

RBC Bearings INC  
Form 10-Q  
February 08, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

# FORM 10-Q

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

**For the quarterly period ended December 30, 2006**

**OR**

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934



For the transition period from to .





**Commission File Number: 333-124824**







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

**Delaware**  
(State or other jurisdiction of incorporation or organization)

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

**One Tribology Center**  
**Oxford, CT 06478**  
(Address of principal executive offices)

**06478**  
(Zip Code)

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

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

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

Large Accelerated filer  Accelerated filer  Non-accelerated filer

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 February 1, 2007, RBC Bearings Incorporated had 21,237,287 shares of Class A 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 30, 2006<br>(Unaudited) | April 1, 2006 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|---------------|
| <b>ASSETS</b>                                                                                                                                                |                                  |               |
| Current assets:                                                                                                                                              |                                  |               |
| Cash                                                                                                                                                         | \$ 13,456                        | \$ 16,126     |
| Accounts receivable, net of allowance for doubtful accounts of \$766 at December 30, 2006 and \$838 at April 1, 2006                                         | 51,824                           | 50,935        |
| Inventory                                                                                                                                                    | 103,277                          | 103,148       |
| Deferred income taxes                                                                                                                                        | 5,716                            | 5,412         |
| Prepaid expenses and other current assets                                                                                                                    | 2,916                            | 2,453         |
| Total current assets                                                                                                                                         | 177,189                          | 178,074       |
| Property, plant and equipment, net                                                                                                                           | 57,655                           | 58,028        |
| Goodwill                                                                                                                                                     | 29,839                           | 25,150        |
| Intangible assets, net of accumulated amortization of \$2,154 at December 30, 2006 and \$1,616 at April 1, 2006                                              | 6,917                            | 3,981         |
| Deferred financing costs, net of accumulated amortization of \$348 at December 30, 2006 and \$1,269 at April 1, 2006                                         | 1,254                            | 4,233         |
| Deferred income taxes                                                                                                                                        |                                  | 4,616         |
| Other assets                                                                                                                                                 | 1,932                            | 1,841         |
| Total assets                                                                                                                                                 | \$ 274,786                       | \$ 275,923    |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                                                                                                   |                                  |               |
| Current liabilities:                                                                                                                                         |                                  |               |
| Accounts payable                                                                                                                                             | \$ 20,670                        | \$ 19,436     |
| Accrued expenses and other current liabilities                                                                                                               | 10,227                           | 8,572         |
| Current portion of long-term debt                                                                                                                            | 2,568                            | 3,217         |
| Capital lease obligations                                                                                                                                    | 210                              | 237           |
| Total current liabilities                                                                                                                                    | 33,675                           | 31,462        |
| Long-term debt, less current portion                                                                                                                         | 70,113                           | 162,530       |
| Capital lease obligations, less current portion                                                                                                              | 496                              | 170           |
| Deferred income taxes                                                                                                                                        | 2,871                            |               |
| Other non-current liabilities                                                                                                                                | 7,811                            | 8,421         |
| Total liabilities                                                                                                                                            | 114,966                          | 202,583       |
| Stockholders' equity:                                                                                                                                        |                                  |               |
| Common Stock, \$.01 par value; authorized shares: 60,000,000; issued and outstanding shares: 20,684,150 at December 30, 2006 and 16,976,381 at April 1, 2006 | 206                              | 170           |
| Additional paid-in capital                                                                                                                                   | 167,167                          | 103,317       |
| Accumulated other comprehensive loss                                                                                                                         | (2,559)                          | (3,392)       |
| Accumulated deficit                                                                                                                                          | (4,994)                          | (26,755)      |
| Total stockholders' equity                                                                                                                                   | 159,820                          | 73,340        |
| Total liabilities and stockholders' equity                                                                                                                   | \$ 274,786                       | \$ 275,923    |

See accompanying notes.





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

|                                                                   | Three Months Ended<br>December 30,<br>2006 | December 31,<br>2005 | Nine Months Ended<br>December 30,<br>2006 | December 31,<br>2005 |
|-------------------------------------------------------------------|--------------------------------------------|----------------------|-------------------------------------------|----------------------|
| Net sales                                                         | \$ 76,544                                  | \$ 67,390            | \$ 225,023                                | \$ 198,758           |
| Cost of sales                                                     | 52,001                                     | 47,029               | 153,468                                   | 139,134              |
| Gross margin                                                      | 24,543                                     | 20,361               | 71,555                                    | 59,624               |
| Operating expenses:                                               |                                            |                      |                                           |                      |
| Selling, general and administrative                               | 10,762                                     | 9,203                | 30,999                                    | 32,325               |
| Other, net                                                        | (552 )                                     | 370                  | 115                                       | 1,020                |
| Total operating expenses                                          | 10,210                                     | 9,573                | 31,114                                    | 33,345               |
| Operating income                                                  | 14,333                                     | 10,788               | 40,441                                    | 26,279               |
| Interest expense, net                                             | 1,225                                      | 2,978                | 4,590                                     | 12,582               |
| Loss on early extinguishment of debt                              |                                            |                      | 3,576                                     | 3,771                |
| Other non-operating expense (income)                              | (1,227 )                                   |                      | (1,227 )                                  |                      |
| Income before income taxes                                        | 14,335                                     | 7,810                | 33,502                                    | 9,926                |
| Provision for income taxes                                        | 4,976                                      | 2,711                | 11,741                                    | 3,442                |
| Net income                                                        | 9,359                                      | 5,099                | 21,761                                    | 6,484                |
| Preferred stock dividends                                         |                                            |                      |                                           | (893 )               |
| Participation rights of preferred stock in undistributed earnings |                                            |                      |                                           | (630 )               |
| Net income available to common stockholders                       | \$ 9,359                                   | \$ 5,099             | \$ 21,761                                 | \$ 4,961             |
| Net income per common share:                                      |                                            |                      |                                           |                      |
| Basic                                                             | \$ 0.45                                    | \$ 0.31              | \$ 1.07                                   | \$ 0.43              |
| Diluted                                                           | \$ 0.44                                    | \$ 0.29              | \$ 1.03                                   | \$ 0.37              |
| Weighted average common shares:                                   |                                            |                      |                                           |                      |
| Basic                                                             | 20,573,670                                 | 16,546,681           | 20,319,173                                | 11,649,073           |
| Diluted                                                           | 21,439,491                                 | 17,676,227           | 21,149,868                                | 13,307,181           |

See accompanying notes.

