

RBC Bearings INC  
Form 10-Q  
November 05, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 2, 2010

OR

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

Commission File Number: 333-124824

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

Delaware  
(State or other jurisdiction of incorporation or  
organization)

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

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

06478  
(Zip Code)

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

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

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

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

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

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

As of October 29, 2010, RBC Bearings Incorporated had 21,959,361 shares of Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

| RBC Bearings Incorporated<br>Consolidated Balance Sheets<br>(dollars in thousands, except share and per share data)   |                                   |                   |
|---|-----------------------------------|-------------------|
|   | October 2,<br>2010<br>(Unaudited) | April 3,<br>2010  |
| <b>ASSETS</b>   |                                   |                   |
| Current assets:   |                                   |                   |
| Cash and cash equivalents   | \$ 39,075                         | \$ 21,389         |
| Short-term investments  | 8,311                             | 7,234             |
| Accounts receivable, net of allowance for doubtful accounts of \$1,614 at October 2, 2010 and \$1,242 at April 3, 2010  | 57,997                            | 53,978            |
| Inventory   | 136,986                           | 136,366           |
| Deferred income taxes   | 7,820                             | 6,249             |
| Prepaid expenses and other current assets   | 4,802                             | 9,287             |
| <b>Total current assets</b>   | <b>254,991</b>                    | <b>234,503</b>    |
| Property, plant and equipment, net  | 88,165                            | 89,537            |
| Goodwill  | 34,713                            | 34,713            |
| Intangible assets, net of accumulated amortization of \$7,077 at October 2, 2010 and \$6,354 at April 3, 2010   | 12,278                            | 12,665            |
| Other assets  | 3,883                             | 4,537             |
| <b>Total assets</b>   | <b>\$ 394,030</b>                 | <b>\$ 375,955</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                   |                   |
| Current liabilities:  |                                   |                   |
| Accounts payable  | \$ 20,206                         | \$ 18,897         |
| Accrued expenses and other current liabilities  | 13,823                            | 11,439            |
| Current portion of long-term debt   | 30,664                            | 1,453             |
| <b>Total current liabilities</b>  | <b>64,693</b>                     | <b>31,789</b>     |
| Long-term debt, less current portion  | 750                               | 37,000            |
| Deferred income taxes   | 5,958                             | 5,922             |
| Other non-current liabilities   | 15,899                            | 17,697            |
| <b>Total liabilities</b>  | <b>87,300</b>                     | <b>92,408</b>     |
| Stockholders' equity:   |                                   |                   |
| Preferred stock, \$.01 par value; authorized shares: 10,000,000 at October 2, 2010 and April 3, 2010; none issued and outstanding   | —                                 | —                 |
| Common stock, \$.01 par value; authorized shares: 60,000,000 at October 2, 2010 and April 3, 2010; issued and outstanding shares: 21,952,561 shares at October 2, 2010 and 21,902,761 shares at April 3, 2010 | 220                               | 219               |
| Additional paid-in capital  | 192,362                           | 189,496           |
| Accumulated other comprehensive gain (loss)   | 1,151                             | (1,672)           |
| Retained earnings   | 118,142                           | 100,527           |
| Treasury stock, at cost, 174,599 shares at October 2, 2010 and 170,338 shares at April 3, 2010  | (5,145)                           | (5,023)           |

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|  |            |            |
|--|------------|------------|
| Total stockholders' equity                 | 306,730    | 283,547    |
| Total liabilities and stockholders' equity | \$ 394,030 | \$ 375,955 |

See accompanying notes.

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

|                                      | Three Months Ended |                       | Six Months Ended   |                       |
|--------------------------------------|--------------------|-----------------------|--------------------|-----------------------|
|                                      | October 2,<br>2010 | September 26,<br>2009 | October 2,<br>2010 | September 26,<br>2009 |
| Net sales                            | \$ 83,095          | \$ 63,657             | \$ 165,469         | \$ 127,389            |
| Cost of sales                        | 55,857             | 44,564                | 111,978            | 88,392                |
| Gross margin                         | 27,238             | 19,093                | 53,491             | 38,997                |
| Operating expenses:                  |                    |                       |                    |                       |
| Selling, general and administrative  | 12,988             | 11,132                | 25,480             | 22,751                |
| Other, net                           | 362                | 724                   | 76                 | 1,230                 |
| Total operating expenses             | 13,350             | 11,856                | 25,556             | 23,981                |
| Operating income                     | 13,888             | 7,237                 | 27,935             | 15,016                |
| Interest expense, net                | 398                | 460                   | 790                | 929                   |
| Other non-operating expense (income) | 447                | 85                    | 817                | (240)                 |
| Income before income taxes           | 13,043             | 6,692                 | 26,328             | 14,327                |
| Provision for income taxes           | 4,489              | 2,288                 | 8,713              | 4,856                 |
| Net income                           | \$ 8,554           | \$ 4,404              | \$ 17,615          | \$ 9,471              |
| Net income per common share:         |                    |                       |                    |                       |
| Basic                                | \$ 0.40            | \$ 0.20               | \$ 0.81            | \$ 0.44               |
| Diluted                              | \$ 0.39            | \$ 0.20               | \$ 0.80            | \$ 0.44               |
| Weighted average common shares:      |                    |                       |                    |                       |
| Basic                                | 21,626,198         | 21,591,779            | 21,617,923         | 21,587,193            |
| Diluted                              | 21,991,668         | 21,746,552            | 21,984,410         | 21,718,805            |

See accompanying notes.

