

RBC Bearings INC
Form 10-Q
February 08, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2016

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

95-4372080

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Tribology Center

Oxford, CT

06478

(Address of principal executive offices) (Zip Code)

(203) 267-7001

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

As of January 27, 2017, RBC Bearings Incorporated had 23,991,435 shares of Common Stock outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| | December 31, 2016 (Unaudited) | April 2, 2016 |
|--|-------------------------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 39,472 | \$ 39,208 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,012 at December 31, 2016 and \$1,324 at April 2, 2016 | 98,312 | 102,351 |
| Inventory | 287,374 | 280,537 |
| Prepaid expenses and other current assets | 12,074 | 6,861 |
| Total current assets | 437,232 | 428,957 |
| Property, plant and equipment, net | 181,142 | 184,744 |
| Goodwill | 268,031 | 267,259 |
| Intangible assets, net of accumulated amortization of \$27,870 at December 31, 2016 and \$22,165 at April 2, 2016 | 199,107 | 207,252 |
| Other assets | 12,197 | 10,298 |
| Total assets | \$ 1,097,709 | \$ 1,098,510 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 37,196 | \$ 35,597 |
| Accrued expenses and other current liabilities | 41,038 | 42,234 |
| Current portion of long-term debt | 12,957 | 10,486 |
| Total current liabilities | 91,191 | 88,317 |
| Deferred income taxes | 6,675 | 3,208 |
| Long-term debt, less current portion | 281,986 | 353,210 |
| Other non-current liabilities | 32,329 | 32,828 |
| Total liabilities | 412,181 | 477,563 |
| Stockholders' equity: | | |

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| | | |
|---|--------------|--------------|
| Preferred stock, \$.01 par value; authorized shares: 10,000,000 at December 31, 2016 and April 2, 2016; none issued and outstanding | — | — |
| Common stock, \$.01 par value; authorized shares: 60,000,000 at December 31, 2016 and April 2, 2016; issued and outstanding shares: 24,653,302 at December 31, 2016 and 24,146,767 at April 2, 2016 | 247 | 241 |
| Additional paid-in capital | 304,765 | 279,420 |
| Accumulated other comprehensive loss | (12,048 |) (6,990) |
| Retained earnings | 427,108 | 378,070 |
| Treasury stock, at cost, 667,892 shares at December 31, 2016 and 603,035 shares at April 2, 2016 | (34,544 |) (29,794) |
| Total stockholders' equity | 685,528 | 620,947 |
| Total liabilities and stockholders' equity | \$ 1,097,709 | \$ 1,098,510 |

See accompanying notes.

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

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2016 | December 26, 2015 | December 31, 2016 | December 26, 2015 |
| Net sales | \$146,656 | \$144,216 | \$455,178 | \$435,220 |
| Cost of sales | 94,271 | 90,695 | 288,811 | 276,817 |
| Gross margin | 52,385 | 53,521 | 166,367 | 158,403 |
| Operating expenses: | | | | |
| Selling, general and administrative | 25,712 | 23,850 | 76,696 | 72,519 |
| Other, net | 6,144 | 2,619 | 10,367 | 12,872 |
| Total operating expenses | 31,856 | 26,469 | 87,063 | 85,391 |
| Operating income | 20,529 | 27,052 | 79,304 | 73,012 |
| Interest expense, net | 2,111 | 2,238 | 6,659 | 6,222 |
| Other non-operating (income) expense | (216) | (54) | 51 | (44) |
| Income before income taxes | 18,634 | 24,868 | 72,594 | 66,834 |
| Provision for income taxes | 5,864 | 7,821 | 23,556 | 21,864 |
| Net income | \$12,770 | \$17,047 | \$49,038 | \$44,970 |
| Net income per common share: | | | | |
| Basic | \$0.54 | \$0.73 | \$2.09 | \$1.94 |
| Diluted | \$0.54 | \$0.73 | \$2.07 | \$1.91 |
| Weighted average common shares: | | | | |
| Basic | 23,581,921 | 23,220,707 | 23,457,717 | 23,197,969 |
| Diluted | 23,813,780 | 23,492,321 | 23,719,121 | 23,508,348 |

See accompanying notes.

RBC Bearings Incorporated

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|-------------------------|----------------------|-------------------------|----------------------|
| | December 31, 2016 | December 26, 2015 | December 31, 2016 | December 26, 2015 |
| Net income | \$ 12,770 | \$ 17,047 | \$ 49,038 | \$ 44,970 |
| Pension and postretirement liability adjustments, net of taxes | 234 | 1,137 | 701 | 682 |
| Foreign currency translation adjustments | (3,954) | (1,342) | (5,759) | (3,017) |
| Total comprehensive income | \$ 9,050 | \$ 16,842 | \$ 43,980 | \$ 42,635 |

See accompanying notes.

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

| | Nine Months Ended December 31, 2016 | December 26, 2015 |
|---|---|----------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 49,038 | \$ 44,970 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 13,557 | 12,549 |
| Excess tax benefits from stock-based compensation | (4,870) | (2,509) |
| Deferred income taxes | 3,717 | 1,880 |
| Amortization of intangible assets | 6,921 | 6,621 |
| Amortization of deferred financing costs | 1,068 | 977 |
| Stock-based compensation | 8,914 | 7,193 |
| Impairment charges | 1,443 | — |
| Loss on disposal of fixed assets | 2,457 | — |
| Gain on acquisition | (293) | — |
| Other non-cash charges | — | 209 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | 3,954 | 10,806 |
| Inventory | (7,293) | (21,316) |
| Prepaid expenses and other current assets | (5,238) | (3,001) |

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| | | |
|--|-----------|------------|
| Other non-current assets | (2,282) | (1,332) |
| Accounts payable | 1,466 | (3,495) |
| Accrued expenses and other current liabilities | 2,123 | 518 |
| Other non-current liabilities | (107) | 7,730 |
| Net cash provided by operating activities | 74,575 | 61,800 |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (14,415) | (14,635) |
| Proceeds from sale of assets | 107 | 64 |
| Business acquisition | (651) | (500,000) |
| Net cash used in investing activities | (14,959) | (514,571) |
| Cash flows from financing activities: | | |
| Proceeds from revolving credit facility | — | 225,000 |
| Repayments of revolving credit facility | (61,500) | (37,500) |
| Proceeds from term loans | — | 200,000 |
| Repayments of term loans | (7,500) | (5,000) |
| Payments of notes payable | (353) | (361) |
| Finance fees paid in connection with credit facility | — | (7,122) |
| Exercise of stock options | 11,567 | 4,072 |
| Excess tax benefits from stock-based compensation | 4,870 | 2,509 |
| Repurchase of common stock | (4,750) | (10,470) |
| Net cash (used in) provided by financing activities | (57,666) | 371,128 |
| Effect of exchange rate changes on cash | (1,686) | 591 |

Cash and cash
equivalents:

| | | | |
|---------------------------------|-----------|-----------|---|
| Decrease during the period | 264 | (81,052 |) |
| Cash, at beginning of period | 39,208 | 125,455 | |
| Cash, at end of period | \$ 39,472 | \$ 44,403 | |

See accompanying notes.

RBC Bearings Incorporated

Notes to Unaudited Interim Consolidated Financial Statements

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

The consolidated financial statements included herein have been prepared by RBC Bearings Incorporated, a Delaware corporation (collectively with its subsidiaries, the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The April 2, 2016 fiscal year end balance sheet data have been derived from the Company’s audited financial statements, but do not include all disclosures required by generally accepted accounting principles in the United States. The interim financial statements included with this report have been prepared on a consistent basis with the Company’s audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 2, 2016.

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 month period ended December 31, 2016 are not necessarily indicative of the operating results for the entire fiscal year ending April 1, 2017. The three month periods ended December 31, 2016 and December 26, 2015 each include 13 weeks. The amounts shown are in thousands, unless otherwise indicated.

Critical Accounting Policies

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.