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

|                                                                                   | Nine Months Ended<br>December 30,<br>2006 | December 31,<br>2005 |
|-----------------------------------------------------------------------------------|-------------------------------------------|----------------------|
| <b>Cash flows from operating activities:</b>                                      |                                           |                      |
| Net income                                                                        | \$ 21,761                                 | \$ 6,484             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                           |                      |
| Depreciation                                                                      | 6,994                                     | 6,641                |
| Deferred income taxes                                                             | 7,173                                     | 2,870                |
| Amortization of intangible assets                                                 | 537                                       | 497                  |
| Non-cash stock-based compensation                                                 | 511                                       | 207                  |
| Amortization of deferred financing costs and debt discount                        | 292                                       | 642                  |
| Loss (gain) on disposition of assets                                              | (658 )                                    | 30                   |
| Loss on early extinguishment of debt (non-cash portion)                           | 3,576                                     | 1,536                |
| Other                                                                             | 16                                        | 12                   |
| Changes in operating assets and liabilities, net of acquisitions:                 |                                           |                      |
| Accounts receivable                                                               | 1,565                                     | 7,011                |
| Inventory                                                                         | 2,179                                     | (9,859 )             |
| Prepaid expenses and other current assets                                         | (404 )                                    | 373                  |
| Other non-current assets                                                          | (1,830 )                                  | (119 )               |
| Accounts payable                                                                  | 292                                       | (1,006 )             |
| Accrued expenses and other current liabilities                                    | 352                                       | (3,186 )             |
| Other non-current liabilities                                                     | (156 )                                    | 1,031                |
| Net cash provided by operating activities                                         | 42,200                                    | 13,164               |
| <b>Cash flows from investing activities:</b>                                      |                                           |                      |
| Purchase of property, plant and equipment                                         | (8,031 )                                  | (7,772 )             |
| Acquisition of business                                                           | (8,753 )                                  | (2,602 )             |
| Proceeds from sale of equipment                                                   | 3,517                                     | 27                   |
| Net cash used in investing activities                                             | (13,267 )                                 | (10,347 )            |
| <b>Cash flows from financing activities:</b>                                      |                                           |                      |
| Increase (decrease) in revolving credit facility                                  | 52,000                                    | (5,000 )             |
| Proceeds from sale of stock                                                       | 57,824                                    | 92,128               |
| Redemption of Class C redeemable preferred stock                                  |                                           | (30,630 )            |
| Redemption of Class D preferred stock                                             |                                           | (4,000 )             |
| Exercise of stock options and warrants                                            | 1,144                                     | 285                  |
| Excess tax benefits from stock-based compensation                                 | 4,406                                     |                      |
| Proceeds from term loans                                                          |                                           | 41,100               |
| Retirement of debt                                                                |                                           | (83,562 )            |
| Payments on term loans                                                            | (146,297 )                                | (3,703 )             |
| Principal payments on capital lease obligations                                   | (235 )                                    | (190 )               |
| Financing fees paid in connection with senior credit facility                     | (889 )                                    | (1,312 )             |
| Net cash (used in) provided by financing activities                               | (32,047 )                                 | 5,116                |
| Effect of exchange rate changes on cash                                           | 444                                       | (256 )               |
| <b>Cash and cash equivalents:</b>                                                 |                                           |                      |
| Increase (decrease) during the period                                             | (2,670 )                                  | 7,677                |
| Cash, at beginning of period                                                      | 16,126                                    | 2,635                |
| Cash, at end of period                                                            | \$ 13,456                                 | \$ 10,312            |
| <b>Supplemental disclosures of cash flow information:</b>                         |                                           |                      |
| Cash paid during the period for:                                                  |                                           |                      |

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|                        |    |       |    |        |
|------------------------|----|-------|----|--------|
| Interest               | \$ | 5,234 | \$ | 14,066 |
| Income taxes (refunds) | \$ | (79 ) | \$ | 886    |

See accompanying notes.

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**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 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 1, 2006.

The consolidated financial statements include the accounts of RBC Bearings Incorporated, Roller Bearing Company of America, Inc. (RBCA) and its wholly-owned subsidiaries, Industrial Tectonics Bearings Corporation (ITB), RBC Linear Precision Products, Inc. (LPP), RBC Nice Bearings, Inc. (Nice), RBC Precision Products - Bremen, Inc. (Miller), RBC Precision Products - Plymouth Inc. (Bremen), Tyson Bearings, Inc. (Tyson), Schaublin Holding, S.A. and its wholly-owned subsidiaries (Schaublin), RBC de Mexico S DE RL DE CV (Mexico), RBC Oklahoma, Inc. (RBC Oklahoma), RBC Aircraft Products, Inc. (API), Shanghai Representative Office of Roller Bearing Company of America, Inc. (RBC Shanghai), RBC Southwest Products, Inc. (SWP) and All Power Manufacturing Co. (All Power) as well as its Transport Dynamics (TDC), Heim (Heim), and Engineered Components (ECD) divisions. U.S. Bearings (USB) is a division of SWP and Schaublin USA is a division of Nice. All material intercompany balances and transactions have been eliminated in consolidation.

