------------|-------------------|------------------|
| Non-current pension liability    | \$ 4,839          | \$2,985          |
| Other postretirement benefits    | 2,734             | 2,494            |
| Non-current income tax liability | 11,207            | 10,056           |
| Deferred compensation            | 3,940             | 3,181            |
| Other                            | 268               | 307              |
|                                  | \$ 22,988         | \$ 19,023        |

## 13. Pension Plans

At March 31, 2012, the Company has one consolidated noncontributory defined benefit pension plan covering union employees in its Heim division plant in Fairfield, Connecticut, its Bremen subsidiary plant in Plymouth, Indiana and former union employees of the Tyson subsidiary in Glasgow, Kentucky and the Nice subsidiary in Kulpville, Pennsylvania.

Plan assets are comprised primarily of equity and fixed income investments, as follows:

|                           | March 31,<br>2012 | April 2,<br>2011 |
|---------------------------|-------------------|------------------|
| Cash and cash equivalents | \$ 916            | \$688            |
| U.S. equity mutual funds  | 14,026            | 13,166           |
| Fixed income mutual funds | 5,662             | 5,589            |
|                           | \$ 20,604         | \$ 19,443        |

The fair value of the above investments is determined using quoted market prices of identical instruments. Therefore, the valuation inputs within the fair value hierarchy established by ASC820 are classified as Level 1.

The plan provides benefits of stated amounts based on a combination of an employee's age and years of service. The Company uses a March 31 measurement date for its plan.

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The following tables set forth the funded status of the Company's defined benefit pension plan and the amount recognized in the balance sheet at March 31, 2012 and April 2, 2011:

|  | March 31,<br>2012 | April 2,<br>2011 |
|--|-------------------|------------------|
| Change in benefit obligation:                  |                   |                  |
| Benefit obligation at beginning of year        | \$ 22,428         | \$21,022         |
| Service cost                                   | 359               | 336              |
| Interest cost                                  | 1,166             | 1,212            |
| Actuarial loss                                 | 3,016             | 1,421            |
| Benefits paid                                  | (1,526 )          | (1,563 )         |
| Benefit obligation at end of year              | \$ 25,443         | \$22,428         |
| Change in plan assets:                         |                   |                  |
| Fair value of plan assets at beginning of year | \$ 19,443         | \$19,292         |
| Actual return on plan assets                   | 1,187             | 214              |
| Employer contributions                         | 1,500             | 1,500            |
| Benefits paid                                  | (1,526 )          | (1,563 )         |
| Fair value of plan assets at end of year       | \$ 20,604         | \$19,443         |
| <br>(Under) funded status at end of year       | <br>\$ (4,839 )   | <br>\$(2,985 )   |

Amounts recognized in the consolidated balance sheet:

|                          | March<br>31,<br>2012 | April 2,<br>2011 |
|--------------------------|----------------------|------------------|
| Non-current assets       | \$—                  | \$—              |
| Non-current liabilities  | (4,839)              | (2,985)          |
| Net liability recognized | \$(4,839)            | \$(2,985)        |

Amounts recognized in accumulated other comprehensive loss:

|                                      |          |         |
|--------------------------------------|----------|---------|
| Prior service cost                   | \$170    | \$218   |
| Net actuarial loss                   | 10,563   | 8,022   |
| Accumulated other comprehensive loss | \$10,733 | \$8,240 |

Amounts included in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost in 2013:

|                    |         |
|--------------------|---------|
| Prior service cost | \$47    |
| Net actuarial loss | 1,093   |
| Total              | \$1,140 |

Benefits under the union plans are not a function of employees' salaries; thus, the accumulated benefit obligation equals the projected benefit obligation.

The following table sets forth net periodic benefit cost of the Company's plan for the three fiscal years in the period ended March 31, 2012:

|  | Fiscal Year Ended    |                  |                  |
|--|----------------------|------------------|------------------|
|  | March<br>31,<br>2012 | April 2,<br>2011 | April 3,<br>2010 |
| Components of net periodic benefit cost: |                      |                  |                  |
| Service cost                             | \$359                | \$336            | \$307            |
| Interest cost                            | 1,166                | 1,212            | 1,280            |
| Expected return on plan assets           | (1,534)              | (1,525)          | (1,574)          |
| Amortization of prior service cost       | 47                   | 53               | 49               |

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|   |       |       |      |
|---|-------|-------|------|
| Amortization of losses                          | 822   | 412   | 25   |
| Additional amount recognized due to curtailment | —     | —     | (8 ) |
| Net periodic benefit cost                       | \$860 | \$488 | \$79 |

The assumptions used in determining the net periodic benefit cost information are as follows:

|  | FY 2012 | FY 2011 | FY 2010 |
|--|---------|---------|---------|
| Discount rate                                    | 5.30 %  | 6.00 %  | 7.00 %  |
| Expected long-term rate of return on plan assets | 8.25 %  | 8.25 %  | 8.25 %  |

The discount rate used in determining the funded status as of March 31, 2012 and April 2, 2011 was 4.20% and 5.30%, respectively.

In developing the overall expected long-term 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 return on plan assets assumption.

The Company's 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. The Company's target allocation of plan assets was 60% equity and 40% fixed income as of March 31, 2012 and April 2, 2011.