We also recognize revenue on a Ship-In-Place basis for two customers who have required that we hold the product after final production is complete. In this case, a written agreement has been executed (at the customer’s request) whereby the customer accepts the risk of loss for product that is invoiced under the Ship-In-Place arrangement. For each transaction for which revenue is recognized under a Ship-In-Place arrangement, all final manufacturing

inspections have been completed and customer acceptance has been obtained. In the three months ended December 31, 2016, 2.9% of the Company's total net sales was recognized under Ship-In-Place transactions.

Adoption of Recent Accounting Pronouncements

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards update ("ASU") No. 2016-16, "Income Taxes", in an effort to improve the accounting for the income tax consequences of intra-equity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This ASU establishes the requirement that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows", which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company has not determined the effect that the adoption of the pronouncement may have on its statements of cash flows.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" which amends ASC Topic 718, Compensation - Stock Compensation. This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which amends the principal-versus-agent implementation guidance in ASU No. 2014-09 (Topic 606), "Revenue from Contracts with Customers", issued by the FASB in May 2014. ASU No. 2016-08 clarifies the principal-versus-agent guidance in Topic 606 and requires an entity to determine whether the nature of its promise to provide goods or services to a customer is performed in a principal or agent capacity and to recognize revenue in a gross or net manner based on its principal/agent designation. ASU 2014-09 is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. This update requires the Company to recognize revenue at amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services at the time of transfer. In doing so, the Company will need to use more judgement and make more estimates than under today's guidance, such estimates include identifying performance obligations in the contracts, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company can either apply a full retrospective adoption or a modified retrospective adoption. This ASU is effective for annual reporting periods beginning after December 15, 2017 and interim periods therein. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." The core principal of ASU 2016-02 is that an entity should recognize on its balance sheet assets and liabilities arising from a lease. In accordance with that principle, ASU 2016-02 requires that a lessee recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying leased asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on the lease classification as a finance or operating lease. This new accounting guidance is effective for public companies for fiscal years beginning after December 15, 2018 under a modified retrospective approach and early adoption is permitted. The Company is currently evaluating the impact this adoption will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory." This update requires the company to measure inventory using the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU applies to companies measuring inventory using methods other than the last-in, first-out (LIFO) and retail inventory methods, including but not limited to the first-in, first-out (FIFO) or average costing methods. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements-Going Concern." This update requires management to evaluate whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, and requires related footnote disclosures. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

1. Accumulated Other Comprehensive Income (Loss)

The components of comprehensive income (loss) that relate to the Company are net income, 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):

| | Currency Translation | Pension and Postretirement Liability | Total |
|---|-------------------------|--|------------|
| Balance at April 2, 2016 | \$ 222 | \$ (7,212) | \$(6,990) |
| Other comprehensive income (loss) before reclassifications (net of taxes) | (5,759) | — | (5,759) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | 701 | 701 |
| Net current period other comprehensive income (loss) | (5,759) | 701 | (5,058) |
| Balance at December 31, 2016 | \$ (5,537) | \$ (6,511) | \$(12,048) |

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.

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

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| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2016 | December 26, 2015 | December 31, 2016 | December 26, 2015 |
| Net income | \$ 12,770 | \$ 17,047 | \$ 49,038 | \$ 44,970 |
| Denominator for basic net income per common share—weighted-average shares outstanding | 23,581,921 | 23,220,707 | 23,457,717 | 23,197,969 |
| Effect of dilution due to employee stock awards | 231,859 | 271,614 | 261,404 | 310,379 |
| Denominator for diluted net income per common share — weighted-average shares outstanding | 23,813,780 | 23,492,321 | 23,719,121 | 23,508,348 |
| Basic net income per common share | \$0.54 | \$ 0.73 | \$ 2.09 | \$ 1.94 |
| Diluted net income per common share | \$0.54 | \$ 0.73 | \$ 2.07 | \$ 1.91 |

At December 31, 2016, 449,500 employee stock options and 81,650 restricted shares have been excluded from the calculation of diluted earnings per share. At December 26, 2015, 444,250 employee stock options and 65,600 restricted shares have been excluded from the calculation of diluted earnings per share. The inclusion of these employee stock options and unvested restricted shares would be anti-dilutive.

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.

Short-term investments, if any, are comprised of equity securities and are measured at fair value by using quoted prices in active markets and are classified as Level 1 of the valuation hierarchy.

4. Inventory

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

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| | December 31, 2016 | April 2, 2016 |
|-----------------|----------------------|------------------|
| Raw materials | \$ 38,383 | \$36,632 |
| Work in process | 74,936 | 73,761 |
| Finished goods | 174,055 | 170,144 |
| | \$ 287,374 | \$280,537 |

5. Goodwill and Intangible Assets

Goodwill

| | Roller | Plain | Ball | Engineered Products | Total |
|---------------------------------------|----------|----------|---------|------------------------|-----------|
| April 2, 2016 | \$16,007 | \$77,211 | \$5,623 | \$ 168,418 | \$267,259 |
| Acquisition and valuation adjustments | — | 2,386 | — | (1,559) | 827 |
| Translation adjustments | — | — | — | (55) | (55) |
| December 31, 2016 | \$16,007 | \$79,597 | \$5,623 | \$ 166,804 | \$268,031 |

Intangible Assets

| | Weighted Average Useful Lives | December 31, 2016 | | April 2, 2016 | |
|---|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Product approvals | 24 | \$53,842 | \$ 5,915 | \$54,360 | \$ 4,488 |
| Customer relationships and lists | 24 | 107,852 | 11,203 | 113,409 | 8,784 |
| Trade names | 10 | 19,912 | 4,650 | 20,019 | 3,211 |
| Distributor agreements | 5 | 722 | 722 | 722 | 722 |
| Patents and trademarks | 15 | 8,863 | 3,995 | 8,573 | 3,546 |
| Domain names | 10 | 437 | 375 | 437 | 342 |
| Other | 5 | 1,149 | 1,010 | 1,197 | 1,072 |
| | | 192,777 | 27,870 | 198,717 | 22,165 |
| Non-amortizable repair station certifications | n/a | 34,200 | — | 30,700 | — |
| Total | | \$226,977 | \$ 27,870 | \$229,417 | \$ 22,165 |

Amortization expense for definite-lived intangible assets for the nine month periods ended December 31, 2016 and December 26, 2015 was \$6,921 and \$6,621, respectively. The Company recorded a net intangible asset impairment charge in the third quarter of fiscal 2017 of \$261 associated with the integration and restructuring of industrial manufacturing operations in South Carolina. Estimated amortization expense for the remaining three months of fiscal 2017, the five succeeding fiscal years and thereafter is as follows:

| | |
|---------------------|---------|
| 2017 | \$2,770 |
| 2018 | 9,324 |
| 2019 | 9,101 |
| 2020 | 8,994 |
| 2021 | 8,943 |
| 2022 | 8,820 |
| 2023 and thereafter | 116,955 |

6. Debt

The balances payable under all borrowing facilities are as follows:

December 31, April 2,

| | 2016 | 2016 |
|-----------------------------------|-------------|-------------|
| Revolver and term loan facilities | \$ 292,500 | \$361,500 |
| Debt issuance costs | (4,748 |) (5,816) |
| Other | 7,191 | 8,012 |
| Total debt | \$ 294,943 | \$363,696 |
| Less: current portion | 12,957 | 10,486 |
| Long-term debt | \$ 281,986 | \$353,210 |

The Credit Facility

In connection with the Sargent Aerospace & Defense (“Sargent”) acquisition on April 24, 2015, the Company entered into the credit agreement and related Guarantee, Pledge Agreement and Security Agreement with Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent, Swingline Lender and Letter of Credit Issuer and the other lenders party thereto and terminated the JP Morgan Credit Agreement. The Credit Agreement provides RBCA, as Borrower, with (a) a \$200,000 Term Loan and (b) a \$350,000 Revolver and together with the Term Loan (the “Facilities”).

Amounts outstanding under the Facilities generally bear interest at (a) a base rate determined by reference to the higher of (1) Wells Fargo’s prime lending rate, (2) the federal funds effective rate plus 1/2 of 1% and (3) the one-month LIBOR rate plus 1% or (b) LIBOR rate plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on the Company’s consolidated ratio of total net debt to consolidated EBITDA from time to time. Currently, the Company’s margin is 0.5% for base rate loans and 1.5% for LIBOR rate loans. As of December 31, 2016, there was \$107,500 outstanding under the Revolver and \$185,000 outstanding under the Term Loan, offset by \$4,748 in debt issuance costs (original amount was \$7,122).