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

The Company operates in four reportable business segments roller bearings, plain bearings, ball bearings, other and corporate in which it manufactures roller bearing components and assembled parts and designs and manufactures high-precision roller and ball bearings. The Company sells to a wide variety of original equipment manufacturers (OEMs) and distributors who are widely dispersed geographically.

The results of operations for the three month and nine month periods ended December 30, 2006 are not necessarily indicative of the operating results for the full year. The amounts shown are in thousands, unless otherwise indicated.

*Recent Accounting Pronouncements*

In June 2006, the Financial Accounting Standards Board (FASB) issued SFAS Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition. FIN 48 is effective for financial statements issued for fiscal years beginning after December 15, 2006. The Company has not completed its analysis of the potential impact of FIN 48 on its financial statements, but it is not expected to have a material effect.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158 requires the employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement is effective for fiscal years ending after December 15, 2006. The Company is currently evaluating the impact this statement will have on its financial statements upon adoption.

### **1. Acquisition**

On September 12, 2006, the Company acquired All Power, a manufacturer of highly-engineered precision plain, roller and ball bearings for the industrial, defense and aerospace industries, for approximately \$9,926. The purchase price included approximately \$8,753 in cash, a \$750 note payable and approximately \$423 in transaction expenses. As a result of the acquisition, the Company recorded intangible assets of approximately \$3,672 and goodwill of approximately \$2,958.

The products associated with the acquisition are complementary with products already provided by other Company businesses. All Power, which is located in Santa Fe Springs, California, is included in the plain bearings reportable segment.

### **2. Secondary Offering**

On April 18, 2006, pursuant to a purchase agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, KeyBanc Capital Markets and Robert W. Baird & Co., the Company, along with certain of its stockholders, sold 8,989,550 shares of its common stock (5,995,529 sold by certain of the Company's stockholders). The offering yielded the Company aggregate net proceeds of \$57,824 after payment of the underwriting discount, commissions and offering expenses. The full amount of the net proceeds were used to prepay outstanding balances under the Amended Term Loan.

### **3. Net Income Per Common Share**

Basic net income per common share is computed by dividing net income available to common stockholders (both Class A and Class B common stockholders shared equally in net income) by the weighted-average number of common shares outstanding. Prior to August 15, 2005, the Company also had outstanding Class B convertible participating preferred stock (the Class B preferred stock participated in all undistributed earnings with the common stock). The Company allocated earnings to the common stockholders and the Class B convertible participating preferred stockholders under the two-class method as required by Emerging Issues Task Force Issue No. 03-6, *Participating Securities and the Two-Class Method* under SFAS Statement No. 128. The two-class method is an earnings allocation method under which basic net income per share is calculated for the Company's common stock and its Class B convertible participating preferred stock considering both accrued preferred stock dividends and participation rights in undistributed earnings as if all such earnings had been distributed during the year. Since the Company's Class B convertible participating preferred stock was not contractually responsible to share in the Company's losses, in applying the two-class method to compute basic net income per common share, no allocation was made to the Class B preferred stock if a net loss existed or if an undistributed net loss resulted from reducing net income by the accrued preferred stock dividends.

Diluted net income per common share is computed by dividing net income by the sum of the weighted-average number of common shares, dilutive common share equivalents then outstanding using the treasury stock method and, prior to August 15, 2005, the assumed conversion of the Class B convertible participating preferred stock to common shares (if-converted method). If the if-converted method was anti-dilutive

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(that is, the if-converted method resulted in a higher net income per common share amount than basic net income per share calculated under the two-class method), then the two-class method was used to compute diluted net income per common share, including the effect of common share equivalents. Common share equivalents consist of the incremental common shares issuable upon the exercise of stock options and warrants.

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

|                                                                                                                                       | Three Months Ended   |                      | Nine Months Ended    |                      |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                                                                                                                       | December 30,<br>2006 | December 31,<br>2005 | December 30,<br>2006 | December 31,<br>2005 |
| <b>Numerator:</b>                                                                                                                     |                      |                      |                      |                      |
| Net income                                                                                                                            | \$ 9,359             | \$ 5,099             | \$ 21,761            | \$ 6,484             |
| Preferred stock dividends                                                                                                             |                      |                      |                      | (893 )               |
| Participation rights of preferred stock in undistributed earnings                                                                     |                      |                      |                      | (630 )               |
| Numerator for basic and diluted net income per common share income available to common stockholders under the two-class method        | 9,359                | 5,099                | 21,761               | 4,961                |
| Preferred stock dividends and participation rights of preferred stock                                                                 |                      |                      |                      | 1,523                |
| Numerator for diluted net income per common share income available to common stockholders after assumed conversion of preferred stock | \$ 9,359             | \$ 5,099             | \$ 21,761            | \$ 6,484             |
| <b>Denominator:</b>                                                                                                                   |                      |                      |                      |                      |
| Denominator for basic net income per common share weighted-average shares                                                             | 20,573,670           | 16,546,681           | 20,319,173           | 11,649,073           |
| Effect of dilution due to employee stock options and warrants                                                                         | 865,821              | 1,129,546            | 830,695              | 785,636              |
| Effect of dilution due to convertible preferred stock                                                                                 |                      |                      |                      | 872,472              |
| Denominator for diluted net income per common share adjusted weighted-average shares                                                  | 21,439,491           | 17,676,227           | 21,149,868           | 13,307,181           |
| Basic net income per common share                                                                                                     | \$ 0.45              | \$ 0.31              | \$ 1.07              | \$ 0.43              |
| Diluted net income per common share                                                                                                   | \$ 0.44              | \$ 0.29              | \$ 1.03              | \$ 0.37              |

#### 4. Inventory

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

|                 | December 30,<br>2006 |         | April 1,<br>2006 |         |
|-----------------|----------------------|---------|------------------|---------|
| Raw materials   | \$                   | 8,398   | \$               | 7,845   |
| Work in process |                      | 31,012  |                  | 30,147  |
| Finished goods  |                      | 63,867  |                  | 65,156  |
|                 | \$                   | 103,277 | \$               | 103,148 |

In November 2004, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company has adopted



SFAS No. 151 in fiscal 2007. This adoption did not have a material impact on the consolidated financial position, results of operations or cash flows of the Company.