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

|  | Six Months Ended   |                       |
|--|--------------------|-----------------------|
|  | October 2,<br>2010 | September 26,<br>2009 |
| <b>Cash flows from operating activities:</b>   |                    |                       |
| Net income   | \$ 17,615          | \$ 9,471              |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                    |                       |
| Depreciation   | 5,785              | 5,222                 |
| Deferred income taxes  | (1,535)            | (2,217)               |
| Amortization of intangible assets  | 698                | 645                   |
| Amortization of deferred financing costs   | 120                | 102                   |
| Stock-based compensation   | 2,023              | 1,453                 |
| (Gain) loss on disposition or sale of assets   | (1,066)            | 19                    |
| <b>Changes in operating assets and liabilities, net of acquisitions:</b>                 |                    |                       |
| Accounts receivable  | (3,499)            | 16,448                |
| Inventory  | (361)              | (2,548)               |
| Prepaid expenses and other current assets  | 4,514              | 1,155                 |
| Other non-current assets   | 165                | (982)                 |
| Accounts payable   | 1,144              | (6,904)               |
| Accrued expenses and other current liabilities   | 2,039              | (1,149)               |
| Other non-current liabilities  | (1,990)            | 664                   |
| Net cash provided by operating activities  | 25,652             | 21,379                |
| <b>Cash flows from investing activities:</b>   |                    |                       |
| Purchase of property, plant and equipment  | (4,586)            | (6,021)               |
| Purchase of short-term investments   | (1,055)            | (4,825)               |
| Proceeds from sale or maturities of short-term investments                               | 278                | —                     |
| Proceeds from sale of assets   | 2,375              | —                     |
| Net cash used in investing activities  | (2,988)            | (10,846)              |
| <b>Cash flows from financing activities:</b>   |                    |                       |
| Net decrease in revolving credit facility  | (7,000)            | (5,000)               |
| Exercise of stock options  | 466                | —                     |
| Excess tax benefits from stock-based compensation  | 377                | —                     |
| Repurchase of common stock   | (122)              | (115)                 |
| Other, net   | (170)              | (288)                 |
| Net cash used in financing activities  | (6,449)            | (5,403)               |
| Effect of exchange rate changes on cash  | 1,471              | 1,108                 |
| <b>Cash and cash equivalents:</b>  |                    |                       |
| Increase during the period   | 17,686             | 6,238                 |
| Cash, at beginning of period   | 21,389             | 30,557                |
| Cash, at end of period   | \$ 39,075          | \$ 36,795             |

**Supplemental disclosures of cash flow information:**

Cash paid during the period for:

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|              |    |       |    |       |
|--------------|----|-------|----|-------|
| Interest     | \$ | 651   | \$ | 834   |
| Income taxes | \$ | 5,051 | \$ | 5,309 |

See accompanying notes.



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

The consolidated financial statements included herein have been prepared by RBC Bearings Incorporated, a Delaware corporation (collectively with its subsidiaries, the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The April 3, 2010 fiscal year end balance sheet data have been derived from the Company’s audited financial statements, but do not include all disclosures required by generally accepted accounting principles in the United States. The interim financial statements included with this report have been prepared on a consistent basis with the Company’s audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 3, 2010.

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

The results of operations for the three and six month periods ended October 2, 2010 are not necessarily indicative of the operating results for the full year. The six month periods ended October 2, 2010 and September 26, 2009 each include 26 weeks. The amounts shown are in thousands, unless otherwise indicated.

#### Adoption of Recent Accounting Pronouncements

In October 2009, the FASB issued 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. The Company evaluated this new ASU and has determined that it will not have a significant impact on the determination or reporting of its financial results.

#### 1. Acquisition and Disposition

On September 29, 2009, RBC Lubron Bearing Systems, Inc. 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. Proforma net sales and net income inclusive of Lubron are not materially different from the amounts as reported in the accompanying consolidated statements of operations.

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 \$1.1 million was realized from the sale of the assets in the three month period ended July 3, 2010.

## 2. Net Income Per Common Share

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

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

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

|  | Three Months Ended |                       | Six Months Ended   |                       |
|--|--------------------|-----------------------|--------------------|-----------------------|
|  | October 2,<br>2010 | September 26,<br>2009 | October 2,<br>2010 | September 26,<br>2009 |
| Net income   | \$ 8,554           | \$ 4,404              | \$ 17,615          | \$ 9,471              |
| Denominator for basic net income per common share—weighted-average shares outstanding    | 21,626,198         | 21,591,779            | 21,617,923         | 21,587,193            |
| Effect of dilution due to employee stock options   | 365,470            | 154,773               | 366,487            | 131,612               |
| Denominator for diluted net income per common share— weighted-average shares outstanding | 21,991,668         | 21,746,552            | 21,984,410         | 21,718,805            |
| Basic net income per common share  | \$ 0.40            | \$ 0.20               | \$ 0.81            | \$ 0.44               |
| Diluted net income per common share  | \$ 0.39            | \$ 0.20               | \$ 0.80            | \$ 0.44               |

Basic weighted-average common shares do not include 135,480 and 107,190 unvested restricted stock shares at October 2, 2010 and September 26, 2009, respectively.

At October 2, 2010, 528,700 employee stock options have been excluded from the calculation of diluted earnings per share, as the inclusion of these shares would be anti-dilutive. 846,700 such options were excluded at September 26, 2009.

## 3. Cash and Cash Equivalents

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

## 4. Short-term Investments

Short-term investments include corporate bonds that are classified as available-for-sale expected to be sold within the next twelve months. These bonds, with an amortized basis of \$8,146 and \$7,043 at October 2, 2010 and April 3, 2010 respectively, and with maturity dates ranging from March 2011 to November 2016, were measured at fair value by using quoted prices in active markets for identical assets and are classified as Level 1 of the valuation hierarchy. The impact of these investments on results of operations and financial position was not significant.