The following benefit payments, which reflect future service as appropriate, are expected to be paid. The benefit payments are based on the same assumptions used to measure the Company's benefit obligation at the end of fiscal 2012.

|           |         |
|-----------|---------|
| 2013      | \$1,468 |
| 2014      | 1,532   |
| 2015      | 1,565   |
| 2016      | 1,643   |
| 2017      | 1,643   |
| 2018-2022 | 8,442   |

One of the Company's foreign operations, Schaublin, sponsors a pension plan for its approximately 129 employees in conformance with Swiss pension law. The plan is funded with a reputable (S&P rating AA-) Swiss insurer. Through the insurance contract, the Company has effectively transferred all investment and mortality risk to the insurance company, which guarantees the federally mandated annual rate of return and the conversion rate at retirement. As a result, the plan has no unfunded liability; the interest cost is exactly offset by actual return. Thus, the net periodic cost is equal to the amount of annual premium paid by the Company. For fiscal years 2012, 2011 and 2010, the Company made contribution and premium payments equal to \$765, \$621 and \$644, respectively.

The Company also has a defined contribution plan under Section 401(k) of the Internal Revenue Code for all of its employees not covered by a collective bargaining agreement. The Company had temporarily suspended the employer contribution to this plan effective January 1, 2009. At the beginning of fiscal year 2011, the Company resumed employer contributions which equaled 10% of the first 3.5% of eligible employee compensation. Employer contributions under this plan amounted to \$338, \$316 and \$0 in fiscal 2012, 2011 and 2010, respectively.

Effective September 1, 1996, the Company adopted a non-qualified Supplemental Executive Retirement Plan ("SERP") for a select group of highly compensated management employees designated by the Board of Directors of the Company. The SERP allowed eligible employees to elect to defer, until termination of their employment, the receipt of up to 25% of their salary. In August 2008, the plan was modified, allowing eligible employees to elect to defer up to 75% of their current salary and up to 100% of bonus compensation. The Company had temporarily suspended the employer contribution to this plan effective January 1, 2009 and contributions remained suspended during fiscal 2010 and fiscal 2011. At the beginning of fiscal year 2012, the Company resumed employer contributions which equaled the lesser of 25% of the deferrals, or 1.75% of the employee's annual salary, which vest in full after one year of service following the effective date of the SERP. Employer contributions under this plan amounted to \$123 in fiscal 2012.

#### **14. Postretirement Health Care and Life Insurance Benefits**

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The Company, for the benefit of employees at its Heim, West Trenton, Bremen and PIC facilities and former union employees of its Tyson and Nice subsidiaries, sponsors contributory defined benefit health care plans that provide postretirement medical and life insurance benefits to union employees who have attained certain age and/or service requirements while employed by the Company. The plans are unfunded and costs are paid as incurred. Postretirement benefit obligations are included in "Accrued expenses and other current liabilities" and "Other non-current liabilities" in the Consolidated Balance Sheet.

The following table set forth the funded status of the Company's postretirement benefit plans, the amount recognized in the balance sheet at March 31, 2012 and April 2, 2011:

|   | March 31,<br>2012 | April 2,<br>2011 |
|---|-------------------|------------------|
| Change in benefit obligation:           |                   |                  |
| Benefit obligation at beginning of year | \$ 2,710          | \$ 2,907         |
| Service cost                            | 40                | 35               |
| Interest cost                           | 137               | 146              |
| Actuarial (gain) loss                   | 270               | (173 )           |
| Benefits paid                           | (199 )            | (205 )           |
| Benefit obligation at end of year       | \$ 2,958          | \$ 2,710         |

|  | March<br>31,<br>2012 | April 2,<br>2011 |
|--|----------------------|------------------|
| Change in plan assets:   |                      |                  |
| Fair value of plan assets at beginning of year   | \$—                  | \$—              |
| Company contributions  | 199                  | 205              |
| Benefits paid  | (199 )               | (205 )           |
| Fair value of plan assets at end of year   | \$—                  | \$—              |
| (Under) funded status at end of year   | \$(2,958)            | \$(2,710)        |
| Amounts recognized in the consolidated balance sheet:  |                      |                  |
| Current liability  | \$(224 )             | \$(216 )         |
| Non-current liability  | (2,734)              | (2,494)          |
| Net liability recognized   | \$(2,958)            | \$(2,710)        |
| Amounts recognized in accumulated other comprehensive loss:  |                      |                  |
| Prior service cost   | \$34                 | \$37             |
| Net actuarial loss   | 418                  | 170              |
| Accumulated other comprehensive loss   | \$452                | \$207            |
| Amounts included in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost in 2013: |                      |                  |
| Prior service cost   | \$3                  |                  |
| Net actuarial loss   | 36                   |                  |
| Total  | \$39                 |                  |

|  | Fiscal Year Ended    |                     |                     |
|--|----------------------|---------------------|---------------------|
|  | March<br>31,<br>2012 | April<br>2,<br>2011 | April<br>3,<br>2010 |
| Components of net periodic benefit cost: |                      |                     |                     |
| Service cost                             | \$40                 | \$35                | \$44                |
| Interest cost                            | 137                  | 146                 | 190                 |
| Prior service cost amortization          | 3                    | 3                   | 29                  |
| Amount of loss recognized                | 22                   | 6                   | 2                   |
| Gain on curtailment                      | —                    | —                   | (100)               |
| Net periodic benefit cost                | \$202                | \$190               | \$165               |

The Company measures its plans as of the last day of the fiscal year.

The plans 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 postretirement benefit obligation was 4.20% at March 31, 2012 and 5.30% at April 2, 2011. The discount rate used in determining the net periodic benefit cost was 5.30% for fiscal 2012, 6.00% for fiscal 2011 and 7.00% for fiscal 2010.

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The RP-2000 Combined Mortality Table was used to determine the postretirement net periodic benefit costs in fiscal 2012, 2011 and 2010.