## 5. Comprehensive Income

The components of comprehensive income that relate to the Company are net income, foreign currency translation adjustments and minimum pension liability. Total comprehensive income is as follows:

|                                          | Three Months Ended |                   | Nine Months Ended |                   |
|------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                          | December 30, 2006  | December 31, 2005 | December 30, 2006 | December 31, 2005 |
| Net income                               | \$ 9,359           | \$ 5,099          | \$ 21,761         | \$ 6,484          |
| Foreign currency translation adjustments | 431                | 49                | 833               | (588)             |
| Minimum pension liability                |                    |                   |                   | (412)             |
| Total comprehensive income               | \$ 9,790           | \$ 5,148          | \$ 22,594         | \$ 5,484          |

## 6. Stock-Based Compensation

### 1998 Stock Option Plan

Effective February 18, 1998, the Company adopted the RBC Bearings Incorporated (f/k/a Roller Bearing Holding Company, Inc.) 1998 Stock Option Plan. The terms of the 1998 option plan provide for the grant of options to purchase up to 8,413,900 shares of common stock to officers and employees of, and consultants (including members of the board of directors) to, the Company and its subsidiaries. Options granted may be either incentive stock options (under Section 422 of the Internal Revenue Code) or non-qualified stock options. The 1998 option plan, which expires on December 31, 2008, is to be governed by the Company's board of directors or a committee to which the board delegates its responsibilities. As of December 30, 2006, there were outstanding options to purchase 113,000 shares of common stock granted under the 1998 option plan, all of which were exercisable. As of August 15, 2005, the 1998 Stock Option Plan has been frozen and no additional stock options will be awarded pursuant to the plan.

### 2001 Stock Option Plan

The RBC Bearings Incorporated (f/k/a Roller Bearing Holding Company, Inc.) 2001 Stock Option Plan was adopted in fiscal 2002 and amended and restated on October 24, 2003. The terms of the 2001 option plan provide for the grant of options to purchase up to 1,008,553 shares of common stock to officers and employees of, and consultants (including members of the board of directors) to, the Company and its subsidiaries selected by the CEO to participate in the plan. Options granted may be either incentive stock options (under Section 422 of the Internal Revenue Code) or non-qualified stock options. The 2001 option plan, which expires in July 2011, is to be governed by the Company's board of directors or a committee to which the board of directors delegates its responsibilities. As of December 30, 2006, there were outstanding options to purchase 363,242 shares of common stock granted under the 2001 option plan, all of which were exercisable. As of August 15, 2005, the 2001 Stock Option Plan has been frozen and no additional stock options will be awarded pursuant to the plan.



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

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

As of December 30, 2006, 1,639,170 shares of common stock were authorized for issuance under the plan, subject to adjustment in the event of a reorganization, stock split, merger or similar change in the Company's corporate structure or in the outstanding shares of common stock. Of this amount, 683,502 options were awarded to the Company's CEO at the time of the Company's initial public offering in August 2005 at the offering price of \$14.50 per share and the remainder has been reserved for grants to the Company's employees at the discretion of the Company's compensation committee. The Company may grant shares of restricted stock to its employees and directors in the future under the plan. The Company's compensation committee administers the plan. The Company's board of directors also has the authority to administer the plan and to take all actions that the compensation committee is otherwise authorized to take under the plan. The terms and conditions of each award made under the plan, including vesting requirements, is set forth in a written agreement with the grantee.

*Stock Options.* Under the 2005 Long-Term Incentive Plan, the compensation committee or the board may approve the award of grants of incentive stock options and other non-qualified stock options. The compensation committee also has the authority to approve the grant of options that will become fully vested and exercisable automatically upon a change in control. The compensation committee may not, however, approve an award to any one person in any calendar year options to purchase common stock equal to more than 10% of the total number of shares authorized under the plan (other than the initial award to the Company's CEO discussed above), and it may not approve an award of incentive options first exercisable in any calendar year whose underlying shares have a fair market value greater than \$100,000 determined at the time of grant. As of December 30, 2006, there were outstanding options to purchase 1,029,002 shares of common stock granted under the 2005 plan, of which 696,002 were exercisable.

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

*Restricted Stock.* Under the 2005 Long-Term Incentive Plan, the compensation committee may approve the award of restricted stock subject to the conditions and restrictions, and for the duration that it determines in its discretion. As of December 30, 2006, there were restricted stock awards of 75,175 shares of common stock granted under the 2005 plan, 733 of which are vested.

*Stock Appreciation Rights.* The compensation committee may approve the grant of stock appreciation rights, or SARs, subject to the terms and conditions contained in the plan. Under the 2005 Long-Term Incentive Plan, the exercise price of a SAR must equal the fair market value of a share of the Company's common stock on the date the SAR was granted. Upon exercise of a SAR, the grantee will receive an amount in shares of the Company's common stock equal to the difference between the fair market value of a

share of common stock on the date of exercise and the exercise price of the SAR, multiplied by the number of shares as to which the SAR is exercised.