## 5. Inventory

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

|                 | October 2,<br>2010 | April 3,<br>2010 |
|-----------------|--------------------|------------------|
| Raw materials   | \$ 11,897          | \$ 10,392        |
| Work in process | 44,553             | 42,622           |
| Finished goods  | 80,536             | 83,352           |
|                 | \$ 136,986         | \$ 136,366       |

## 6. Intangible Assets

|                                     | Weighted<br>Average<br>Useful<br>Lives | October 2, 2010             |                             | April 3, 2010               |                             |
|-------------------------------------|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                     |  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Product approvals                   | 15                                     | \$ 6,157                    | \$ 1,606                    | \$ 6,083                    | \$ 1,383                    |
| Customer relationships and<br>lists | 10                                     | 5,552                       | 2,361                       | 5,538                       | 2,144                       |
| Trade names                         | 11                                     | 1,385                       | 774                         | 1,380                       | 709                         |
| Distributor agreements              | 5                                      | 722                         | 722                         | 722                         | 722                         |
| Patents and trademarks              | 13                                     | 4,124                       | 714                         | 3,884                       | 530                         |
| Domain names                        | 12                                     | 437                         | 102                         | 437                         | 80                          |
| Other                               | 5                                      | 978                         | 798                         | 975                         | 786                         |
| Total                               |  | \$ 19,355                   | \$ 7,077                    | \$ 19,019                   | \$ 6,354                    |

Amortization expense for definite-lived intangible assets for the three and six month periods ended October 2, 2010 was \$352 and \$698, respectively. For the three and six month periods ended September 26, 2009, amortization expense was \$327 and \$645, respectively. Estimated amortization expense for the remaining six months of fiscal 2011, the four succeeding fiscal years and thereafter is as follows:

|                     |        |
|---------------------|--------|
| 2011                | \$ 698 |
| 2012                | 1,394  |
| 2013                | 1,396  |
| 2014                | 1,299  |
| 2015                | 1,298  |
| 2016 and thereafter | 6,193  |

## 7. Comprehensive Income

Total comprehensive income is as follows:

|  | Three Months Ended |                       | Six Months Ended   |                       |
|--|--------------------|-----------------------|--------------------|-----------------------|
|  | October 2,<br>2010 | September 26,<br>2009 | October 2,<br>2010 | September 26,<br>2009 |
| Net income   | \$ 8,554           | \$ 4,404              | \$ 17,615          | \$ 9,471              |
| Net prior service pension cost and actuarial<br>losses, net of taxes | (74)               | 16                    | (139)              | 32                    |
|  | 116                | 28                    | 236                | 154                   |

|   |           |          |           |           |  |
|---|-----------|----------|-----------|-----------|--|
| Change in fair value of derivatives, net of taxes |           |          |           |           |  |
| Unrealized loss on investments, net of taxes      | (23)      | 82       | (40)      | 82        |  |
| Foreign currency translation adjustments          | 4,044     | 1,873    | 2,766     | 3,360     |  |
| Total comprehensive income                        | \$ 12,617 | \$ 6,403 | \$ 20,438 | \$ 13,099 |  |

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## 8. Debt

The balances payable under all borrowing facilities are as follows:

|  | October 2,<br>2010 | April 3,<br>2010 |
|--|--------------------|------------------|
| KeyBank Credit Agreement, five-year senior secured revolving credit facility; amounts outstanding bear interest at LIBOR, plus a specified margin (LIBOR rate of 0.25% at October 2, 2010 and April 3, 2010) | \$ 30,000          | \$ 37,000        |
| Note payable   | 1,414              | 1,453            |
| <b>Total debt</b>  | <b>31,414</b>      | <b>38,453</b>    |
| Less: current portion  | 30,664             | 1,453            |
| <b>Long-term debt</b>  | <b>\$ 750</b>      | <b>\$ 37,000</b> |

The current portion of long-term debt includes notes payable related to the Lubron acquisition (Note 1). The KeyBank Credit Agreement expires on June 24, 2011, and all borrowings under the agreement are considered current.

On January 8, 2008, the Company entered into an interest rate swap agreement with a total notional value of \$30,000 to hedge a portion of its variable rate debt. Under the terms of the agreement, the Company pays interest at a fixed rate (3.64%) and receives interest at variable rates. The maturity date of the interest swap is June 24, 2011. The fair value of this swap at October 2, 2010 and April 3, 2010 was a liability of \$740 and \$1,131 respectively, included in other current liabilities, and was measured using observable market inputs such as yield curves. Based on these inputs, the swap is classified as a Level 2 of the valuation hierarchy. This instrument is designated and qualifies as a cash flow hedge. Accordingly, the gain or loss on the hedging instrument is 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.

## 9. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to state or foreign income tax examinations by tax authorities for years ending before March 31, 2004. A U.S. federal tax examination by the Internal Revenue Service for the years ended March 31, 2007 and March 31, 2008 was completed during the three month period ended July 3, 2010. As a result of the audit, the Company recognized certain previously unrecognized tax benefits of \$0.5 million in the three month period ended July 3, 2010 on the basis that the related tax positions have been effectively settled. The Company maintains reserves for certain other unrecognized tax benefits of \$2.5 million related to this matter based on management's judgment that the related tax positions have not yet been effectively settled. Management expects such tax positions to be settled by the end of the Company's fiscal year ending March 31, 2012.

The effective income tax rates for the three and six month periods ended October 2, 2010 and September 26, 2009 were 34.4% and 34.2% and 33.1% and 33.9%, respectively. The effective income tax rate for the six month period ended October 2, 2010 of 33.1% includes the reversal of unrecognized tax benefits of \$0.5 million associated with the conclusion of the Company's IRS audit. The effective income tax rate for the six month period ended October 2, 2010 without this discrete item would have been 35.2%. The effective income tax rates are different from the U.S. statutory rate due to foreign income taxed at lower rates and a special manufacturing deduction in the U.S., both of which decrease the rates, and state income taxes which increase the rates.





## 10. Segment Information

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

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

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

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

Certain other operating segments do not meet the quantitative thresholds for separate disclosure and their information is combined and disclosed as "Other".