The following benefit payments, which reflect future service as appropriate, are expected to be paid. The benefit payments are based on the same assumptions used to measure the Company's benefit obligation at the end of fiscal 2012:

|           |       |
|-----------|-------|
| 2013      | \$224 |
| 2014      | 231   |
| 2015      | 223   |
| 2016      | 235   |
| 2017      | 223   |
| 2018-2022 | 1,088 |



## 15. Income Taxes

Income before income taxes for the Company's domestic and foreign operations is as follows:

|          | Fiscal Year Ended    |                  |                  |
|----------|----------------------|------------------|------------------|
|          | March<br>31,<br>2012 | April 2,<br>2011 | April 3,<br>2010 |
| Domestic | \$65,878             | \$46,349         | \$29,238         |
| Foreign  | 10,101               | 6,528            | 3,772            |
|          | \$75,979             | \$52,877         | \$33,010         |

The provision for (benefit from) income taxes consists of the following:

|           | Fiscal Year Ended    |                  |                     |
|-----------|----------------------|------------------|---------------------|
|           | March<br>31,<br>2012 | April 2,<br>2011 | April<br>3,<br>2010 |
| Current:  |                      |                  |                     |
| Federal   | \$22,012             | \$14,595         | \$4,870             |
| State     | 2,562                | 2,738            | 2,212               |
| Foreign   | 1,527                | 1,822            | 461                 |
|           | 26,101               | 19,155           | 7,543               |
| Deferred: |                      |                  |                     |
| Federal   | (1,347 )             | (733 )           | 1,446               |
| State     | 433                  | (413 )           | (364 )              |
| Foreign   | 795                  | —                | —                   |
|           | (119 )               | (1,146 )         | 1,082               |
| Total     | \$25,982             | \$18,009         | \$8,625             |

A reconciliation of income taxes computed using the U.S. federal statutory rate to that reflected in operations follows:

|  | Fiscal Year Ended    |                  |                  |
|--|----------------------|------------------|------------------|
|  | March<br>31,<br>2012 | April 2,<br>2011 | April 3,<br>2010 |
| Income taxes using U.S. federal statutory rate | \$26,593             | \$18,507         | \$11,554         |
| State income taxes, net of federal benefit     | 2,040                | 1,374            | 1,381            |
| Domestic production activities deduction       | (2,211 )             | (1,367 )         | (526 )           |

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|  |          |          |          |
|--|----------|----------|----------|
| Foreign rate differential                | (1,214 ) | (463 )   | (859 )   |
| Advanced energy manufacturing tax credit | —        | —        | (2,665 ) |
| Other                                    | 774      | (42 )    | (260 )   |
|  | \$25,982 | \$18,009 | \$8,625  |

Net deferred tax assets (liabilities) consist of the following:

|                                    | March<br>31,<br>2012 | April 2,<br>2011 |
|------------------------------------|----------------------|------------------|
| Deferred tax assets (liabilities): |                      |                  |
| Postretirement benefits            | \$1,002              | \$880            |
| Employee compensation accruals     | 2,462                | 2,012            |
| State net operating losses         | 921                  | 1,055            |
| Inventory                          | 7,854                | 6,504            |
| Stock compensation                 | 3,614                | 2,827            |
| Pension                            | 1,839                | 1,072            |
| State tax                          | 2,490                | 2,153            |
| Fair value of derivative           | —                    | 90               |
| Other                              | 2,145                | 2,107            |
| Valuation allowance                | (353 )               | (353 )           |
| Total deferred tax assets          | 21,974               | 18,347           |

|                                | March 31,<br>2012 | April 2,<br>2011 |
|--------------------------------|-------------------|------------------|
| Deferred tax liabilities:      |                   |                  |
| Property, plant and equipment  | (12,519 )         | (11,440)         |
| Intangible assets              | (5,034 )          | (4,353 )         |
| Total deferred tax liabilities | (17,553 )         | (15,793)         |
| Net deferred tax assets        | \$4,421           | \$2,554          |

A valuation allowance has been recorded on certain state net operating losses as it is more likely than not that these losses will not be utilized.

The Company has determined that its undistributed foreign earnings of approximately \$52,500 at March 31, 2012 will be re-invested indefinitely based upon the need for cash in its foreign operations, potential foreign acquisitions and the Company's inability to remit cash back to the United States under its current foreign debt obligations. Schaublin had a tax holiday which expired in March 2010 that provided a 75% reduction of the statutory rate relating to its Swiss facility. This resulted in a tax benefit of approximately \$1,000 in fiscal 2010. Schaublin has received a new favorable tax arrangement in Switzerland pertaining to the acceleration of depreciation which results in a tax benefit of approximately \$795 in fiscal 2012.

As the Company's undistributed earnings in foreign subsidiaries are considered to be reinvested indefinitely, no provision for U.S. federal and state income taxes has been provided. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment of foreign tax credits) and withholding taxes payable to various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable due to the complexities associated with its hypothetical calculation.

At March 31, 2012, the Company has state net operating losses in different jurisdictions at varying amounts up to \$17,749, which expire at various dates through 2026.

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, 2006. A U.S. federal tax examination by the Internal Revenue Service for the years ended March 31, 2007 and March 31, 2008 was substantially completed during fiscal 2011. As a result, the Company recognized certain previously unrecognized tax benefits of \$576 in fiscal 2011 on the basis that the related tax positions have been effectively settled.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits are as follows:

|   |         |
|---|---------|
| Balance at April 3, 2010                                    | \$8,209 |
| Increases for tax positions taken during the current period | 1,355   |
| Decrease due to a settlement with taxing authorities        | (576 )  |
| Balance at April 2, 2011                                    | 8,988   |
| Increases for tax positions taken during the current period | 986     |
| Balance at March 31, 2012                                   | \$9,974 |

The increase in tax positions is a result of federal tax credits and state income taxes. The decrease in tax positions in the Company's fiscal year ending April 2, 2011 is due to the conclusion of an IRS audit. Substantially all of the Company's unrecognized tax benefits would impact the effective tax rate if recognized.