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

*Amendment and Termination of the Plan.* The board may amend or terminate the 2005 Long-Term Incentive Plan at its discretion, except that no amendment will become effective without prior approval of the Company's stockholders if such approval is necessary for continued compliance with the performance-based compensation exception of Section 162(m) of the Internal Revenue Code or any stock exchange listing requirements. If not previously terminated by the board, the plan will terminate on the tenth anniversary of its adoption. At the annual stockholders meeting on September 26, 2006, the plan was amended to provide for an increase in the number of authorized shares to be issued under the plan from 1,139,170 to 1,639,170. Of the additional 500,000 shares, a maximum of one-third can be used for restricted stock awards.

A summary of the status of the Company's warrants and stock options outstanding as of December 30, 2006 and changes during the nine months then ended, is presented below. All cashless exercises of options and warrants are handled through an independent broker.

|                                      | Number Of<br>Common Stock<br>Warrants/Options | Weighted-<br>Average<br>Exercise Price | Intrinsic<br>Value |
|--------------------------------------|-----------------------------------------------|----------------------------------------|--------------------|
| Outstanding, April 1, 2006           | 2,324,236                                     | \$ 6.78                                | \$ 31,890          |
| Exercised first quarter fiscal 2007  | (482,352)                                     | 1.77                                   |                    |
| Outstanding, July 1, 2006            | 1,841,884                                     | 8.09                                   | 26,909             |
| Granted second quarter fiscal 2007   | 335,500                                       | 22.59                                  |                    |
| Exercised second quarter fiscal 2007 | (103,621)                                     | 1.26                                   |                    |
| Outstanding, September 30, 2006      | 2,073,763                                     | 10.78                                  | 27,732             |
| Forfeited third quarter fiscal 2007  | (2,500)                                       | 21.03                                  |                    |
| Exercised third quarter fiscal 2007  | (52,600)                                      | 3.00                                   |                    |
| Outstanding, December 30, 2006       | 2,018,663                                     | \$ 10.97                               | \$ 35,716          |

Included in the total outstanding of 2,018,663 are 513,419 warrants, all of which are exercisable. There were no options awarded during the third quarter of fiscal 2007. The intrinsic value of the options exercised during the first, second, and third quarters of fiscal 2007 was approximately \$9,511, \$2,089, and \$1,363, respectively.

As of December 30, 2006, there was \$2,507 of unrecognized compensation costs related to options which is expected to be recognized over a weighted average period of 3.9 years.

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The following table summarizes information about stock options and warrants outstanding at December 30, 2006:

| Exercise Price | Options/Warrants Outstanding | Options/Warrants Exercisable | Weighted-Average Contractual Life | Intrinsic Value as of December 30, 2006 |
|----------------|------------------------------|------------------------------|-----------------------------------|-----------------------------------------|
| \$0.40         | 200,919                      | 200,919                      | 0.6 years                         | \$ 5,678                                |
| \$2.06         | 425,500                      | 425,500                      | 1.1 years                         | 11,318                                  |
| \$12.00        | 172,742                      | 172,742                      | 5.8 years                         | 2,878                                   |
| \$8.00         | 181,500                      | 181,500                      | 6.8 years                         | 3,750                                   |
| \$3.20         | 9,000                        | 9,000                        | 6.8 years                         | 229                                     |
| \$14.50        | 683,502                      | 683,502                      | 8.8 years                         | 9,678                                   |
| \$15.33        | 12,500                       | 12,500                       | 8.8 years                         | 167                                     |
| \$22.66        | 320,500                      |                              | 6.8 years                         | 1,923                                   |
| \$21.03        | 12,500                       |                              | 6.8 years                         | 95                                      |
|                | 2,018,663                    | 1,685,663                    |                                   | \$ 35,716                               |

As of December 30, 2006, the weighted-average exercise price of the outstanding exercisable options was \$8.67.

Of the total awards outstanding at December 30, 2006, 2,008,673 shares are either fully vested or are expected to vest. These shares have a weighted-average exercise price of \$10.91, an intrinsic value of \$35,656, and a weighted-average remaining contractual term of 5.6 years.

Effective April 2, 2006, the first day of the Company's fiscal year, the Company adopted SFAS No. 123(R), Share-Based Payment. SFAS No. 123(R) requires that the compensation cost relating to all share-based payment transactions be recognized in the financial statements. That cost is measured based upon the grant-date fair value of the instruments issued recognized over the requisite service period. The Company has elected to use the modified prospective method in adopting SFAS No. 123(R). Accordingly, after the effective date, compensation cost is recognized based on the requirements of SFAS No. 123(R) (all awards granted to employees prior to the effective date of SFAS No. 123(R) were accelerated in fiscal 2006 and have no compensation cost impact after the effective date). Results for periods prior to fiscal 2007 have not been restated.

As a result of adopting SFAS No. 123(R) in fiscal 2007, the Company's net income for the three month and nine month periods ended December 30, 2006 reflected a charge for stock option grants of \$106 (net of income taxes of \$56) and \$211 (net of income taxes of \$114), respectively. There was no impact on basic or diluted earnings per share for the three and nine months ended December 30, 2006. In addition, prior to the adoption of SFAS No. 123(R), the Company presented the tax benefit of stock option exercises as operating cash flows in the Consolidated Statements of Cash Flows. Upon the adoption of SFAS No. 123(R), tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash inflows. Stock compensation costs for option and restricted stock awards are being amortized under the straight-line method over the requisite service period.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes pricing model. The Company used an outside valuation firm to assist in estimating the fair value of stock option grants made during the nine months ended December 30, 2006.