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

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

|                                  | Three Months Ended |                       | Six Months Ended   |                       |
|----------------------------------|--------------------|-----------------------|--------------------|-----------------------|
|                                  | October 2,<br>2010 | September 26,<br>2009 | October 2,<br>2010 | September 26,<br>2009 |
| <b>Net External Sales</b>        |                    |                       |                    |                       |
| Roller                           | \$ 24,864          | \$ 17,311             | \$ 48,292          | \$ 32,879             |
| Plain                            | 40,935             | 30,262                | 83,596             | 61,262                |
| Ball                             | 10,939             | 11,370                | 20,976             | 23,612                |
| Other                            | 6,357              | 4,714                 | 12,605             | 9,636                 |
|                                  | \$ 83,095          | \$ 63,657             | \$ 165,469         | \$ 127,389            |
| <b>Operating Income</b>          |                    |                       |                    |                       |
| Roller                           | \$ 6,864           | \$ 5,213              | \$ 13,375          | \$ 9,833              |
| Plain                            | 10,776             | 5,989                 | 23,701             | 11,762                |
| Ball                             | 1,473              | 1,306                 | 1,430              | 3,506                 |
| Other                            | 1,546              | 63                    | 2,942              | 115                   |
| Corporate                        | (6,771)            | (5,334)               | (13,513)           | (10,200)              |
|                                  | \$ 13,888          | \$ 7,237              | \$ 27,935          | \$ 15,016             |
| <b>Geographic External Sales</b> |                    |                       |                    |                       |
| Domestic                         | \$ 72,899          | \$ 54,007             | \$ 144,511         | \$ 108,251            |
| Foreign                          | 10,196             | 9,650                 | 20,958             | 19,138                |

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|                           |    |        |    |        |    |         |    |         |
|---------------------------|----|--------|----|--------|----|---------|----|---------|
|                           | \$ | 83,095 | \$ | 63,657 | \$ | 165,469 | \$ | 127,389 |
| <b>Intersegment Sales</b> |    |        |    |        |    |         |    |         |
| Roller                    | \$ | 2,856  | \$ | 2,398  | \$ | 5,490   | \$ | 4,361   |
| Plain                     |    | 405    |    | 346    |    | 851     |    | 700     |
| Ball                      |    | 364    |    | 1,047  |    | 661     |    | 2,703   |
| Other                     |    | 4,862  |    | 3,470  |    | 9,437   |    | 7,572   |
|                           | \$ | 8,487  | \$ | 7,261  | \$ | 16,439  | \$ | 15,336  |

All intersegment sales are eliminated in consolidation.

#### 11. Pension and Postretirement Plans

The Company has one consolidated noncontributory defined benefit pension plan covering union employees in its Heim division plant in Fairfield, Connecticut and 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.

The following table illustrates the components of net periodic benefit cost for the Company's pension benefits:

|   | Pension Benefits   |                       |                    |                       |
|---|--------------------|-----------------------|--------------------|-----------------------|
|   | Three Months Ended |                       | Six Months Ended   |                       |
|   | October 2,<br>2010 | September 26,<br>2009 | October 2,<br>2010 | September 26,<br>2009 |
| <b>Components of net periodic benefit cost:</b> |                    |                       |                    |                       |
| Service cost                                    | \$ 84              | \$ 82                 | \$ 168             | \$ 164                |
| Interest cost                                   | 303                | 321                   | 606                | 640                   |
| Expected return on plan assets                  | (381)              | (393)                 | (762)              | (787)                 |
| Amortization of prior service cost              | 13                 | 10                    | 26                 | 20                    |
| Amortization of losses                          | 103                | 4                     | 206                | 12                    |
| <b>Total net periodic benefit cost</b>          | <b>\$ 122</b>      | <b>\$ 24</b>          | <b>\$ 244</b>      | <b>\$ 49</b>          |

The Company made a voluntary contribution of \$500 to the pension plan in the six month period ended October 2, 2010. The Company made no contributions to the pension plan in the six month period ended September 26, 2009.

The Company, for the benefit of employees at its Heim, West Trenton and PIC Design facilities and former union employees of its Tyson, Bremen 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 following table illustrates the components of net periodic benefit cost for the Company's other postretirement benefits:

|   | Other Postretirement Benefits |                       |                    |                       |
|---|-------------------------------|-----------------------|--------------------|-----------------------|
|   | Three Months Ended            |                       | Six Months Ended   |                       |
|   | October 2,<br>2010            | September 26,<br>2009 | October 2,<br>2010 | September 26,<br>2009 |
| <b>Components of net periodic benefit cost:</b> |                               |                       |                    |                       |
| Service cost                                    | \$ 9                          | \$ 11                 | \$ 18              | \$ 22                 |
| Interest cost                                   | 37                            | 49                    | 73                 | 98                    |
| Prior service cost amortization                 | -                             | 9                     | 1                  | 18                    |
| Amount of loss recognized                       | 1                             | 1                     | 3                  | 1                     |
| Total net periodic benefit cost                 | \$ 47                         | \$ 70                 | \$ 95              | \$ 139                |

One of the Company's foreign operations, Schaublin, sponsors a pension plan for its approximately 127 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 the three and six month periods ended October 2, 2010, the Company made contribution and premium payments equal to \$167 and \$269, respectively. For the three and six month periods ended September 26, 2009, the contribution and premium payments equaled \$160 and \$322, respectively.

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

### Cautionary Statement As To Forward-Looking Information

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

The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation: (a) the bearing industry is highly competitive, and this competition could reduce our profitability or limit our ability to grow; (b) the loss of a major customer could result in a material reduction in our revenues and profitability; (c) weakness in any of the industries in which our customers operate, as well as the cyclical nature of our customers' businesses generally, could materially reduce our revenues and profitability; (d) future reductions or changes in U.S. government spending could negatively affect our business; (e) fluctuating supply and costs of raw materials and energy resources could materially reduce our revenues, cash flow from operations and profitability; (f) our products are subject to certain approvals, and the loss of such approvals could materially reduce our revenues and profitability; (g) restrictions in our indebtedness agreements could limit our growth and our ability to respond to changing conditions; (h) work stoppages and other labor problems could materially reduce our ability to operate our business; (i) our business is capital intensive and may consume cash in excess of cash flow from our operations; (j) unexpected equipment failures, catastrophic events

or capacity constraints may increase our costs and reduce our sales due to production curtailments or shutdowns; (k) we may not be able to continue to make the acquisitions necessary for us to realize our growth strategy; (l) the costs and difficulties of integrating acquired businesses could impede our future growth; (m) we depend heavily on our senior management and other key personnel, the loss of whom could materially affect our financial performance and prospects; (n) our international operations are subject to risks inherent in such activities; (o) currency translation risks may have a material impact on our results of operations; (p) we may be required to make significant future contributions to our pension plan; (q) we may incur material losses for product liability and recall related claims; (r) environmental regulations impose substantial costs and limitations on our operations, and environmental compliance may be more costly than we expect; (s) our intellectual property and other proprietary rights are valuable, and any inability to protect them could adversely affect our business and results of operations; in addition, we may be subject to infringement claims by third parties; (t) cancellation of orders in our backlog of orders could negatively impact our revenues; (u) if we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud; and (v) provisions in our charter documents may prevent or hinder efforts to acquire a controlling interest in us. Additional information regarding these and other risks and uncertainties is contained in our periodic filings with the SEC, including, without limitation, the risks identified under the heading “Risk Factors” set forth in the Annual Report on Form 10-K for the year ended April 3, 2010. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not intend, and undertake no obligation, to update or alter any forward-looking statement. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Quarterly Report.