The Company recognizes the interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company recognized charges of \$166 and \$529 of interest and penalties on its statement of operations for the fiscal years ended March 31, 2012 and April 2, 2011, respectively. The Company has approximately \$1,233 and \$1,068 of accrued interest and penalties at March 31, 2012 and April 2, 2011, respectively.

The Company believes it is reasonably possible that some of its unrecognized tax positions may be effectively settled by the end of the Company's fiscal year ending March 30, 2013 due to the closing of audits and the statute of limitations expiring in varying jurisdictions. The decrease, pertaining primarily to credits and state tax, is estimated to be between \$5,400 and \$5,800.

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 that it has received an award of \$4,200 related to the recently completed investment in the Company’s Houston, Texas facility. This facility was placed in service by the Company in fiscal 2010. As such, the net benefit of this credit was recorded in fiscal 2010.

## 16. Stockholders' Equity

### **Stock Option Plans**

#### ***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 Stock Option Plan provide for the grant of options to purchase up to 1,008,553 shares of common stock to officers and employees of, and consultants (including members of the board of directors) to, the Company and its 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 Stock Option Plan, which expired in July 2011, was governed by the Company’s board of directors or a committee to which the board of directors delegates its responsibilities. As of March 31, 2012, there were outstanding options to purchase 11,200 shares of common stock granted under the 2001 Stock Option Plan, all of which were exercisable. As of August 15, 2005, the 2001 Stock Option Plan was frozen and no additional stock options will be awarded pursuant to the Plan.

#### ***2005 Long-Term Incentive Plan***

The 2005 Long-Term Incentive Plan provides for grants of stock options, stock appreciation rights, restricted stock and performance awards. Directors, officers and other employees and persons who engage in services for the Company 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 the Company’s success and to enable the Company to attract, retain and reward the best available persons for positions of responsibility.

1,139,170 shares of 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 the Company's corporate structure or in the outstanding shares of common stock. An amendment to increase the number of shares available for issuance under the 2005 Long-Term Incentive Plan from 1,139,170 to 1,639,170 was approved by shareholder vote in September 2006. A further amendment to increase the number of shares available for issuance under the 2005 Long-Term Incentive Plan from 1,639,170 to 2,239,170 was approved by shareholder vote in September 2007. The Company may grant shares of restricted stock to its employees and directors in the future under the plan. The Company's compensation committee will administer the plan. The Company's board of directors 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, is set forth consistent with the plan in a written agreement with the grantee.

*Stock Options.* Under the 2005 Long-Term Incentive Plan, the compensation committee or the board may approve the award of grants of incentive stock options and other non-qualified stock options. The compensation committee also has the authority to approve the grant of options that will become fully vested and exercisable automatically upon a change in control. The compensation committee may not, however, approve an 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, and it may not approve an award of 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 approve 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 the Company's 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. As of March 31, 2012, there were outstanding options to purchase 1,728,668 shares of common stock granted under the 2005 Long-Term Incentive Plan, 1,247,796 of which were exercisable.

*Restricted Stock.* Under the 2005 Long-Term Incentive Plan, the compensation committee may approve the award of restricted stock subject to the conditions and restrictions, and for the duration that it determines in its discretion. As of March 31, 2012, there were 152,212 shares of restricted stock outstanding.

*Stock Appreciation Rights.* The compensation committee may approve the grant of stock appreciation rights, or SARs, subject to the terms and conditions contained in the plan. Under the 2005 Long-Term Incentive Plan, the exercise price of a SAR must equal the fair market value of a share of the Company's 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 approve the grant of performance awards contingent upon achievement by the grantee or by the Company, 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 2005 Long-Term Incentive Plan at its discretion, except that no amendment will become effective without prior approval of the Company's 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.

A summary of the status of the Company's stock options outstanding as of March 31, 2012 and changes during the year then ended is presented below. All cashless exercises of options and warrants are handled through an independent broker.

|                            | Number<br>Of<br>Common<br>Stock<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Contractual<br>Life<br>(Years) | Intrinsic<br>Value |
|----------------------------|--|--|---|--------------------|
| Outstanding, April 2, 2011 | 1,692,052                                  | \$ 21.75                                 | 4.4   | \$28,959           |
| Awarded                    | 201,000                                    | 37.72                                    |   |                    |
| Exercised                  | (123,684 )                                 | 22.74                                    |   |                    |
| Forfeitures                | (29,500 )                                  | 34.57                                    |   |                    |

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|                             |           |          |     |          |
|-----------------------------|-----------|----------|-----|----------|
| Outstanding, March 31, 2012 | 1,739,868 | \$ 23.30 | 3.9 | \$39,716 |
| Exercisable, March 31, 2012 | 1,258,996 | \$ 20.43 | 3.4 | \$32,354 |

The fair value for the Company's options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions, which are updated to reflect current expectations of the dividend yield, expected life, risk-free interest rate and using historical volatility to project expected volatility:

|                                       | Fiscal Year Ended |               |               |
|---------------------------------------|-------------------|---------------|---------------|
|                                       | March 31, 2012    | April 2, 2011 | April 3, 2010 |
| Dividend yield                        | 0.0 %             | 0.0 %         | 0.0 %         |
| Expected weighted-average life (yrs.) | 4.8               | 4.8           | 4.7           |
| Risk-free interest rate               | 0.98 %            | 1.48 %        | 2.25 %        |
| Expected volatility                   | 47.6 %            | 47.1 %        | 39.8 %        |

The weighted average fair value per share of options granted was \$15.43 in fiscal 2012, \$13.50 in fiscal 2011 and \$8.86 in fiscal 2010.