The 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 3.50 to 1; and (2) a consolidated interest coverage ratio not to exceed 2.75 to 1. The Credit Agreement allows the Company to, among other things, make distributions to shareholders, repurchase its stock, incur other debt or liens, or acquire or dispose of assets provided that the Company complies with certain requirements and limitations of the agreement. As of December 31 2016, the Company was in compliance with all such covenants.

The Company’s obligations under the Credit Agreement are secured as well as providing for a pledge of substantially all of the Company’s and RBCA’s assets. The Company and certain of its subsidiaries have also entered into a Guarantee to guarantee RBCA’s obligations under the Credit Agreement.

Approximately \$3,690 of the Revolver is being utilized to provide letters of credit to secure RBCA’s obligations relating to certain insurance programs. As of December 31, 2016, RBCA has the ability to borrow up to an additional \$238,810 under the Revolver.

Other Notes Payable

On October 1, 2012, Schaublin purchased the land and building, which it occupied and had been leasing, for 14,067 CHF (approximately \$14,910). Schaublin obtained a 20 year fixed rate mortgage of 9,300 CHF (approximately \$9,857) at an interest rate of 2.9%. The balance of the purchase price of 4,767 CHF (approximately \$5,053) was paid from cash on hand. The balance on this mortgage as of December 31, 2016 was 7,324 CHF, or \$7,191.

7. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, 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 April 2, 2005. The Company is no longer subject to U.S. federal corporate income tax examination by the Internal Revenue Service for fiscal years ending before March 29, 2014. A U.S. federal corporate income tax examination by the Internal Revenue Service for the fiscal year ended March 30, 2013 was deemed effectively settled in the Company's first quarter of fiscal 2016.

The effective income tax rates for the three month periods ended December 31, 2016 and December 26, 2015, were 31.5% and 31.5%. In addition to discrete items, the effective income tax rates for these periods are different from the U.S. statutory rates due to a special U.S. manufacturing deduction, the U.S. credit for increasing research activities, and foreign income taxed at lower rates which decrease the rate, and state income taxes which increases the rate.

The effective income tax rate for the three month period ended December 31, 2016 of 31.5% includes immaterial discrete items of \$56. The effective income tax rate without discrete items for the three month period ended December 31, 2016 would have been 31.8%. The effective income tax rate for the three month period ended December 26, 2015 of 31.5% includes immaterial discrete items of \$154. The effective income tax rate without discrete items for the three month period ended December 26, 2015 would have been 32.1%. The Company believes it is reasonably possible that some of its unrecognized tax positions may be effectively settled within the next twelve months 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 approximately \$314.

8. 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.

The Company has four reportable business segments; Plain Bearings, Roller Bearings, Ball Bearings and Engineered Products, which are described below.

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. The bearings and rings businesses of Sargent are included here.

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.

Engineered Products. Engineered Products consists of highly engineered hydraulics, fasteners, collets and precision components used in aerospace, marine and industrial applications. The hydraulics, fasteners and precision components businesses of Sargent are included here.

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

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | December 31, | December 26, | December 31, | December 26, |
| | 2016 | 2015 | 2016 | 2015 |
| Net External Sales | | | | |
| Plain | \$65,822 | \$ 64,171 | \$205,107 | \$ 197,455 |
| Roller | 26,157 | 26,294 | 80,786 | 84,025 |
| Ball | 13,700 | 12,850 | 41,979 | 38,791 |
| Engineered Products | 40,977 | 40,901 | 127,306 | 114,949 |
| | \$146,656 | \$ 144,216 | \$455,178 | \$ 435,220 |
| Gross Margin | | | | |
| Plain | \$26,814 | \$ 22,690 | \$79,971 | \$ 75,401 |
| Roller | 6,397 | 11,517 | 30,182 | 35,767 |
| Ball | 5,336 | 5,202 | 15,823 | 15,677 |
| Engineered Products | 13,838 | 14,112 | 40,391 | 31,558 |
| | \$52,385 | \$ 53,521 | \$166,367 | \$ 158,403 |
| Selling, General & Administrative Expenses | | | | |
| Plain | \$6,192 | \$ 4,765 | \$18,007 | \$ 16,154 |
| Roller | 1,517 | 1,480 | 4,484 | 4,453 |
| Ball | 1,384 | 1,368 | 4,163 | 4,106 |
| Engineered Products | 4,534 | 5,311 | 13,840 | 13,433 |
| Corporate | 12,085 | 10,926 | 36,202 | 34,373 |
| | \$25,712 | \$ 23,850 | \$76,696 | \$ 72,519 |
| Operating Income | | | | |
| Plain | \$18,065 | \$ 13,737 | \$57,695 | \$ 54,826 |
| Roller | 2,761 | 10,016 | 23,955 | 31,080 |
| Ball | 3,814 | 3,634 | 11,252 | 11,081 |
| Engineered Products | 7,831 | 10,585 | 22,564 | 15,448 |
| Corporate | (11,942) | (10,920) | (36,162) | (39,423) |
| | \$20,529 | \$ 27,052 | \$79,304 | \$ 73,012 |
| Geographic External Sales | | | | |
| Domestic | \$129,212 | \$ 126,070 | \$399,629 | \$ 379,571 |
| Foreign | 17,444 | 18,146 | 55,549 | 55,649 |
| | \$146,656 | \$ 144,216 | \$455,178 | \$ 435,220 |
| Intersegment Sales | | | | |
| Plain | \$1,146 | \$ 759 | \$3,248 | \$ 2,875 |
| Roller | 3,264 | 4,300 | 11,512 | 14,995 |
| Ball | 370 | 635 | 1,211 | 1,682 |
| Engineered Products | 6,767 | 7,335 | 21,183 | 22,469 |
| | \$11,547 | \$ 13,029 | \$37,154 | \$ 42,021 |

All intersegment sales are eliminated in consolidation.

9. Acquisitions

On April 24, 2015, the Company acquired Sargent from Dover Corporation for \$500,000 financed through a combination of cash on hand and senior debt. With headquarters in Tucson, Arizona, Sargent is a leader in precision-engineered products, solutions and repairs for aircraft airframes and engines, rotorcraft, submarines and land vehicles. Sargent manufactures, sells and services hydraulic valves and actuators, specialty bearings, specialty fasteners, seal rings & alignment joints and engineered components under leading brands including Kahr Bearing, Airtomic, Sonic Industries, Sargent Controls and Sargent Aerospace & Defense. The Company acquired Sargent because management believes it provides complementary products and channels, and expands and enhances the Company's product portfolio and engineering technologies. The bearings and rings businesses are included in the Plain Bearings segment. The hydraulics, fasteners and precision components businesses are included in the Engineered Products segment.

The acquisition of Sargent was accounted for as a purchase in accordance with FASB Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*. Assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The fair values of identifiable intangible assets, which were primarily customer relationships, product approvals, trade names, and patents and trademarks, were based on valuations using the income approach. The excess of the purchase price over the estimated fair values of tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. The goodwill is attributable to expected synergies and expected growth opportunities. The purchase price allocation resulted in goodwill of \$224,715. The Company estimates a majority of goodwill will be deductible for United States income tax purposes.

The purchase price allocation for Sargent was as follows:

| | As of |
|-------------------------------|-----------------------|
| | April 24, 2015 |
| Current assets | \$ 3,086 |
| Trade receivables | 24,100 |
| Inventories | 49,245 |
| Property, plant and equipment | 39,907 |
| Intangible assets | 202,500 |
| Goodwill | 224,715 |
| Total assets acquired | 543,553 |
| Accounts payable | 14,900 |
| Liabilities assumed | 28,653 |
| Net assets acquired | \$ 500,000 |

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The valuation of the net assets acquired of \$500,000 was classified as Level 3 in the valuation hierarchy. Level 3 inputs represent unobservable inputs for the asset or liability.