## Overview

We are an international manufacturer and marketer of highly engineered precision plain, roller and ball bearings. Bearings, which are integral to the manufacture and operation of most machines and mechanical systems, reduce wear to moving parts, facilitate proper power transmission and reduce damage and energy loss caused by friction. While we manufacture products in all major bearing categories, we focus primarily on highly technical or regulated bearing products for specialized markets that require sophisticated design, testing and manufacturing capabilities. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. We have been providing bearing solutions to our customers since 1919. Over the past ten years, we have significantly broadened our end markets, products, customer base and geographic reach. We currently have 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 and specialized equipment manufacturers and automotive and commercial truck manufacturers. The markets for our products are cyclical, and general market conditions could negatively impact our operating results. We have endeavored to mitigate the cyclicity of our product markets by entering into sole-source relationships and long-term purchase orders, through diversification across multiple market segments within the aerospace and defense and diversified industrial segments, by increasing sales to the aftermarket and by focusing on developing highly customized solutions.

## Outlook

Backlog, as of October 2, 2010, was \$175.3 million versus \$160.5 million as of September 26, 2009. Management believes that operating cash flows and available credit under the credit facility will provide adequate resources to fund internal and external growth initiatives for the foreseeable future. We are currently engaged in discussions with our bank group and other banks working toward replacing the current credit facility which has an expiration date of June 24, 2011.

## Results of Operations

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

|                                      | Three Months Ended |                       | Six Months Ended   |                       |
|--------------------------------------|--------------------|-----------------------|--------------------|-----------------------|
|                                      | October 2,<br>2010 | September 26,<br>2009 | October 2,<br>2010 | September 26,<br>2009 |
| <b>Statement of Operations Data:</b> |                    |                       |                    |                       |
| Net sales                            | 100.0%             | 100.0%                | 100.0%             | 100.0%                |
| Gross margin                         | 32.8               | 30.0                  | 32.3               | 30.6                  |
| Selling, general and administrative  | 15.6               | 17.5                  | 15.4               | 17.9                  |
| Other, net                           | 0.5                | 1.1                   | -                  | 1.0                   |
| Operating income                     | 16.7               | 11.4                  | 16.9               | 11.7                  |
| Interest expense, net                | 0.5                | 0.8                   | 0.5                | 0.8                   |
| Other non-operating expense (income) | 0.5                | 0.1                   | 0.5                | (0.2)                 |
| Income before income taxes           | 15.7               | 10.5                  | 15.9               | 11.1                  |
| Provision for income taxes           | 5.4                | 3.6                   | 5.3                | 3.8                   |
| Net income                           | 10.3               | 6.9                   | 10.6               | 7.3                   |

## Three Month Period Ended October 2, 2010 Compared to Three Month Period Ended September 26, 2009

**Net Sales.** Net sales for the three month period ended October 2, 2010 were \$83.1 million, an increase of \$19.4 million, or 30.5%, compared to \$63.7 million for the same period in the prior year. During the three month period ended October 2, 2010, we experienced a net sales increase in two of our three reportable segments, driven by stronger demand across our end markets in the diversified industrial sector as the economic climate continues to show signs of improvement. Net sales to diversified industrial customers grew 85.3% in the three month period ended October 2, 2010 compared to the same period last fiscal year. This is 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 \$1.3 million to the increased net sales to diversified industrial customers. Net sales to aerospace and defense customers declined 2.7% in the three month period ended October 2, 2010 compared to the same period last fiscal year, mainly driven by a continued slowness in the business jet market and in the general aerospace aftermarket.

The Plain Bearings segment achieved net sales of \$40.9 million for the three month period ended October 2, 2010, an increase of \$10.6 million, or 35.3%, compared to \$30.3 million for the same period in the prior fiscal year. Net sales to diversified industrial customers increased \$9.2 million in this market sector, combined with a slight increase in net sales to aerospace and defense customers of \$1.4 million compared with the prior fiscal year. The improvement in the diversified industrial market was attributable to demand for military vehicles combined with overall demand in the construction and mining and general industrial markets. In addition, the inclusion of our Lubron acquisition contributed \$1.3 million to the increase in net sales to diversified industrial customers.

The Roller Bearings segment achieved net sales of \$24.9 million for the three month period ended October 2, 2010, an increase of \$7.6 million, or 43.6%, compared to \$17.3 million for the same period in the prior fiscal year. Of this increase, net sales to the industrial sector contributed \$7.1 million combined with a \$0.5 million increase in net sales to aerospace and defense customers. This was primarily attributable to improved order activity in the construction and mining and general industrial markets.





The Ball Bearings segment achieved net sales of \$10.9 million for the three month period ended October 2, 2010, a decrease of \$0.5 million, or 3.8%, compared to \$11.4 million for the same period in the prior fiscal year. Net sales to the aerospace and defense sector contributed \$3.0 million to this decline which was offset by an increase of \$2.5 million in the diversified industrial sector. Aerospace and defense was negatively impacted by continued slowness in the business jet market and the general aerospace aftermarket which was offset by stronger order activity from the semiconductor and general industrial markets.

The Other segment, which is focused mainly on the sale of machine tool collets and precision mechanical components, achieved net sales of \$6.4 million for the three month period ended October 2, 2010, an increase of \$1.7 million, or 34.9%, compared to \$4.7 million for the same period last fiscal year.