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The following weighted-average assumptions were used to estimate the fair value of the stock option grants for fiscal 2007 and fiscal 2006:

|                                | Nine Months Ended<br>December 30, 2006 |   | Nine Months Ended<br>December 31, 2005 |   |
|--------------------------------|----------------------------------------|---|----------------------------------------|---|
| Dividend yield                 | 0.0                                    | % | 0.0                                    | % |
| Expected weighted-average life | 4.9                                    |   | 7.0                                    |   |
| Risk-free interest rate        | 5.0                                    | % | 3.5                                    | % |
| Expected volatility            | 34.4                                   | % | 30.0                                   | % |

The weighted-average grant-date fair value of option awards granted during fiscal 2007 and fiscal 2006 was \$8.70 and \$6.00, respectively.

The volatility assumption uses actual historical changes in the market value of the Company's stock over a weighted-average of periods ranging from one year to the expected term of the options. The volatility assumption is redeveloped quarterly. The forfeiture assumption is based on the Company's historical employee behavior over the last nine years to which standard actuarial probabilities have been applied. Expected life assumption weighs the contractual term of the awards with the historical exercise patterns of the employees. The change in the assumptions used from year to year was due to several factors. The change in the expected weighted-average life was primarily due to the contractual life of the current awards. In addition, the use of an outside valuation firm allowed the Company to refine its assumptions regarding interest rates and volatility. The presence of more history as a public company was also a factor in the current year expected volatility assumption.

Prior to April 2, 2006, the Company accounted for options and warrants granted to employees using the intrinsic value method pursuant to APB No. 25, Accounting for Stock Issued to Employees, under which compensation cost is recognized only if the exercise price of grants issued is below the fair market value of the Company's common stock at the date of grant. Had compensation cost for these grants been determined based on the fair value at the grant dates consistent with SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income would have been reduced to the following pro forma amounts:

|                                                                                       | Three Months Ended<br>December 31, 2005 |       | Nine Months Ended<br>December 31, 2005 |         |
|---------------------------------------------------------------------------------------|-----------------------------------------|-------|----------------------------------------|---------|
| Net income, as reported                                                               | \$                                      | 5,099 | \$                                     | 6,484   |
| Plus: stock-based compensation expense included in reported net income, net of tax    |                                         | 43    |                                        | 136     |
| Less: stock-based compensation expense determined under fair value method, net of tax |                                         | (311) |                                        | (1,547) |
| Pro forma net income                                                                  | \$                                      | 4,831 | \$                                     | 5,073   |
| Net income per common share, as reported:                                             |                                         |       |                                        |         |
| Basic                                                                                 | \$                                      | 0.31  | \$                                     | 0.43    |
| Diluted                                                                               | \$                                      | 0.29  | \$                                     | 0.37    |
| Net income per common share, pro forma:                                               |                                         |       |                                        |         |
| Basic                                                                                 | \$                                      | 0.29  | \$                                     | 0.30    |
| Diluted                                                                               | \$                                      | 0.27  | \$                                     | 0.27    |

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

The Company also recorded \$121 (net of taxes of \$65) in unearned compensation in fiscal 2007 related to restricted stock awards. These awards were recorded at the fair market value of the Company's



common stock on the date of issuance and will be amortized as expense over the applicable vesting period.

A summary of the status of the Company's restricted stock outstanding as of December 30, 2006 and changes during the nine months then ended, is presented below.

|                               | Number Of<br>Restricted Stock<br>Shares | Weighted-Average<br>Grant Date Fair Value |
|-------------------------------|-----------------------------------------|-------------------------------------------|
| Non-vested, April 1, 2006     |                                         | \$                                        |
| Granted                       | 75,175                                  | 22.61                                     |
| Vested                        | (733)                                   | 22.00                                     |
| Forfeited                     |                                         |                                           |
| Non-vested, December 30, 2006 | 74,442                                  | \$ 22.61                                  |

## 7. Debt

On June 26, 2006, RBCA terminated its August 15, 2005 Amended Credit Agreement, and the related credit, security and ancillary agreements, and entered into a credit agreement (the KeyBank Credit Agreement) and related security and guaranty agreements with certain banks, KeyBank National Association, as Administrative Agent, and J.P. Morgan Chase Bank, N.A. as Co-Lead Arrangers and Joint Lead Book Runners. The KeyBank Credit Agreement provides RBCA, as borrower, with a \$150,000 five-year senior secured revolving credit facility which can be increased by up to \$75,000, in increments of \$25,000, under certain circumstances and subject to certain conditions (including the receipt from one or more lenders of the additional commitment).

Amounts outstanding under the KeyBank Credit Agreement generally bear interest at the prime rate, or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on the Company's consolidated ratio of net debt to adjusted EBITDA from time to time. Currently, the Company's margin is 0.0% for prime rate loans and 1.0% for LIBOR rate loans. Amounts outstanding under the KeyBank Credit Agreement are due and payable on the expiration date of the credit agreement (June 24, 2011). The Company can elect to prepay some or all of the outstanding balance from time to time without penalty.

The KeyBank Credit Agreement requires the Company to comply with various covenants, including among other things, financial covenants to maintain the following:

- From the closing date through March 31, 2007, a ratio of consolidated net debt to adjusted EBITDA not to exceed 3.5 to 1, and from June 30, 2007, a ratio of consolidated net debt to adjusted EBITDA not to exceed 3.25 to 1.
- A consolidated fixed charge coverage ratio no to exceed 1.5 to 1.

As of December 30, 2006, the Company was in compliance with all such covenants.