The components of intangible assets included as part of the Sargent acquisition was as follows:

| | Weighted Average | |
|-----------------------------------|----------------------------|--------------------|
| | Amortization Period | Gross Value |
| | (Years) | |
| Amortizable intangible assets | | |
| Customer relationships | 25 | \$ 99,800 |
| Product approvals | 25 | 50,500 |
| Trademarks and tradenames | 10 | 18,000 |
| | | 168,300 |
| Non-amortizable intangible assets | | |
| Repair station certifications | - | 34,200 |
| Intangible assets | | \$ 202,500 |

Included in the Company's results of operations for the three and nine months ended December 31, 2016 are revenues related to the Sargent acquisition of \$44,837 and \$138,121, respectively. Also, included for the three and nine months ended December 31, 2016 is net income of \$5,671 and \$14,254, respectively. Included in the Company's results of operations for the three and nine months ended December 26, 2015 are revenues related to the Sargent acquisition of \$43,862 and \$123,371, respectively. Also, included for the three and nine months ended December 26, 2015 is net income of \$3,769 and \$9,001, respectively. There were no acquisition-related expenses for both the three and nine months ended December 31, 2016. Acquisition-related expenses were recorded in Other, net in the Consolidated Statements of Operations for both the three and nine months ended December 26, 2015 of \$25 and \$6,096, respectively.

The following supplemental pro forma financial information presents the financial results for the nine months ended December 31, 2016 and December 26, 2015, as if the acquisition of Sargent had occurred at the beginning of fiscal year 2015. The pro forma financial information includes, where applicable, adjustments for: (i) the estimated amortization of acquired intangible assets, (ii) estimated additional interest expense on acquisition related borrowings, (iii) the income tax effect on the pro forma adjustments using an estimated effective tax rate. The pro forma financial information excludes, where applicable, adjustments for: (i) the estimated impact of inventory purchase accounting adjustments and (ii) the estimated closing costs on the acquisition. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the acquisition been completed as of the date indicated or the results that may be obtained in the future:

| | Nine Months Ended | |
|--|-------------------------|---------------------|
| | December 31, | December 26, |
| | 2016 | 2015 |
| Pro forma net sales | \$455,178 | \$ 443,594 |
| Pro forma net income | 49,292 | 52,156 |
| Basic earnings per share as reported | \$2.09 | \$ 1.94 |
| Pro forma basic earnings per share | 2.10 | 2.25 |
| Diluted earnings per share as reported | \$2.07 | \$ 1.91 |
| Pro forma diluted earnings per share | 2.08 | 2.22 |

10. Integration and Restructuring of Industrial Operations

In the third quarter of fiscal 2017, the Company reached a decision to integrate and restructure its industrial manufacturing operation in South Carolina. The Company will exit a few smaller product offerings and consolidate

two manufacturing facilities into one. These restructuring efforts will better align our manufacturing capacity and market focus. As a result, the Company recorded a charge of \$7,060 associated with the restructuring in the third quarter of fiscal 2017 attributable to the Roller Bearings segment. The \$7,060 charge includes \$3,215 of inventory rationalization costs, \$261 in impairment of intangibles, \$2,402 loss on fixed assets disposals, and \$1,182 exit obligation associated with a building operating lease. The inventory rationalization costs were recorded in Cost of Sales in the income statement. All other costs were recorded under operating expenses in the Other, Net category of the income statement. The pre-tax charge of \$7,060 was offset with a tax benefit of approximately \$2,222. The Company determined that the market approach was the most appropriate method to estimate the fair value for the inventory, intangible assets, equipment and building operating lease using comparable sales data and actual quotes from potential buyers in the market place.

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 and engineered products industries are 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 or interruption to supply, and availability of raw materials, components and energy resources could materially increase our costs or 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; (v) provisions in our charter documents may prevent or hinder efforts to acquire a controlling interest in us; (w) health care reform could adversely affect our operating results; (x) we may not pay cash dividends in the foreseeable future; (y) retirement of commercial aircraft could reduce our revenues, and (z) we may not achieve satisfactory operating results in the integration of acquired companies. Additional information regarding these and other risks and uncertainties is contained in our periodic filings with the SEC, including, without limitation, the risks identified under the heading “Risk Factors” set forth in the Annual Report on Form 10-K for the year ended April 2, 2016. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not intend, and undertake no obligation, to update or alter any forward-looking statement. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Quarterly Report.

Overview

We are a well-known international manufacturer and maker of highly engineered precision bearings and components. 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 bearings categories, we focus primarily on the higher end of the bearing and engineered component markets where we believe our value added manufacturing and engineering capabilities enable us to differentiate ourselves from our competitors and enhance profitability. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. With 39 facilities, of which 34 are manufacturing facilities in six countries, we have been able to significantly broaden our end markets, products, customer base and geographic reach. We currently operate under four reportable business segments: Plain Bearings; Roller Bearings; Ball Bearings; and Engineered Products. The following further describes these reportable segments:

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. We manufacture 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. We manufacture 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.

Engineered Products. Engineered Products consists of highly engineered hydraulics, fasteners, collets and precision components used in aerospace, marine and industrial applications.

Purchasers of bearings and engineered products 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, marine and specialized equipment manufacturers, marine products, automotive and commercial truck manufacturers. The markets for our products are cyclical, and we have endeavored to mitigate this cyclicity by entering into sole-source relationships and long-term purchase agreements, 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.

Currently, our strategy is built around maintaining our role as a leading manufacturer of precision engineered bearings and components through the following efforts:

Developing innovative solutions. By leveraging our design and manufacturing expertise and our extensive customer relationships, we continue to develop new products for markets in which there are substantial growth opportunities.

Expanding customer base and penetrating end markets. We continually seek opportunities to access new customers, geographic locations and bearing platforms with existing products or profitable new product opportunities.

Increasing aftermarket sales. We believe that increasing our aftermarket sales of replacement parts will further enhance the continuity and predictability of our revenues and enhance our profitability. Such sales included sales to third party distributors and sales to OEMs for replacement products and aftermarket services. We will increase the percentage of our revenues derived from the replacement market by continuing to implement several initiatives.

Pursuing selective acquisitions. The acquisition of businesses that complement or expand our operations has been and continues to be an important element of our business strategy. We believe that there will continue to be consolidation within the industry that may present us with acquisition opportunities.

Outlook

Our net sales for the three month period ended December 31, 2016 increased 1.7% compared to the same period last fiscal year. Our aerospace markets increased 1.2% and the industrial markets increased 2.7%. Our backlog, as of December 31, 2016, was \$349.1 million compared to \$351.3 million as of December 26, 2015.

Management believes that operating cash flows and available credit under the credit facilities will provide adequate resources to fund internal and external growth initiatives for the foreseeable future. As of December 31, 2016, we had cash and cash equivalents of \$39.5 million of which approximately \$29.0 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.

Results of Operations

(dollars in millions)

| | Three Months Ended | | | | |
|---|--------------------------|--------------------------|-----------|---------|---|
| | December 31, 2016 | December 26, 2015 | \$ | % | |
| | | | Change | Change | |
| Total net sales | \$146.7 | \$ 144.2 | \$ 2.5 | 1.7 | % |
| Net income | \$12.8 | \$ 17.0 | \$ (4.2) | (25.1) | % |
| Net income per common share: diluted | \$0.54 | \$ 0.73 | | | |
| Weighted average common shares: diluted | 23,813,780 | 23,492,321 | | | |

Our net sales for the three month period ended December 31, 2016 increased 1.7% compared to the same period last fiscal year. The increase in net sales was a result of an 1.2% increase in our aerospace markets and a 2.7% increase in the industrial markets. The increase in aerospace sales was mainly due to the commercial aerospace OEM which was partly offset by lower defense and distribution activity. The increase in industrial sales was mostly driven by marine, mining, and semicon activity.