**Gross Margin.** Gross margin was \$27.2 million, or 32.8% of net sales, for the three month period ended October 2, 2010, versus \$19.1 million, or 30.0% of net sales, for the comparable period in fiscal 2010. The increase in our gross margin as a percentage of net sales was primarily the result of improvement in overall volume offset by expansion costs of \$0.6 million associated with new large bearing product lines.

**Selling, General and Administrative.** SG&A expenses increased by \$1.9 million, or 16.7%, to \$13.0 million for the three month period ended October 2, 2010 compared to \$11.1 million for the same period in fiscal 2010. As a percentage of net sales, SG&A decreased to 15.6% for the three month period ended October 2, 2010 compared to 17.5% for the three month period ended September 26, 2009. The increase of \$1.9 million was primarily attributable to personnel-related cost increases, higher incentive stock compensation expense of \$0.3 million, and an increase in professional fees.

**Other, net.** Other, net for the three month period ended October 2, 2010 was expense of \$0.4 million, a decrease of \$0.3 million, compared to \$0.7 million of expense for the same period last fiscal year. For the three month period ended October 2, 2010, other, net consisted of \$0.3 million of amortization of intangibles and \$0.1 million of restructuring costs. For the three month period ended September 26, 2009, other, net consisted of \$0.3 million of amortization of intangibles and \$0.4 million of restructuring and moving costs, including severance costs and the consolidation of our Houston, Texas facilities.

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

Operating income was \$13.9 million, or 16.7% of net sales, for the three month period ended October 2, 2010 compared to \$7.2 million, or 11.4% of net sales, for the three month period ended September 26, 2009. Operating income for the Plain Bearings segment was \$10.8 million for the three month period ended October 2, 2010, or 26.3% of net sales, compared to \$6.0 million for the same period last year, or 19.8% of net sales. Our Roller Bearings segment achieved an operating income for the three month period ended October 2, 2010 of \$6.9 million, or 27.6% of net sales, compared to \$5.2 million, or 30.1% of net sales, for the three month period ended September 26, 2009. Our Ball Bearings segment reported operating income of \$1.5 million, or 13.5% of net sales, for the three month period ended October 2, 2010, compared to \$1.3 million, or 11.5% of net sales, for the same period in fiscal 2010. Operating segments in Other achieved an operating income of \$1.5 million, or 24.3% of net sales, for the three month period ended October 2, 2010, compared to \$0.1 million, or 1.3% of net sales, for the same period in fiscal 2010.

**Interest Expense, net.** Interest expense, net decreased by \$0.1 million to \$0.4 million in the three month period ended October 2, 2010, compared to \$0.5 million in the same period last fiscal year, driven by a combination of lower debt and interest rates.

Other Non-Operating Expense. We incurred a foreign exchange loss of \$0.4 million for the three month period ended October 2, 2010 compared to a loss of \$0.1 million in the same period last fiscal year, mainly the result of the remeasurement of cash deposits and short-term investments which are denominated in a currency other than the functional currency.

**Income Before Income Taxes.** Income before taxes increased by \$6.3 million, to \$13.0 million for the three month period ended October 2, 2010 compared to \$6.7 million for the three month period ended September 26, 2009.

**Income Taxes.** Income tax expense for the three month period ended October 2, 2010 was \$4.5 million compared to \$2.3 million for the three month period ended September 26, 2009. Our effective income tax rate for the three month period ended October 2, 2010 was 34.4% compared to 34.2% for the three month period ended September 26, 2009. The effective income tax rates are different from the U.S. statutory rate due to foreign income taxed at lower rates and a special manufacturing deduction in the U.S., both of which decrease the rates, and state income taxes which increase the rates.

**Net Income.** Net income increased by \$4.2 million to \$8.6 million for the three month period ended October 2, 2010 compared to \$4.4 million for the three month period ended September 26, 2009.

#### Six Month Period Ended October 2, 2010 Compared to Six Month Period Ended September 26, 2009

**Net Sales.** Net sales for the six month period ended October 2, 2010 were \$165.5 million, an increase of \$38.1 million, or 29.9%, compared to \$127.4 million for the same period in the prior fiscal year. During the six month period ended October 2, 2010, we experienced a net sales increase in two of our three reportable business segments, driven by stronger demand across our end markets in the diversified industrial sector as the economic climate continues to show signs of improvement. Net sales to diversified industrial customers grew 90.7% in the six month period ended October 2, 2010 compared to the same period last fiscal year. This is 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 \$2.3 million to the increased net sales to diversified industrial customers. Net sales to aerospace and defense customers declined 5.4% in the six month period ended October 2, 2010 compared to the same period last fiscal year, mainly driven by a continued slowness in the business jet market and in the general aerospace aftermarket.

The Plain Bearings segment achieved net sales of \$83.6 million for the six month period ended October 2, 2010, an increase of \$22.3 million, or 36.5%, compared to \$61.3 million for the same period in the prior fiscal year. Net sales to diversified industrial customers increased \$21.1 million combined with a \$1.2 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 combined with continued improvement in construction and mining and the general industrial markets. In addition, the inclusion of our Lubron acquisition contributed \$2.3 million to the increase in net sales to diversified industrial customers.

The Roller Bearings segment achieved net sales of \$48.3 million for the six month period ended October 2, 2010, an increase of \$15.4 million, or 46.9%, compared to \$32.9 million for the same period in the prior fiscal year. Of this increase, net sales to the industrial sector contributed \$13.5 million combined with an increase of \$1.9 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 \$21.0 million for the six month period ended October 2, 2010, a decrease of \$2.6 million, or 11.2%, compared to \$23.6 million for the same period in the prior fiscal year. Net sales to the aerospace and defense sector contributed \$7.3 million to this decline which was offset by an increase of \$4.7 million in the diversified industrial sector. Aerospace and defense was negatively impacted by continued slowness in the business jet market and the general aerospace aftermarket offset by increased order activity from the semiconductor and general industrial markets.