As of March 31, 2012, there was \$5,313 of unrecognized compensation costs related to options which is expected to be recognized over a weighted average period of 3.3 years. The total fair value of options that vested in fiscal 2012, 2011 and 2010 was \$12,045, \$10,213 and \$5,775, respectively. The total intrinsic value of options exercised in fiscal 2012, 2011 and 2010 was \$2,393, \$2,848 and \$364, respectively.



Of the total awards outstanding at March 31, 2012, 1,719,813 are either fully vested or are expected to vest. These shares have a weighted average exercise price of \$23.25, an intrinsic value of \$39,354, and a weighted average contractual term of 3.9 years.

A summary of the status of the Company's restricted stock outstanding as of March 31, 2012 and changes during the year then ended is presented below.

|                            | Number<br>Of<br>Restricted<br>Stock<br>Shares | Weighted-<br>Average<br>Grant<br>Date Fair<br>Value |
|----------------------------|---|---|
| Non-vested, April 2, 2011  | 98,095  | \$ 26.94  |
| Granted                    | 115,600                                       | 37.75   |
| Vested                     | (57,483 )                                     | 25.27   |
| Forfeitures                | (4,000 )                                      | 37.31   |
| Non-vested, March 31, 2012 | 152,212                                       | \$ 35.54  |

The Company recorded \$1,001 (net of taxes of \$595) in compensation in fiscal 2012 related to restricted stock awards. These awards were valued at the fair market value of the Company's common stock on the date of issuance and are being amortized as expense over the applicable vesting period. Unrecognized expense for restricted stock was \$4,557 at March 31, 2012. This cost is expected to be recognized over a weighted average period of approximately 3.9 years.

#### 17. Commitments and Contingencies

The Company leases facilities under non-cancelable operating leases, which expire on various dates through September 2021, with rental expense aggregating \$4,627, \$4,560 and \$4,186 in fiscal 2012, 2011 and 2010, respectively.

The Company also has non-cancelable operating leases for transportation, computer and office equipment, which expire at various dates. Rental expense for fiscal 2012, 2011 and 2010 aggregated \$1,235, \$1,324 and \$1,295, respectively.

Certain of the above leases are renewable while none contain material contingent rent or concession clauses.

The aggregate future minimum lease payments under operating leases are as follows:

|                     |         |
|---------------------|---------|
| 2013                | \$4,900 |
| 2014                | 3,983   |
| 2015                | 3,424   |
| 2016                | 1,476   |
| 2017                | 846     |
| 2018 and thereafter | 2,422   |

As of March 31, 2012, approximately 12% of the Company's hourly employees in the U.S. and abroad were represented by labor unions.

The Company enters into government contracts and subcontracts that are subject to audit by the government. In the opinion of the Company's management, the results of such audits, if any, are not expected to have a material impact on the cash flows, financial condition or results of operations of the Company.

For fiscal 2012, 2011 and 2010, there were no audits by the government, the results of which, in the opinion of the Company's management, had a material impact on the cash flows, financial condition or results of operations of the Company.

The Company is 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. The Company also may be liable under the Comprehensive Environmental Response, Compensation, and Liability Act or similar state laws for the costs of investigation and cleanup of contamination at facilities currently or formerly owned or operated by the Company, or at other facilities at which the Company may have disposed of hazardous substances. In connection with such contamination, the Company 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. The Company believes it is currently in material compliance with all applicable requirements of environmental laws. The Company does not anticipate material capital expenditures for environmental compliance in fiscal years 2013 or 2014.

Investigation and remediation of contamination is ongoing at some of the Company's sites. In particular, state agencies have been overseeing groundwater monitoring activities at the Company's facility in Hartsville, South Carolina and a corrective action plan at the Company's facility in Clayton, Georgia. At Hartsville, the Company is monitoring low levels of contaminants in the groundwater caused by former operations. Plans are currently underway to conclude remediation and monitoring activities. In connection with the purchase of the Fairfield, Connecticut facility in 1996, the Company agreed to assume responsibility for completing clean-up efforts previously initiated by the prior owner. The Company submitted data to the state that the Company believes demonstrates that no further remedial action is necessary, although the state may require additional clean-up or monitoring. In connection with the purchase of the Company's Clayton, Georgia facility, the Company agreed to take assignment of the hazardous waste permit covering such facility and to assume certain responsibilities to implement a corrective action plan concerning the remediation of certain soil and groundwater contamination present at that facility. The corrective action plan is in the early stages. Although there can be no assurance, the Company does not expect the costs associated with the above sites to be material.

There are various claims and legal proceedings against the Company relating to its operations in the normal course of business, none of which the Company believes is material to its cash flows, financial position or results of operations. The Company accrues costs associated with legal and non-income tax matters when they become probable and reasonably estimable. As of March 31, 2012, the estimate for a loss exceeding any amounts already recognized is immaterial. The Company currently maintains insurance coverage for product liability claims.

#### 18. Other Operating Expense, Net

Other operating expense, net is comprised of the following:

|                                      | Fiscal Year Ended    |                  |                     |
|--------------------------------------|----------------------|------------------|---------------------|
|                                      | March<br>31,<br>2012 | April 2,<br>2011 | April<br>3,<br>2010 |
| (Gain) loss on disposition of assets | \$(10 )              | \$(1,076)        | \$200               |
| Plant consolidation and moving costs | 97                   | 219              | 1,199               |
| Provision for doubtful accounts      | 246                  | 478              | 10                  |
| Amortization of intangibles          | 1,491                | 1,420            | 1,333               |
| Other income                         | (195 )               | (166 )           | (213 )              |
|                                      | \$1,629              | \$875            | \$2,529             |

#### 19. 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 that do not exhibit the common attributes mentioned above and do not meet the quantitative thresholds for separate disclosure are combined and disclosed as "Other".