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Net income for the third quarter of fiscal 2017 was \$12.8 million compared to \$17.0 million for the same period last year. Excluding the after tax impact of \$4.9 million of costs related to restructuring offset by \$0.3 million of discrete tax benefit and foreign currency gains, net income for the third quarter of fiscal 2017 would have been \$17.4 million. Excluding the after tax impact of \$0.4 million in costs associated with the acquisition offset by \$0.1 of discrete tax benefit, net income for the third quarter of fiscal 2016 would have been \$17.3 million.

| | Nine Months Ended | | | | |
|---|--------------------------|--------------------------|-----------|----------|---|
| | December 31, 2016 | December 26, 2015 | \$ Change | % Change | |
| Total net sales | \$455.2 | \$ 435.2 | \$ 20.0 | 4.6 | % |
| Net income | \$49.0 | \$ 45.0 | \$ 4.0 | 9.0 | % |
| Net income per common share: diluted | \$2.07 | \$ 1.91 | | | |
| Weighted average common shares: diluted | 23,719,121 | 23,508,348 | | | |

Net sales increased \$20.0 million or 4.6% for the nine month period ended December 31, 2016 over the same period last year. The increase in net sales was mainly the result of a 5.2% increase in aerospace sales and a 3.3% increase in industrial. The increase in aerospace sales was mostly attributable to an increase in commercial aerospace OEM offset by a decrease in aerospace distribution and defense. The increase in industrial sales was mostly attributable to an increase in marine, mining aftermarket, and semicon activity partly offset by energy and light construction activity

Net income for the nine months ended December 31, 2016 was \$49.0 million compared to \$45.0 million for the same period last year. Excluding the after tax impact of \$0.3 million in costs associated with the acquisition and \$4.9 million in costs related to restructuring offset by \$0.2 million of discrete tax benefit and \$0.2 million of foreign exchange gain, net income would have been \$53.8 million. Excluding the after tax impact of \$3.4 million in costs associated with the acquisition, \$4.8 million in inventory purchase accounting associated with the Sargent acquisition, \$0.7 million of costs associated with integration and restructuring and \$0.1 million loss on extinguishment of debt, and offset by \$0.2 million of favorable foreign exchange translation and \$0.2 million of discrete tax benefit, net income would have been \$53.6 million for the nine month period ended December 26, 2015.

Gross Margin

| | Three Months Ended | | | |
|----------------|--------------------|-------------------|-----------|----------|
| | December 31, 2016 | December 26, 2015 | \$ Change | % Change |
| Gross Margin | \$52.4 | \$ 53.5 | \$ (1.1) | (2.1)% |
| Gross Margin % | 35.7% | 37.1 | % | |

Gross margin decreased \$1.1 million, or 2.1%, in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. In the third quarter of fiscal 2017, the Company reached a decision to integrate and restructure its industrial manufacturing operation in South Carolina. The Company will exit a few smaller product offerings and consolidate two manufacturing facilities into one. These restructuring efforts will better align our manufacturing capacity and market focus. As a result, the Company recorded a charge associated with the restructuring in the third quarter of fiscal 2017 attributable to the Roller Bearings segment, \$3.2 million of which related to inventory rationalization costs. Excluding the unfavorable impact of \$3.2 million of restructuring charges, gross margin would have been \$55.6 million for the three months ending December 31, 2016. Excluding charges of \$0.6 million associated with the Sargent acquisition, gross margin would have been \$54.1 million for the three month period ending December 26, 2015.

Nine Months Ended

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| | December 31, 2016 | December 26, 2015 | \$ Change | % Change | |
|----------------|----------------------------------|------------------------------|--------------|-------------|---|
| Gross Margin | \$ 166.4 | \$ 158.4 | \$ 8.0 | 5.0 | % |
| Gross Margin % | 36.5 % | 36.4 % | % | | |

Gross margin increased \$8.0 million or 5.0% for the first nine months of fiscal 2017 compared to the same period last year. Excluding the unfavorable impact of \$3.2 million of restructuring charges and \$0.4 million of inventory purchase accounting associated with the Sargent acquisition, gross margin would have been \$170.0 million for the nine month period ended December 31, 2016. Excluding \$7.1 million of inventory purchase accounting associated with the Sargent acquisition, gross margin would have been \$165.6 million for the nine month period ended December 26, 2015.

Selling, General and Administrative

| | Three Months Ended | | | | |
|----------------|-------------------------|----------------------|--------|--------|---|
| | December 31, 2016 | December 26, 2015 | \$ | % | |
| | | | Change | Change | |
| SG&A | \$25.7 | \$ 23.9 | \$ 1.8 | 7.8 | % |
| % of net sales | 17.5% | 16.5 | % | | |

SG&A expenses increased by \$1.8 million to \$25.7 million for the third quarter of fiscal 2017 compared to the same period last year. This increase was mainly driven by \$0.9 million of personnel related costs, \$0.4 million of additional stock compensation expense, \$0.2 million in professional fees and \$0.3 million of other items.

| | Nine Months Ended | | | | |
|----------------|-------------------------|----------------------|--------|--------|---|
| | December 31, 2016 | December 26, 2015 | \$ | % | |
| | | | Change | Change | |
| SG&A | \$76.7 | \$ 72.5 | \$ 4.2 | 5.8 | % |
| % of net sales | 16.8% | 16.7 | % | | |

SG&A increased as a percentage of net sales to 16.8% for the first nine months of fiscal 2017 from 16.7% for the same period last year. SG&A expenses increased by \$4.2 million to \$76.7 million for the first nine months of fiscal 2017 compared to the same period last year. This increase is primarily due to \$1.7 million of additional stock compensation, \$1.7 million of additional personnel related expenses and \$0.8 million of other items.

Other, Net

| | Three Months Ended | | | | |
|----------------|-------------------------|----------------------|--------|--------|---|
| | December 31, 2016 | December 26, 2015 | \$ | % | |
| | | | Change | Change | |
| Other, net | \$6.1 | \$ 2.6 | \$ 3.5 | 134.6 | % |
| % of net sales | 4.2% | 1.8 | % | | |

Other operating expenses for the third quarter of fiscal 2017 totaled \$6.1 million compared to \$2.6 million for the same period last year. For the third quarter of fiscal 2017 other operating expenses were comprised mainly of \$3.8 million of integration and restructuring costs and \$2.3 million of amortization of intangible assets. Other operating expenses last year consisted primarily of \$2.5 million in amortization of intangibles and \$0.1 million of other costs.

| | Nine Months Ended | | | |
|----------------|-------------------------|----------------------|--------------|-------------|
| | December 31, 2016 | December 26, 2015 | \$ Change | % Change |
| Other, net | \$10.4 | \$ 12.9 | \$ (2.5) | (19.5)% |
| % of net sales | 2.3 % | 3.0 % | | |

Other operating expenses for the first nine months of fiscal 2017 totaled \$10.4 million compared to \$12.9 million for the same period last year. For the first nine months of fiscal 2017 other operating expenses were comprised mainly of \$4.0 million of integration and restructuring costs and \$6.9 million in amortization of intangibles offset by \$0.5 million of other income. For the first nine months of fiscal 2016 other operating expenses were comprised primarily of \$6.6 million in amortization of intangibles, \$5.1 million of acquisition related costs, \$1.0 million in integration and restructuring costs and \$0.2 million in other costs.

Interest Expense, Net

| | Three Months Ended | | | |
|-----------------------|--------------------|-------------------|-----------|----------|
| | December 31, 2016 | December 26, 2015 | \$ Change | % Change |
| Interest expense, net | \$2.1 | \$ 2.2 | \$ (0.1) | (5.7)% |
| % of net sales | 1.4% | 1.6 % | | |

Interest expense, net, generally consists of interest charged on our credit facilities and amortization of deferred financing fees, offset by interest income (see “Liquidity and Capital Resources – Liquidity”, below). Interest expense, net was \$2.1 million for the third quarter of fiscal 2017 compared to \$2.2 million for the same period last year. The Company had total debt of \$294.9 million at December 31, 2016 compared to \$385.0 million at December 26, 2015.

| | Nine Months Ended | | | |
|-----------------------|-------------------|-------------------|-----------|----------|
| | December 31, 2016 | December 26, 2015 | \$ Change | % Change |
| Interest expense, net | \$6.7 | \$ 6.2 | \$ 0.5 | 7.0 % |
| % of net sales | 1.5% | 1.4 % | | |

Interest expense, net, generally consists of interest charged on our credit facilities and amortization of deferred financing fees, offset by interest income (see “Liquidity and Capital Resources – Liquidity”, below). Interest expense, net was \$6.7 million for the first nine months of fiscal 2017 compared to \$6.2 million for the same period last year. For the first nine months of fiscal 2017 interest expense, net consisted of interest expense of \$5.6 million and deferred debt fees of \$1.1 million.