The Other segment, which is focused mainly on the sale of precision ball screws, machine tool collets and precision mechanical components, achieved net sales of \$12.6 million for the six month period ended October 2, 2010, an

increase of \$3.0 million, or 30.8%, compared to \$9.6 million for the same period last fiscal year.

**Gross Margin.** Gross margin was \$53.5 million, or 32.3% of net sales, for the six month period ended October 2, 2010, versus \$39.0 million, or 30.6% of net sales, for the comparable period in fiscal 2010. The increase in our gross margin as a percentage of net sales was primarily the result of improvement in overall volume offset by expansion costs of \$1.5 million associated with new large bearing product lines.

**Selling, General and Administrative.** SG&A expenses increased by \$2.7 million, or 12.0%, to \$25.5 million for the six month period ended October 2, 2010 compared to \$22.8 million for the same period in fiscal 2010. As a percentage of net sales, SG&A decreased to 15.4% for the six month period ended October 2, 2010 compared to 17.9% for the comparable period last fiscal year. The increase of \$2.7 million was primarily attributable to personnel-related cost increases, higher incentive stock compensation expense of \$0.6 million, and higher professional fees.

**Other, net.** Other, net for the six month period ended October 2, 2010 decreased by \$1.1 million, to \$0.1 million compared to \$1.2 million for the comparable period in fiscal 2010. For the six month period ended October 2, 2010, other, net consisted of a net gain of \$1.1 million on the sale of assets offset by \$0.7 million of amortization of intangibles, \$0.4 million of bad debt expense and \$0.1 million of restructuring costs. For the six month period ended September 26, 2009, other, net consisted of \$0.6 million of amortization of intangibles and \$0.6 million of restructuring and moving costs.

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

Operating income was \$27.9 million, or 16.9% of net sales, for the six month period ended October 2, 2010 compared to \$15.0 million, or 11.7% of net sales, for the six month period ended September 26, 2009. Operating income for the Plain Bearings segment was \$23.7 million for the six month period ended October 2, 2010, or 28.4% of net sales, compared to \$11.8 million for the same period last year, or 19.2% of net sales. Our Roller Bearings segment achieved an operating income for the six month period ended October 2, 2010 of \$13.4 million, or 27.7% of net sales, compared to \$9.8 million, or 29.9% of net sales, for the six month period ended September 26, 2009. Our Ball Bearings segment achieved an operating income of \$1.4 million, or 6.8% of net sales, for the six month period ended October 2, 2010, compared to \$3.5 million, or 14.8% of net sales, for the same period in fiscal 2010. Our Other segment achieved an operating income of \$2.9 million, or 23.3% of net sales, for the six month period ended October 2, 2010, compared to \$0.1 million, or 1.2% of net sales, for the same period in fiscal 2010.

**Interest Expense, net.** Interest expense, net decreased by \$0.1 million to \$0.8 million in the six month period ended October 2, 2010, compared to \$0.9 million in the same period last fiscal year, mainly driven by a combination of lower interest rates and debt.

**Other Non-Operating Expense (Income).** Other non-operating expense (income) for the six month period ended October 2, 2010 was a loss of \$0.8 million compared to a gain of \$0.2 million for the six month period ended September 26, 2009, mainly the result of the remeasurement of cash deposits and short-term investments which are denominated in a currency other than the functional currency.

**Income Before Income Taxes.** Income before taxes increased by \$12.0 million, to \$26.3 million for the six month period ended October 2, 2010 compared to \$14.3 million for the six month period ended September 26, 2009.

**Income Taxes.** Income tax expense for the six month period ended October 2, 2010 was \$8.7 million compared to \$4.9 million for the six month period ended September 26, 2009. Our effective income tax rate for the six month period ended October 2, 2010 was 33.1% compared to 33.9% for the six month period ended September 26, 2009. The effective income tax rate for the six month period ended October 2, 2010 of 33.1% includes the reversal of unrecognized tax benefits of \$0.5 million associated with the conclusion of the Company's IRS audit. The effective

income tax rate for the six month period ended October 2, 2010 without this discrete item would have been 35.2%. The effective income tax rates are different from the U.S. statutory rate due to foreign income taxed at lower rates and a special manufacturing deduction in the U.S., both of which decrease the rates, and state income taxes which increase the rates.

Net Income. Net income increased by \$8.1 million to \$17.6 million for the six month period ended October 2, 2010 compared to \$9.5 million for the six month period ended September 26, 2009.

## Liquidity and Capital Resources

### Liquidity

Our credit agreement (the “KeyBank Credit Agreement”) provides the Company with a \$150.0 million five-year senior secured revolving credit facility which can be increased by up to \$75.0 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 KeyBank 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 0.0% for prime rate loans and 0.375% for LIBOR rate loans. We may elect to prepay some or all of the outstanding balance from time to time without penalty.

Amounts outstanding under the KeyBank Credit Agreement are due and payable on its expiration date (June 24, 2011). We are currently engaged in discussions with our bank group and other banks working toward replacing the KeyBank Credit Agreement.

The KeyBank 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 KeyBank 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. Capital expenditures (excluding acquisitions) in any fiscal year, previously limited to an amount not to exceed \$20.0 million was amended to increase the limit to an amount not to exceed \$30.0 million. As of October 2, 2010, \$30.0 million was outstanding under the KeyBank Credit Agreement. Approximately \$6.0 million of the KeyBank Credit Agreement is being utilized to provide letters of credit to secure our obligations relating to certain insurance programs. As of October 2, 2010, we had the ability to borrow up to an additional \$114.0 million under the KeyBank Credit Agreement.

On October 27, 2008, Schaublin S.A. entered into a new bank credit facility with Credit Suisse (the “Swiss Credit Facility”) which provides for up to 4.0 million Swiss francs, or \$4.1 million, 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 October 2, 2010, there were no borrowings under the Swiss Credit Facility.

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. For the six months ended October 2, 2010, 4,261 shares have been repurchased at a cost of \$122. As of October 2, 2010, 137,243 shares have been repurchased under this plan for an aggregate cost of \$4.1 million.