The Company has four reportable business segments, Plain Bearings, Roller Bearings, Ball Bearings and Other, which are described below. Within the Plain Bearings, Roller Bearings and Ball Bearings reportable segments, we have not aggregated any operating segments. Within the Other reportable segment, we have aggregated operating segments because they do not meet the quantitative threshold for separate disclosure.

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

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

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

**Other.** Other consists of three 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.

The accounting policies of the reportable segments are the same as those described in Part II, Item 8. "Financial Statements and Supplementary Data," Note 2 "Summary of Significant Accounting Policies." 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. Identifiable assets by reportable segment consist of those directly identified with the segment's operations. Corporate assets consist of cash, fixed assets and certain prepaid expenses.

|   | Fiscal Year Ended    |                  |                  |
|---|----------------------|------------------|------------------|
|   | March<br>31,<br>2012 | April 2,<br>2011 | April 3,<br>2010 |
| <b>Net External Sales</b>                           |                      |                  |                  |
| Plain   | \$200,141            | \$168,777        | \$134,303        |
| Roller  | 123,803              | 98,942           | 73,164           |
| Ball  | 42,330               | 40,637           | 45,442           |
| Other   | 31,237               | 27,269           | 21,793           |
|   | \$397,511            | \$335,625        | \$274,702        |
| <b>Gross Margin</b>                                 |                      |                  |                  |
| Plain   | \$72,875             | \$58,147         | \$41,281         |
| Roller  | 45,233               | 32,107           | 24,648           |
| Ball  | 9,240                | 9,193            | 11,617           |
| Other   | 13,232               | 10,327           | 7,020            |
|   | \$140,580            | \$109,774        | \$84,566         |
| <b>Selling, General and Administrative Expenses</b> |                      |                  |                  |
| Plain   | \$14,453             | \$12,977         | \$12,221         |
| Roller  | 6,282                | 6,073            | 5,528            |
| Ball  | 3,383                | 3,170            | 3,082            |
| Other   | 4,006                | 3,590            | 3,880            |
| Corporate   | 33,179               | 26,896           | 22,656           |
|   | \$61,303             | \$52,706         | \$47,367         |
| <b>Operating Income</b>                             |                      |                  |                  |

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|           |           |           |           |
|-----------|-----------|-----------|-----------|
| Plain     | \$57,920  | \$45,896  | \$28,554  |
| Roller    | 41,062    | 27,976    | 20,969    |
| Ball      | 3,498     | 3,594     | 5,594     |
| Other     | 9,018     | 6,656     | 2,691     |
| Corporate | (33,850 ) | (27,929 ) | (23,138 ) |
|           | \$77,648  | \$56,193  | \$34,670  |

**Total Assets**

|           |           |           |           |
|-----------|-----------|-----------|-----------|
|           | \$312,678 | \$282,814 | \$242,973 |
| Plain     |           |           |           |
| Roller    | 163,475   | 121,621   | 105,912   |
| Ball      | 47,382    | 44,825    | 45,819    |
| Other     | 30,386    | 19,662    | 7,904     |
| Corporate | (94,403 ) | (42,940 ) | (26,653 ) |
|           | \$459,518 | \$425,982 | \$375,955 |

Capital Expenditures

|           |          |          |         |
|-----------|----------|----------|---------|
| Plain     | \$5,971  | \$2,736  | \$2,369 |
| Roller    | 4,304    | 4,058    | 1,544   |
| Ball      | 1,486    | 1,200    | 5,610   |
| Other     | 5,403    | 340      | 313     |
| Corporate | 677      | 2,106    | 70      |
|           | \$17,841 | \$10,440 | \$9,906 |

|                              | Fiscal Year Ended    |                  |                  |
|------------------------------|----------------------|------------------|------------------|
|                              | March<br>31,<br>2012 | April 2,<br>2011 | April 3,<br>2010 |
| Depreciation & Amortization  |                      |                  |                  |
| Plain                        | \$4,516              | \$4,756          | \$4,583          |
| Roller                       | 4,555                | 3,809            | 3,636            |
| Ball                         | 2,636                | 2,304            | 1,561            |
| Other                        | 1,476                | 838              | 1,205            |
| Corporate                    | 1,007                | 1,264            | 845              |
|                              | \$14,190             | \$12,971         | \$11,830         |
| Geographic External Sales    |                      |                  |                  |
| Domestic                     | \$339,504            | \$289,536        | \$234,329        |
| Foreign                      | 58,007               | 46,089           | 40,373           |
|                              | \$397,511            | \$335,625        | \$274,702        |
| Geographic Long-Lived Assets |                      |                  |                  |
| Domestic                     | \$86,026             | \$81,714         | \$84,718         |
| Foreign                      | 7,347                | 6,694            | 4,819            |
|                              | \$93,373             | \$88,408         | \$89,537         |
| Intersegment Sales           |                      |                  |                  |
| Plain                        | \$2,554              | \$1,954          | \$1,692          |
| Roller                       | 16,510               | 12,378           | 8,331            |
| Ball                         | 1,788                | 1,413            | 3,764            |
| Other                        | 23,823               | 18,455           | 15,416           |
|                              | \$44,675             | \$34,200         | \$29,203         |

All intersegment sales are eliminated in consolidation.

## 20. Derivative Instruments

The Company utilizes forward contracts and average rate options to mitigate the impact of currency fluctuations on monetary assets and liabilities denominated in currencies other than the applicable functional currency as well as on forecasted transactions denominated in currencies other than the applicable functional currency. These are considered derivative instruments and are recorded as either assets or liabilities which are measured at fair value using models based on observable market inputs such as spot and forward rates and are classified as Level 2 on the valuation hierarchy. For instruments that are designated and qualify as cash flow hedges, the unrealized gains or losses are reported as a component of other comprehensive income (“OCI”) and are reclassified from accumulated other comprehensive income (“AOCI”) into earnings on the consolidated statement of operations when the hedged transaction affects earnings. As of March 31, 2012, the expected net impact of existing gains or losses to be reclassified from AOCI into earnings in the next twelve months is not material.