Income Taxes

| | Three Months Ended | | | |
|---|-------------------------|--|----------------------|--|
| | December 31, 2016 | | December 26, 2015 | |
| Income tax expense (benefit) | \$ 5.9 | | \$ 7.8 | |
| Effective tax rate with discrete items | 31.5 % | | 31.5 % | |
| Effective tax rate without discrete items | 31.8 % | | 32.1 % | |

Income tax expense for the three month period ended December 31, 2016 was \$5.9 million compared to \$7.8 million for the three month period ended December 26, 2015. Our effective income tax rate for the three month period ended December 31, 2016 was 31.5% compared to 31.5% for the three month period ended December 26, 2015. The effective income tax rate for the three month period ended December 31, 2016 of 31.5% includes immaterial discrete expense of \$0.1 million substantially comprised of the reversal of unrecognized tax benefits associated with the expiration of the statute of limitations as well as the recognition of additional expense associated with the filing of the prior year federal and state tax returns. The effective income tax rate without discrete items for the three month period ended December 31, 2016 would have been 31.8%. The effective income tax rate for the three month period ended December 26, 2015 of 31.5% includes immaterial discrete expense of \$0.2 million which is substantially comprised of the recognition of benefits for federal law changes. The effective income tax rate without discrete items for the three month period ended December 26, 2015 would have been 32.1%.

| | Nine Months Ended | | | |
|---|-------------------------|--|----------------------|--|
| | December 31, 2016 | | December 26, 2015 | |
| Income tax expense (benefit) | \$ 23.6 | | \$ 21.9 | |
| Effective tax rate with discrete items | 32.5 % | | 32.7 % | |
| Effective tax rate without discrete items | 32.8 % | | 33.0 % | |

Income tax expense for the nine month period ended December 31, 2016 was \$23.6 million compared to \$21.9 million for the nine month period ended December 26, 2015. Our effective income tax rate for the nine month period ended December 31, 2016 was 32.5% compared to 32.7% for the nine month period ended December 26, 2015. The effective income tax rate for the nine month period ended December 31, 2016 of 32.5% includes immaterial discrete benefit of \$0.2 million comprised substantially of the reversal of unrecognized tax benefits associated with the expiration of the statute of limitations as well as the recognition of additional expense associated with the filing of the prior year federal and state tax returns. The effective income tax rate without discrete items for the nine month period ended December 31, 2016 would have been 32.8%. The effective income tax rate for the nine month period ended December 26, 2015 of 32.7% includes immaterial discrete benefit of \$0.2 million, comprised substantially of benefits from federal law changes, the reversals of unrecognized tax positions associated with the expiration of statutes of limitations and the recognition of interest on unrecognized tax positions. The effective income tax rate without discrete items for the nine month period ended December 26, 2015 would have been 33.0%.

Segment Information

We have four reportable product segments: Plain Bearings, Roller Bearings, Ball Bearings and Engineered Products. In fiscal 2016 we integrated the Sargent businesses into our Plain Bearings and Engineered Products segments (see Notes 8 and 9 of Notes to Unaudited Interim Consolidated Financial Statements). We use gross margin as the primary measurement to assess the financial performance of each reportable segment.

Plain Bearing Segment:

| | Three Months Ended | | | |
|-----------------|-------------------------|----------------------|--------------|-------------|
| | December 31, 2016 | December 26, 2015 | \$ Change | % Change |
| Total net sales | \$65.8 | \$ 64.2 | \$ 1.6 | 2.6 % |

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| | | | | | |
|------------------------|--------|---------|--------|------|---|
| Gross margin | \$26.8 | \$ 22.7 | \$ 4.1 | 18.2 | % |
| Gross margin % | 40.7% | 35.4 | % | | |
| SG&A | \$6.2 | \$ 4.8 | \$ 1.4 | 29.9 | % |
| % of segment net sales | 9.4 % | 7.4 | % | | |

Net sales increased \$1.6 million, or 2.6%, for the three months ended December 31, 2016 compared to the same period last year. The 2.6% increase was primarily driven by an increase of 4.9% in our aerospace markets offset by a decrease of 4.6% in the industrial markets. The increase in aerospace sales was mainly due to the commercial aerospace build rates. The decrease in industrial sales was driven by energy and general industrial OEM partly offset by distribution.

Gross margin as a percent of sales increased to 40.7% for the third quarter of fiscal 2017 compared to 35.4% for the same period last year. Excluding inventory purchase price adjustments associated with the Sargent acquisition of \$1.2 million, gross margin for the third quarter of fiscal 2016 would have been \$23.9 million, or 37.2% of sales. The increase was primarily due to cost efficiencies and favorable product mix.

| | Nine Months Ended | | | | |
|------------------------|-------------------|-------------------|--------|--------|---|
| | December 31, 2016 | December 26, 2015 | \$ | % | |
| | | | Change | Change | |
| Total net sales | \$205.1 | \$ 197.5 | \$ 7.6 | 3.9 | % |
| Gross margin | \$80.0 | \$ 75.4 | \$ 4.6 | 6.1 | % |
| Gross margin % | 39.0 % | 38.2 % | % | | |
| SG&A | \$18.0 | \$ 16.2 | \$ 1.8 | 11.5 | % |
| % of segment net sales | 8.8 % | 8.2 % | % | | |

Net sales increased \$7.6 million, or 3.9%, for the nine months ended December 31, 2016 compared to the same period last year. The 3.9% increase was primarily driven by an increase of 6.2% in our aerospace markets offset by a decrease of 2.8% in the industrial markets. The increase in aerospace sales was mainly due to the commercial aerospace build rates. The decrease in industrial sales was mostly driven by energy and general industrial OEM partly offset by distribution.

Gross margin as a percent of sales increased to 39.0% for the first nine months of fiscal 2017 compared to 38.2% for the same period last year. Excluding inventory purchase price adjustments associated with the Sargent acquisition of \$1.2 million, gross margin for the first nine months of fiscal 2016 would have been 76.6 million, or 38.8% of sales.

Roller Bearing Segment:

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| | Three Months Ended | | | |
|------------------------|--------------------|--------------|-----------|----------|
| | December | December 26, | \$ | % |
| | 31, | 2015 | Change | Change |
| | 2016 | | | |
| Total net sales | \$26.2 | \$ 26.3 | \$ (0.1) | (0.5)% |
| Gross margin | \$6.4 | \$ 11.5 | \$ (5.1) | (44.5)% |
| Gross margin % | 24.5 % | 43.8 % | % | |
| SG&A | \$1.5 | \$ 1.5 | \$ 0.0 | 2.5 % |
| % of segment net sales | 5.8 % | 5.6 % | % | |

Net sales decreased \$0.1 million, or 0.5%, for the three months ended December 31, 2016 compared to the same period last year. Our industrial markets decreased 7.2%, partly offset by increases in our aerospace markets of 5.2%. The decrease in industrial sales was primarily due to industrial OEM and aftermarket while the increases in aerospace were due to our commercial OEM markets.

Gross margin for the three months ended December 31, 2016 was \$6.4 million, or 24.5% of sales. Excluding the integration and restructuring charge during the period of \$3.2 million, gross margin would have been \$9.6 million, or 36.7% of sales compared to \$11.5 million, or 43.8% in the comparable period in fiscal 2016. This decrease in the gross margin percentage was primarily due to the impact of unfavorable product mix during the period.

| | Nine Months Ended | | | |
|------------------------|-------------------|-------------------|-----------|----------|
| | December 31, 2016 | December 26, 2015 | \$ Change | % Change |
| Total net sales | \$80.8 | \$ 84.0 | \$ (3.2) | (3.9)% |
| Gross margin | \$30.2 | \$ 35.8 | \$ (5.6) | (15.6)% |
| Gross margin % | 37.4% | 42.6 % | | |
| SG&A | \$4.5 | \$ 4.5 | \$ 0.0 | 0.7 % |
| % of segment net sales | 5.6 % | 5.3 % | | |

Net sales decreased \$3.2 million, or 3.9%, for the nine months ended December 31, 2016 compared to the same period last year. Our industrial markets decreased 15.3% while our aerospace markets increased by 7.5%. The decrease in industrial sales was primarily due to general industrial activity mainly in energy offset by our commercial aerospace markets.