The KeyBank 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 credit agreement. The Company obligations under the KeyBank Credit Agreement are secured by a pledge of substantially all of the Company's and RBCA's assets and a guaranty by the Company of RBCA's obligations.

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On June 26, 2006, the Company borrowed approximately \$79,000 under the KeyBank Credit Agreement and used such funds to (i) pay fees and expenses associated with the KeyBank Credit Agreement and (ii) repay the approximately \$78,000 balance outstanding under the Amended Credit Agreement. As of December 30, 2006, \$52,000 was outstanding under the KeyBank Credit Agreement. The Company recorded a non-cash pre-tax charge of approximately \$3,576 in the first quarter of fiscal 2007 to write off deferred debt issuance costs associated with the early termination of the Amended Credit Agreement. Deferred financing fees of \$889 associated with the KeyBank Credit Agreement were also recorded in the first nine months of fiscal 2007.

Approximately \$21,410 of the KeyBank revolving credit facility is being utilized to provide letters of credit to secure RBCA's obligations relating to certain Industrial Development Revenue Bonds (the IRB's) and insurance programs. As of December 30, 2006, RBCA had the ability to borrow up to an additional \$76,590 under the KeyBank revolving credit facility.

The balances payable under all borrowing facilities are as follows:

|                                                                                                                                                                                                                                                                                            | December 30,<br>2006 | April 1,<br>2006 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|------------------|
| <b>KeyBank Credit Agreement</b>                                                                                                                                                                                                                                                            |                      |                  |
| Five-year senior secured revolving credit facility; amounts outstanding bear interest at the prime rate or LIBOR, plus a specified margin, depending on the type of borrowing being made (6.375% at December 30, 2006)                                                                     | \$ 52,000            | \$               |
| <b>Amended Credit Agreement</b>                                                                                                                                                                                                                                                            |                      |                  |
| Amended Term Loan, payable in quarterly installments of \$375, commencing December 31, 2005, with final payment of \$137,750 due July 1, 2011; bears interest at variable rates, payable monthly and upon maturity at prime or LIBOR, plus an applicable margin, at the Company's election |                      | 145,250          |
| <b>Swiss Credit Facility</b>                                                                                                                                                                                                                                                               |                      |                  |
| Term Loan, payable in semi-annual installments of approximately \$1,000 in March and September, with final payment due March 31, 2009; bears interest at variable rates, plus an applicable margin, payable quarterly                                                                      | 3,276                | 3,842            |
| <b>Note Payable</b>                                                                                                                                                                                                                                                                        | 750                  |                  |
| <b>Industrial Development Revenue Bonds</b>                                                                                                                                                                                                                                                |                      |                  |
| Series 1994 A, due in annual installments of \$180 beginning September 1, 2007, graduating to \$815 on September 1, 2014, with final payment due on September 1, 2017; bears interest at a variable rate, payable monthly through September 2017                                           | 7,700                | 7,700            |
| Series 1994 B, bears interest at a variable rate, payable monthly through December 2017                                                                                                                                                                                                    | 3,000                | 3,000            |
| Series 1998, bears interest at variable rates, payable monthly through December 2021                                                                                                                                                                                                       | 1,155                | 1,155            |
| Series 1999, bears interest at variable rates, payable monthly through April 2024                                                                                                                                                                                                          | 4,800                | 4,800            |
| <b>Total Debt</b>                                                                                                                                                                                                                                                                          | 72,681               | 165,747          |
| <b>Less: Current Portion</b>                                                                                                                                                                                                                                                               | 2,568                | 3,217            |
| <b>Long-Term Debt</b>                                                                                                                                                                                                                                                                      | \$ 70,113            | \$ 162,530       |

The current portion of long-term debt as of December 30, 2006 includes \$1,638 of borrowings under the Swiss Credit Facility, \$750 note payable related to the All Power acquisition and \$180 payable under the IRB s. As of April 1, 2006, the current portion of long-term debt includes \$1,537 of borrowings under the Swiss Credit Facility, \$1,500 payable under the Amended Term Loan and \$180 payable under the IRB s.

## 8. Income Taxes

The effective income tax rate for the three month periods ended December 30, 2006 and December 31, 2005 was 34.7%. The effective income tax rates for the nine month periods ended December 30, 2006 and December 31, 2005 were 35.0% and 34.7%, respectively.

## 9. Pension and Post-retirement Plans

The Company has noncontributory defined benefit pension plans covering union employees in its Heim division plant in Fairfield, Connecticut, its Bremen subsidiary plant in Plymouth, Indiana and its Tyson subsidiary plant in Glasgow, Kentucky.

Effective May 1, 2006, the pension plan for the Nice subsidiary in Kulpsville, Pennsylvania was frozen in accordance with the terms of the Shutdown Agreement between RBC Nice Bearings, Inc. and the United Steelworkers of America (AFL-CIO) Local 6816-12 dated February 15, 2006. No further benefits will accrue against this plan and no new employees will become eligible for participation in the plan. However, the Company will continue to maintain the plan.

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

|                                                               | Pension Benefits<br>Three Months Ended |                      | Pension Benefits<br>Nine Months Ended |                      |
|---------------------------------------------------------------|----------------------------------------|----------------------|---------------------------------------|----------------------|
|                                                               | December 30,<br>2006                   | December 31,<br>2005 | December 30,<br>2006                  | December 31,<br>2005 |
| Components of net periodic benefit cost:                      |                                        |                      |                                       |                      |
| Service cost                                                  | \$ 114                                 | \$ 144               | \$ 371                                | \$ 432               |
| Interest cost                                                 | 258                                    | 246                  | 774                                   | 739                  |
| Expected return on plan assets                                | (327 )                                 | (283 )               | (981 )                                | (849 )               |
| Amortization of prior service cost                            | 10                                     |                      | 19                                    |                      |
| Amortization of losses                                        | 35                                     | 62                   | 130                                   | 186                  |
| Additional amount recognized due to settlement or curtailment |                                        |                      | 77                                    |                      |
| Total net periodic benefit cost                               | \$ 90                                  | \$ 169               | \$ 390                                | \$ 508               |

The Company, for the benefit of employees at its Heim, West Trenton, Nice, Tyson and Bremen facilities, sponsors contributory defined benefit health care plans that provide post-retirement medical and life insurance benefits to union employees who have attained certain age and/or service requirements while employed by the Company. The plans are unfunded and costs are paid as incurred.