Notional amounts of the derivative financial instruments qualifying and designated as hedges were \$1,401 at March 31, 2012 and \$850 at April 2, 2011. These financial instruments have maturities that extend to October 2012. Unrealized losses (gains) related to derivative financial instruments were \$12 and \$(13) at March 31, 2012 and April 2, 2011, respectively.

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

None.



## **ITEM 9A. CONTROLS AND PROCEDURES**

The Company's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rule 13a-15(e) of the Securities Exchange Act of 1934. As of the end of the period covered by this report, the Company performed an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the Company in the reports that it files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. No changes were made to the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's management believes that its disclosure controls and procedures were effective as of March 31, 2012.

## Management's Report on Internal Control Over Financial Reporting

Management of RBC Bearings Incorporated is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934.

The Company's internal control over financial reporting is supported by written policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of March 31, 2012 as required by Securities Exchange Act of 1934. In making this assessment, we used the criteria set forth in the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control-Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of March 31, 2012.

The effectiveness of our internal control over financial reporting as of March 31, 2012 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which appears on the following page.

RBC Bearings Incorporated

Oxford, Connecticut

May 30, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of RBC Bearings Incorporated

We have audited RBC Bearings Incorporated's internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). RBC Bearings Incorporated's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

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In our opinion, RBC Bearings Incorporated maintained, in all material respects, effective internal control over financial reporting as of March 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of RBC Bearings Incorporated as of March 31, 2012 and April 2, 2011, and the related consolidated statements of operations, stockholders' equity and comprehensive income and cash flows, for each of the three years in the period ended March 31, 2012, and our report dated May 30, 2012 expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Hartford, Connecticut  
May 30, 2012

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

The information called for by Part III (Items 10, 11, 12, 13 and 14) of Form 10-K will be included in the Company's Proxy Statement for its 2012 Annual Meeting of Shareholders, which the Company intends to file within 120 days after the close of its fiscal year ended March 31, 2012 and which is incorporated herein by reference to such Proxy Statement.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements

The following Consolidated Financial Statements of the Company are included in Item 8, "Financial Statements and Supplementary Data":

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at March 31, 2012 and April 2, 2011

Consolidated Statements of Operations for the years ended March 31, 2012, April 2, 2011 and April 3, 2010

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Consolidated Statements of Stockholders' Equity and Comprehensive Income for the years ended March 31, 2012, April 2, 2011 and April 3, 2010

Consolidated Statements of Cash Flows for the years ended March 31, 2012, April 2, 2011 and April 3, 2010

Notes to Consolidated Financial Statements

(a) 2. Financial Statement Schedules

All schedules have been omitted because of the absence of conditions under which they are required or because the required information is presented in the financial statements or notes thereto.

(a) 3. Exhibits

The following exhibits are filed as part of this report.

Certain of the following exhibits have been previously filed with the Securities and Exchange Commission by the Company pursuant to the requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934. Such exhibits are identified by the parenthetical references following the listing of each such exhibit and are incorporated herein by reference. The Company's Commission file number is 333-124824.

Exhibit

Number Description of Document

- |     |   |
|-----|---|
| 3.1 | Amended and Restated Certificate of Incorporation of RBC Bearings Incorporated dated August 13, 2005 as filed with Amendment No. 4 to RBC Bearings Incorporated's Registration Statement on Form S-1, file No. 333-124824 (the "Registration Statement") dated August 8, 2005 is hereby incorporated by reference herein. |
| 3.2 | Bylaws of RBC Bearings Incorporated, as filed as Exhibit 3.3 to Amendment No. 4 to the Registration Statement on Form S-1 dated August 8, 2005 is hereby incorporated by reference herein.  |
| 4.1 | Form of stock certificate for common stock, as filed as Exhibit 4.3 to RBC Bearings Incorporated's Amendment No. 3 to Registration Statement on Form S-1 dated August 4, 2005 is hereby incorporated by reference herein.   |