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





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

#### Cash Flows

##### Six Month Period Ended October 2, 2010 Compared to the Six Month Period Ended September 26, 2009

In the six month period ended October 2, 2010, we generated cash of \$25.7 million from operating activities compared to \$21.4 million for the six month period ended September 26, 2009. The increase of \$4.3 million was mainly a result of an increase in net income of \$8.1 million and an increase in non-cash charges of \$0.4 million offset by an increase in net operating assets and liabilities of \$4.2 million.

Cash used for investing activities for the six month period ended October 2, 2010 included \$4.6 million related to capital expenditures and \$0.8 million, net, for the purchase of short-term investments. This was offset by \$2.4 million of proceeds from the sale of certain assets of our J. Bovagnet sales brand. In the six month period ended September 26, 2009, investing activities included \$6.0 million of capital expenditures, \$3.6 million of which was associated with the building of a new wind bearing facility in Texas, and \$4.8 million for the purchase of short-term investments.

Financing activities used \$6.4 million in the six month period ended October 2, 2010 compared to \$5.4 million for the six month period ended September 26, 2009, primarily for debt reduction.

#### Capital Expenditures

Our capital expenditures were \$4.6 million for the six month period ended October 2, 2010. We expect to make capital expenditures of approximately \$8.0 to \$10.0 million during fiscal 2011 in connection with our existing business. We intend to fund our fiscal 2011 capital expenditures principally through existing cash, internally generated funds and borrowings under our KeyBank Credit Agreement. We may also make substantial additional capital expenditures in connection with acquisitions.

#### Obligations and Commitments

As of October 2, 2010, there were no material changes in capital lease, operating lease or pension and postretirement obligations as compared to such obligations and liabilities as of April 3, 2010. In the six months ended October 2, 2010, the Company repaid \$7.0 million of its outstanding credit facility.

#### Other Matters

#### Critical Accounting Estimates

Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. We believe the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 to the Consolidated Financial Statements in our fiscal 2010 Annual Report, incorporated by reference in our fiscal 2010 Form 10-K, describe the significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ

from management's estimates. There have been no significant changes in our critical accounting estimates during the first six months of fiscal 2011.

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

#### Quantitative and Qualitative Disclosure About Market Risk

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

**Interest Rates.** We are exposed to market risk from changes in the interest rates on a portion of our outstanding indebtedness. Outstanding balances under our KeyBank Credit Agreement generally bear interest at the prime rate or LIBOR (the London inter-bank offered rate for deposits in U.S. dollars for the applicable LIBOR period) plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on our consolidated ratio of net debt to adjusted EBITDA from time to time. As of October 2, 2010, our margin is 0.0% for prime rate loans (prime rate at October 2, 2010 was 3.25%) and 0.375% for LIBOR rate loans (one month LIBOR rate at October 2, 2010 was 0.25%).

Our interest rate risk management objective is to limit the impact of interest rate changes on our net income and cash flow. To achieve our objective, we regularly evaluate the amount of our variable rate debt as a percentage of our aggregate debt. As of October 2, 2010, our average outstanding variable rate debt, after taking into account the \$30.0 million notional amount of our interest rate swap agreement, was 0% of our average outstanding debt. We manage a significant portion of our exposure to interest rate fluctuations in our variable rate debt through an interest rate swap agreement. This agreement effectively converts interest rate exposure from variable rates to fixed rates of interest.

**Foreign Currency Exchange Rates.** Our exposure to risk associated with fluctuating currency exchange rates between the U.S. dollar, the Euro, the Swiss Franc and the British Pound Sterling has increased. 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 denominated in foreign currencies in the first six months of fiscal 2011 compared to 15% in the same period last fiscal year. 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 cash deposits and trade receivables. Unrealized currency translation gains and losses are recognized upon translation of the foreign subsidiaries' balance sheets to U.S. dollars. Because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our earnings. We currently do not have exchange rate hedges in place to reduce the risk of an adverse currency exchange movement. Although currency fluctuations have not had a material impact on our financial performance in the past, such fluctuations may materially affect our financial performance in the future. The impact of future exchange rate fluctuations on our results of operations cannot be accurately predicted.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

ITEM 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of October 2, 2010. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of October 2, 2010, our disclosure controls and procedures were (1) designed to ensure that information relating to our Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported to our Chief Executive Officer and Chief Financial Officer within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, and (2) effective, in that they provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the six month period ended October 2, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

## PART II - OTHER INFORMATION

## ITEM 1. Legal Proceedings

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

## ITEM 1A. Risk Factors

There have been no material changes to our risk factors and uncertainties during the six month period ended October 2, 2010. For a discussion of the Risk Factors, refer to Part I, Item 2, "Cautionary Statement As To Forward-Looking Information," contained in this report and Part I, Item 1A, "Risk Factors," contained in the Company's Annual Report on Form 10-K for the period ended April 3, 2010.

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

## Unregistered Sales of Equity Securities

None.

## Use of Proceeds

Not applicable.

## Issuer Purchases of Equity Securities

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 October 2, 2010 are as follows:

| Period                | Total<br>number<br>of shares<br>Purchased | Average<br>price paid<br>per share | Number of<br>shares<br>purchased<br>as part of the<br>publicly<br>announced<br>program | Approximate<br>dollar value<br>of shares still<br>available to be<br>purchased<br>under the<br>program<br>(000's) |
|-----------------------|---|------------------------------------|--|---|
| 07/04/2010–07/31/2010 | 4,261                                     | \$ 28.60                           | 4,261  | \$ 5,906  |
| 08/01/2010–08/28/2010 | —   | —                                  | —  | 5,906   |
| 08/29/2010–10/02/2010 | —   | —                                  | —  | —\$ 5,906   |
| Total                 | 4,261                                     | \$ 28.60                           | 4,261  |   |



ITEM 6. Exhibits

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

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

SIGNATURES

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

RBC Bearings Incorporated  
(Registrant)

By: /s/ Michael J. Hartnett  
Name: Michael J. Hartnett  
Title: Chief Executive Officer  
Date: November 5, 2010

By: /s/ Daniel A. Bergeron  
Name: Daniel A. Bergeron  
Title: Chief Financial Officer  
Date: November 5, 2010



EXHIBIT INDEX

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