Gross margin for the nine months ended December 31, 2016 was \$30.2 million, or 37.4% of sales. Excluding the integration and restructuring charges during the period of \$3.2 million, gross margin would have been \$33.4 million, or 41.3% of sales compared to \$35.8 million, or 42.6%, in the comparable period in fiscal 2016. This decrease in the gross margin percentage was primarily due to the impact unfavorable pricing and product mix.

Ball Bearing Segment:

| | Three Months Ended | | | |
|-----------------|--------------------|-------------------|-----------|----------|
| | December 31, 2016 | December 26, 2015 | \$ Change | % Change |
| Total net sales | \$13.7 | \$ 12.8 | \$ 0.9 | 6.6 % |
| Gross margin | \$5.3 | \$ 5.2 | \$ 0.1 | 2.6 % |

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| | | | | | |
|------------------------|-------|--------|---|--------|-------|
| Gross margin % | 38.9% | 40.5 | % | | |
| SG&A | \$1.4 | \$ 1.4 | | \$ 0.0 | 1.2 % |
| % of segment net sales | 10.1% | 10.6 | % | | |

Net sales increased \$0.9 million, or 6.6%, for the third quarter of fiscal 2017 compared to the same period last year. Our industrial markets increased 19.7% while aerospace markets decreased 18.2% during the period. The increase in industrial sales was a result of the industrial OEM and distribution mainly driven by semiconductor and general industrial markets while the decrease in aerospace sales was primarily driven by commercial aerospace OEM markets.

Gross margin as a percent of sales decreased to 38.9% for the third quarter of fiscal 2017 compared to 40.5% for the same period last year. The decrease was primarily due to unfavorable product mix.

| | Nine Months Ended | | \$ | % | |
|------------------------|-------------------|-------------------|--------|-----|---|
| | December 31, 2016 | December 26, 2015 | | | |
| Total net sales | \$42.0 | \$ 38.8 | \$ 3.2 | 8.2 | % |
| Gross margin | \$15.8 | \$ 15.7 | \$ 0.1 | 0.9 | % |
| Gross margin % | 37.7% | 40.4 | % | | |
| SG&A | \$4.2 | \$ 4.1 | \$ 0.1 | 1.4 | % |
| % of segment net sales | 9.9 % | 10.6 | % | | |

Net sales increased \$3.2 million, or 8.2%, for the nine months ended December 31, 2016 compared to the same period last year. Our aerospace markets decreased 6.5% while our industrial markets increased 16.1%. The 6.5% decrease in aerospace sales was primarily driven by the commercial aerospace OEM market, while the increase in industrial sales was a result of the industrial OEM and distribution mainly driven by semiconductor and general industrial markets.

Gross margin as a percent of sales decreased to 37.7% for the nine months ended December 31, 2016 compared to 40.4% for the same period last year. The decrease was primarily due to unfavorable product mix.

Engineered Products Segment:

| | Three Months Ended | | \$ | % | |
|------------------------|--------------------|-------------------|-----------|---------|---|
| | December 31, 2016 | December 26, 2015 | | | |
| Total net sales | \$41.0 | \$ 40.9 | \$ 0.1 | 0.2 | % |
| Gross margin | \$13.8 | \$ 14.1 | \$ (0.3) | (1.9) | % |
| Gross margin % | 33.8% | 34.5 | % | | |
| SG&A | \$4.5 | \$ 5.3 | \$ (0.8) | (14.6) | % |
| % of segment net sales | 11.1 % | 13.0 | % | | |

Net sales increased \$0.1 million, or 0.2%, for the third quarter of fiscal 2017 compared to the same period last year. Our aerospace markets decreased 4.2% while our industrial markets increased 10.0%. The decrease in aerospace sales was mainly due to the commercial OEM markets. The increase in industrial sales was driven by marine activity.

Gross margin as a percent of sales decreased to 33.8% for the third quarter of fiscal 2017 compared to 34.5% for the same period last year driven by unfavorable product mix.

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| | Nine Months Ended | | \$ | % | |
|------------------------|-------------------|-------------------|---------|------|---|
| | December 31, 2016 | December 26, 2015 | | | |
| Total net sales | \$ 127.3 | \$ 115.0 | \$ 12.3 | 10.8 | % |
| Gross margin | \$ 40.4 | \$ 31.6 | \$ 8.8 | 28.0 | % |
| Gross margin % | 31.7 % | 27.5 % | | | |
| SG&A | \$ 13.8 | \$ 13.4 | \$ 0.4 | 3.0 | % |
| % of segment net sales | 10.9 % | 11.7 % | | | |

Net sales increased \$12.3 million, or 10.8%, for the nine months ended December 31, 2016 compared to the same period last year. Our aerospace markets increased 4.3% while our industrial markets increased 27.2%. The increase in aerospace sales was mainly due to the commercial aerospace OEM market. The increase in industrial sales was driven by marine and European collet activity.

Gross margin as a percent of sales increased to 31.7% for the nine months ended December 31, 2016 compared to 27.5% for the same period last year, mainly due to cost efficiencies during the period.

Corporate:

| | Three Months Ended | | \$ | % | |
|----------------------|--------------------|-------------------|--------|------|---|
| | December 31, 2016 | December 26, 2015 | | | |
| SG&A | \$ 12.1 | \$ 10.9 | \$ 1.2 | 10.6 | % |
| % of total net sales | 8.2 % | 7.6 % | | | |

| | Nine Months Ended | | \$ | % | |
|----------------------|-------------------|-------------------|--------|-----|---|
| | December 31, 2016 | December 26, 2015 | | | |
| SG&A | \$ 36.2 | \$ 34.4 | \$ 1.8 | 5.3 | % |
| % of total net sales | 8.0 % | 7.9 % | | | |

Corporate SG&A increased for both the third quarter and first nine months of fiscal 2017 compared to the same periods last year. This was primarily due to an increase in stock compensation expenses.

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.

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.

Liquidity

As of December 31, 2016, we had cash and cash equivalents of \$39.5 million of which approximately \$29.0 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.

The Credit Facility

In connection with the Sargent acquisition on April 24, 2015, the Company entered into the Credit Agreement and related Guarantee, Pledge Agreement and Security Agreement with Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent, Swingline Lender and Letter of Credit Issuer and the other lenders party thereto and terminated the JP Morgan Credit Agreement. The Credit Agreement provides RBCA, as Borrower, with (a) a \$200 million Term Loan and (b) a \$350 million Revolver and together with the Term Loan (the "Facilities").

Amounts outstanding under the Facilities generally bear interest at (a) a base rate determined by reference to the higher of (1) Wells Fargo's prime lending rate, (2) the federal funds effective rate plus ½ of 1% and (3) the one-month LIBOR rate plus 1% or (b) LIBOR rate plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on the Company's consolidated ratio of total net debt to consolidated EBITDA from time to time. Currently, our margin is 0.5% for base rate loans and 1.5% for LIBOR rate loans. As of December 31, 2016, there was \$107.5 million outstanding under the Revolver and \$185.0 million outstanding under the Term Loan, offset by \$4.7 million in debt issuance costs (original amount was \$7.1 million).

The 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 3.50 to 1; and (2) a consolidated interest coverage ratio not to exceed 2.75 to 1. The New 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 agreement. As of December 31, 2016, we were in compliance with all such covenants.

Our obligations under the Credit Agreement are secured as well as providing for a pledge of substantially all of our assets. We and certain of our subsidiaries have also entered into a Guarantee to guarantee our obligations under the Credit Agreement.

Approximately \$3.7 million of the Revolver is being utilized to provide letters of credit to secure RBCA's obligations relating to certain insurance programs. As of December 31, 2016, RBCA has the ability to borrow up to an additional \$238.8 million under the Revolver.