- 4.2 Form of Amended and Restated Warrants to Purchase Common Stock, as filed as Exhibit 4.7 to RBC Bearing Incorporated's Registration Statement on Form S-8 dated March 15, 2006, is hereby incorporated by reference herein.
- 4.3 Amended and Restated Warrants to Purchase Class B Supervoting Common Stock, as filed as Exhibit 4.8 to RBC Bearing Incorporated's Registration Statement on Form S-8 dated March 15, 2006, is hereby incorporated by reference herein.
- 10.1 Amended and Restated 2001 Stock Option Plan of RBC Bearings Incorporated (f/k/a Roller Bearing Holding Company, Inc.), dated October 24, 2003 filed as Exhibit 10.2 to the Registration Statement on Form S-1 dated May 11, 2005 is hereby incorporated by reference herein.
- 10.2 Form of RBC Bearings Incorporated 2005 Long-Term Equity Incentive Plan, as filed as Exhibit 4.6 to RBC Bearing Incorporated's Registration Statement on Form S-8 dated November 18, 2005, is hereby incorporated by reference herein.
- 10.3 Credit Agreement, dated as of June 26, 2006, among Roller Bearing Company of America, Inc., RBC Bearings Incorporated, the Lenders named therein, KeyBank National Association, J.P. Morgan Securities Inc. and LaSalle Bank National Association, filed as Exhibit 99.1 to Form 8-K dated July 18, 2006 is hereby incorporated by reference herein.
- 10.4 Parent Guaranty, dated as of June 26, 2006, by RBC Bearings Incorporated, in favor of KeyBank National Association, filed as Exhibit 99.2 to Form 8-K dated July 18, 2006 is hereby incorporated by reference herein.
- 10.5 Security Agreement, dated as of June 26, 2006, among Roller Bearing Company of America, Inc., RBC Bearings Incorporated, the Subsidiary Guarantors (as defined therein), and KeyBank National Association, filed as Exhibit 99.3 to Form 8-K dated July 18, 2006 is hereby incorporated by reference herein.
- 10.6 RBC Bearings Incorporated 2005 Long Term Incentive Plan (Amended and Restated as of August 29, 2007) filed as Exhibit 10.1 on Form 8-K dated August 30, 2007 is hereby incorporated by reference herein.
- 10.7 Amendment No. 2 to Credit Agreement, dated as of September 10, 2007 by and between Roller Bearing Company of America, Inc., RBC Bearings Incorporated and KeyBank National Association, as Administrative Agent and Lender filed as Exhibit 10.1 on Form 8-K dated September 10, 2007 is hereby incorporated by reference herein.
- 10.8 Agreement between RBC Heim Bearings and Local No. 376 International Union, United Automobile, Aerospace and Agricultural Implement Workers of America effective February 1, 2008 filed as Exhibit 10.5 on Form 10-Q dated February 7, 2008 is hereby incorporated by reference herein.
- 10.9 Form of Change in Control Letter Agreement for Named Executive Officers, filed as Exhibit 10.1 to Form 10-Q dated February 1, 2010 is hereby incorporated by reference herein.
- 10.10 Credit Agreement, dated as of November 30, 2010, among Roller Bearing Company of America, Inc., RBC Bearings Incorporated, the Lenders named therein, J.P. Morgan Chase Bank, N.A. and KeyBank National Association, filed as Exhibit 10.1 to Form 8-K dated December 1, 2010 is hereby incorporated by reference herein.

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- Guaranty Agreement, dated as of November 30, 2010, by and between RBC Bearings Incorporated and J.P. Morgan Chase Bank, N.A., as Administrative Agent, filed as Exhibit 10.2 to Form 8-K dated December 1, 2010 is hereby incorporated by reference herein.
- 10.11
- Security Agreement, dated as of November 30, 2010, among Roller Bearing Company of America, Inc., RBC Bearings Incorporated, the Subsidiary Guarantors (as defined therein), and J.P. Morgan Chase, N.A., filed as Exhibit 10.2 to Form 8-K dated December 1, 2010 is hereby incorporated by reference herein.
- 10.12
- Employment Agreement, effective April 4, 2010, between RBC Bearings Incorporated and Michael J. Hartnett Ph.D. filed as Exhibit 10.1 to Form 8-K dated April 26, 2010 is hereby incorporated by reference herein.
- 10.13
- Form of RBC Bearings Incorporated 2005 Long Term Incentive Plan (Amended and Restated as of August 25, 2010) filed as Exhibit 10.1 to Form 8-K dated August 25, 2010 is hereby incorporated by reference herein.
- 10.14
- Form of RBC Bearings Incorporated 2005 Long Term Incentive Plan (Amended and Restated as of September 8, 2010) filed as Exhibit 10.1 to Form 8-K dated September 10, 2010 is hereby incorporated by reference herein.
- 10.15
- RBC Bearings Incorporated Executive Officer Performance Based Compensation Plan filed as Exhibit 10.1 to Form 8-K dated September 13, 2011 is hereby incorporated by reference herein.
- 10.16
- Letter to the Securities and Exchange Commission, dated June 10, 2010, from Ernst & Young LLP relating to the change in RBC Bearings Incorporated's independent registered public accounting firm filed as Exhibit 16.1 to Form 8-K dated June 15, 2010 is hereby incorporated by reference herein.
- 16.1

- Letter to the Securities and Exchange Commission, dated January 27, 2011 from PricewaterhouseCoopers LLP
- 16.2 relating to the change in RBC Bearings Incorporated's independent registered public accounting firm filed as Exhibit 16.1 to Form 8-K dated January 27, 2011 is hereby incorporated by reference herein.
- 21 Subsidiaries of the Registrant. Filed herewith.
- 23 Consent of Ernst & Young LLP. Filed herewith.
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\* Filed herewith.
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\* Filed herewith.

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

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

RBC Bearings Incorporated  
(Registrant)

By: /s/ Michael J. Hartnett  
Name: Michael J. Hartnett  
Title: Chief Executive Officer  
Date: May 30, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature  | Title   |
|--|---|
| /s/ Michael J. Hartnett<br>Michael J. Hartnett<br>Date: May 30, 2012 | Chairman, President and Chief Executive Officer<br>(Principal Executive Officer and Chairman) |
| /s/ Daniel A. Bergeron<br>Daniel A. Bergeron<br>Date: May 30, 2012   | Chief Financial Officer<br>(Principal Financial and Accounting Officer)                       |
| /s/ Thomas M. Burigo<br>Thomas M. Burigo<br>Date: May 30, 2012       | Corporate Controller  |
| /s/ Richard R. Crowell<br>Richard R. Crowell<br>Date: May 30, 2012   | Director  |
| /s/ Alan B. Levine<br>Alan B. Levine<br>Date: May 30, 2012           | Director  |
| /s/ Dr. Amir Faghri<br>Dr. Amir Faghri<br>Date: May 30, 2012         | Director  |

/s/ Dr. Thomas J. O'Brien Director  
Dr. Thomas J. O'Brien  
Date: May 30, 2012

/s/ Mitchell I. Quain Director  
Mitchell I. Quain  
Date: May 30, 2012