Other Notes Payable

On October 1, 2012, Schaublin purchased the land and building, which it occupied and had been leasing, for 14.1 million CHF (approximately \$14.9 million). Schaublin obtained a 20 year fixed rate mortgage of 9.3 million CHF (approximately \$9.9 million) at an interest rate of 2.9%. The balance of the purchase price of 4.8 million CHF (approximately \$5.1 million) was paid from cash on hand. The balance on this mortgage as of December 31, 2016 was 7.3 million CHF, or \$7.2 million.

Cash Flows

Nine Month Period Ended December 31, 2016 Compared to the Nine Month Period Ended December 26, 2015

The following table summarizes our cash flow activities:

| | FY17 | FY16 | \$ Change |
|---|--------|-----------|-----------|
| Net cash provided by (used in): | | | |
| Operating activities | \$74.6 | \$61.8 | \$ 12.8 |
| Investing activities | (14.9) | (514.6) | 499.7 |
| Financing activities | (57.7) | 371.1 | (428.8) |
| Effect of exchange rate changes on cash | (1.7) | 0.6 | (2.3) |
| Decrease in cash and cash equivalents | \$0.3 | \$(81.1) | \$ 81.4 |

During fiscal 2017 we generated cash of \$74.6 million from operating activities compared to generating cash of \$61.8 million for fiscal 2016. The increase of \$12.8 million for fiscal 2017 was mainly a result of the favorable impact of the net change in operating assets and liabilities of \$2.7 million, an increase in net income of \$4.1 million and non-cash charges of \$6.0 million. The favorable change in operating assets and liabilities was primarily the result of a decrease in the amount of cash being used for working capital items as detailed in the table below, while the non-cash charges were primarily driven by a decrease in the excess tax impact from stock-based compensation of \$2.4 million offset by an increased loss on disposal of assets of \$2.4 million, impairment charges of \$1.4 million, an increase in deferred income taxes of \$1.8 million, increased stock compensation of \$1.7 million and increased depreciation of \$1.0 million.

The following chart summarizes the favorable change in operating assets and liabilities of \$2.7 million for fiscal 2017 versus fiscal 2016 and \$(7.9) million for fiscal 2016 versus fiscal 2015.

| | FY17 | FY16 |
|---|----------|---------|
| Cash provided by (used in): | | |
| Accounts receivable | \$(6.9) | \$2.9 |
| Inventory | 14.0 | (8.3) |
| Prepaid expenses and other current assets | (2.2) | (1.0) |
| Other non-current assets | (1.0) | 0.9 |
| Accounts payable | 5.0 | (2.5) |
| Accrued expenses and other current liabilities | 1.6 | (6.9) |
| Other non-current liabilities | (7.8) | 7.0 |
| Total change in operating assets and liabilities: | \$2.7 | \$(7.9) |

During fiscal 2017, we used \$14.9 million for investing activities as compared to \$514.6 million for fiscal 2016. The decrease of cash used in investing activities of \$499.7 million is primarily attributable to the \$500.0 million used to finance the acquisition of Sargent.

During fiscal 2017, we used \$57.7 million from financing activities compared to generating \$371.1 million for fiscal 2016. This decrease in cash generated was primarily attributable to the \$225.0 million revolving credit facility and \$200.0 million proceeds from the term loan associated with the acquisition of Sargent in the first quarter of fiscal 2016.

Capital Expenditures

Our capital expenditures were \$14.4 million for the nine month period ended December 31, 2016. In addition, we expect to make additional capital expenditures of \$5.0 to \$7.0 million during the fourth quarter fiscal 2017 in connection with our existing business. We expect to fund fiscal 2017 capital expenditures principally through existing cash, internally generated funds and debt. 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 December 31, 2016:

| Contractual Obligations⁽¹⁾ | Payments Due By Period | | | | |
|--|-------------------------------|-----------------------------|-------------------------|-------------------------|----------------------------------|
| | Total | Less than 1 Year | 1 to 3 Years | 3 to 5 Years | More than 5 Years |
| | (in thousands) | | | | |
| Total debt | \$299,691 | \$ 12,957 | \$40,914 | \$240,914 | \$4,906 |
| Operating leases | 17,812 | 5,556 | 7,638 | 3,368 | 1,250 |
| Interest on debt ⁽²⁾ | 20,563 | 6,028 | 11,048 | 2,707 | 780 |
| Pension and postretirement benefits | 19,055 | 1,826 | 3,788 | 3,895 | 9,546 |
| Total contractual cash obligations | \$357,121 | \$ 26,367 | \$63,388 | \$250,884 | \$16,482 |

We cannot make a reasonably reliable estimate of when the unrecognized tax liability of \$13.8 million, which (1) includes interest and penalties, and is offset by deferred tax assets, will be paid to the respective taxing authorities.

These obligations are therefore excluded from the above table.

(2) These amounts represent expected cash payments of interest on our variable rate long-term debt under our Facilities at the prevailing interest rates at December 31, 2016.

Other Matters

Critical Accounting Policies and Estimates

Revenue Recognition. See page 7 in Notes to Unaudited Interim Consolidated Financial Statements.

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 the Notes to the Consolidated Financial Statements in our fiscal 2016 Annual Report, incorporated by reference in our fiscal 2016 Form 10-K, describe the significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in our critical accounting estimates during the first nine months of fiscal 2017.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rates. We currently have variable rate debt outstanding under the credit agreement. We regularly evaluate the impact of interest rate changes on our net income and cash flow and take action to limit our exposure when appropriate.

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, the Polish Zloty and the Canadian Dollar. Our Swiss operations utilize the Swiss Franc as the functional currency, our French and German operations utilize the Euro as the functional currency, our Polish operations utilize the Polish Zloty as the functional currency and our Canadian operations utilize the Canadian Dollar as the functional currency. Foreign currency transaction gains and losses are included in earnings. Approximately 11% of our net sales were impacted by foreign currency fluctuations in the first nine months of both fiscal 2017 and fiscal 2016. 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 December 31, 2016, we had no derivatives.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

ITEM 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of December 31, 2016. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2016, our disclosure controls and procedures were (1) designed to ensure that information relating to our Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported to our Chief Executive Officer and Chief Financial Officer within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, and (2) effective, in that they provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the nine month period ended December 31, 2016 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, including those discussed below, either individually or in the aggregate, is likely to have a material adverse effect on our business, financial condition, operating results, cash flow or prospects.

ITEM 1A. Risk Factors

There have been no material changes to our risk factors and uncertainties during the nine month period ended December 31, 2016. For a discussion of the Risk Factors, refer to Part I, Item 2, "Cautionary Statement As To Forward-Looking Information," contained in this report and Part I, Item 1A, "Risk Factors," contained in the Company's Annual Report on Form 10-K for the period ended April 2, 2016.

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 February 7, 2013, our board of directors authorized us to repurchase up to \$50.0 million of our common stock, from time to time on the open market, in block trade transactions and through privately negotiated transactions in compliance with Securities and Exchange Commission Rule 10b-18 depending on market conditions, alternative uses of capital and other relevant factors. Purchases may be commenced, suspended, or discontinued at any time without prior notice.

Total share repurchases for the three months ended December 31, 2016 are as follows:

| Period | Total number of shares Purchased | Average price paid per share | Number of shares purchased as part of the publicly announced program | Approximate dollar value of shares still available to be purchased under the program (000's) |
|-------------------------|----------------------------------|------------------------------|--|---|
| 10/2/2016 – 10/29/2016 | 11,571 | \$ 77.20 | 11,571 | \$ 26,165 |
| 10/30/2016 – 11/26/2016 | — | — | — | 26,165 |
| 11/27/2016 – 12/31/2016 | 3,916 | 83.30 | 3,916 | \$ 25,838 |
| Total | 15,487 | \$ 78.74 | 15,487 | |

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

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).* |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

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

SIGNATURES

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

RBC Bearings Incorporated
(Registrant)

By: /s/ Michael J. Hartnett
Name: Michael J. Hartnett
Title: Chief Executive Officer
Date: February 8, 2017

By: /s/ Daniel A. Bergeron
Name: Daniel A. Bergeron
Title: Chief Financial Officer
Date: February 8, 2017

EXHIBIT INDEX

| Exhibit Number | Exhibit Description |
|-----------------------|--|
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| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

* 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.