Effective May 1, 2006, the post-retirement medical and life insurance benefits for the Nice subsidiary in Kulpsville, Pennsylvania have been addressed in the terms of the Shutdown Agreement between RBC Nice Bearings, Inc. and the United Steelworkers of America (AFL-CIO) Local 6816-12 dated



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February 15, 2006. No new employees will become eligible for participation in the plan. Life insurance benefits terminated July 31, 2006. Post-retirement medical benefits will be available until the contract expires on January 31, 2008.

The following tables illustrate the components of net periodic benefit cost for the Company's other post-retirement benefits:

|                                                               | Other Post-Retirement Benefits<br>Three Months Ended |                      | Other Post-Retirement Benefits<br>Nine Months Ended |                      |
|---------------------------------------------------------------|------------------------------------------------------|----------------------|-----------------------------------------------------|----------------------|
|                                                               | December 30,<br>2006                                 | December 31,<br>2005 | December 30,<br>2006                                | December 31,<br>2005 |
|                                                               | Components of net periodic benefit cost:             |                      |                                                     |                      |
| Service cost                                                  | \$ 31                                                | \$ 56                | \$ 95                                               | \$ 168               |
| Interest cost                                                 | 50                                                   | 62                   | 150                                                 | 186                  |
| Prior service cost amortization                               | (4 )                                                 | (105 )               | (39 )                                               | (314 )               |
| Amount of loss recognized                                     | 11                                                   | 41                   | 38                                                  | 123                  |
| Additional amount recognized due to settlement or curtailment |                                                      |                      | (132 )                                              |                      |
|                                                               | \$ 88                                                | \$ 54                | \$ 112                                              | \$ 163               |

#### 10. Reportable Segments

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

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

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

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

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

**Other.** Other consists of two minor operating locations that do not fall into the above segmented categories. The Company produces precision ground ball bearing screws at its Linear

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Precision Products (LPP) plant that offer repeatable positioning accuracy in machine tools, transfer lines, robotic handling and semiconductor equipment. The Company's Schaublin location produces precision machine tool collets that provide effective part holding and accurate part location during machining operations.

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

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

|                                  | Three Months Ended |                   | Nine Months Ended |                   |
|----------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                  | December 30, 2006  | December 31, 2005 | December 30, 2006 | December 31, 2005 |
| <b>Net External Sales</b>        |                    |                   |                   |                   |
| Roller                           | \$ 21,348          | \$ 23,373         | \$ 68,945         | \$ 71,193         |
| Plain                            | 37,166             | 28,501            | 104,250           | 82,078            |
| Ball                             | 13,382             | 11,415            | 37,722            | 33,239            |
| Other                            | 4,648              | 4,101             | 14,106            | 12,248            |
|                                  | \$ 76,544          | \$ 67,390         | \$ 225,023        | \$ 198,758        |
| <b>Operating Income</b>          |                    |                   |                   |                   |
| Roller                           | \$ 5,524           | \$ 5,465          | \$ 17,611         | \$ 16,660         |
| Plain                            | 9,823              | 7,268             | 27,957            | 21,441            |
| Ball                             | 4,500              | 2,851             | 10,420            | 7,747             |
| Other                            | 330                | 417               | 1,820             | 1,232             |
| Corporate                        | (5,844)            | (5,213)           | (17,367)          | (20,801)          |
|                                  | \$ 14,333          | \$ 10,788         | \$ 40,441         | \$ 26,279         |
| <b>Geographic External Sales</b> |                    |                   |                   |                   |
| Domestic                         | \$ 66,453          | \$ 59,428         | \$ 195,951        | \$ 177,003        |
| Foreign                          | 10,091             | 7,962             | 29,072            | 21,755            |
|                                  | \$ 76,544          | \$ 67,390         | \$ 225,023        | \$ 198,758        |
| <b>Intersegment Sales</b>        |                    |                   |                   |                   |
| Roller                           | \$ 2,203           | \$ 2,349          | \$ 6,206          | \$ 6,751          |
| Plain                            | 240                | 208               | 771               | 635               |
| Ball                             | 1,268              | 1,321             | 3,457             | 3,980             |
| Other                            | 3,803              | 3,236             | 10,934            | 9,633             |
|                                  | \$ 7,514           | \$ 7,114          | \$ 21,368         | \$ 20,999         |

All intersegment sales are eliminated in consolidation.

**11. Gain on Sale of Building**

On December 18, 2006, the Company completed the final phase of its consolidation plan with the sale of its Nice facility located in Kulpsville, Pennsylvania. The asset was sold for approximately \$3,950 and the Company realized a gain on the sale of approximately \$797 before taxes.

**12. U.S. Continued Dumping and Subsidy Offset Act (CDSOA) Payment**

On December 1, 2006, the Company received approximately \$1,200 in payments under the U.S. Continued Dumping and Subsidy Offset Act (CDSOA) for 2006. The CDSOA distributes antidumping



duties paid by overseas companies to qualified domestic firms hurt by unfair trade. This payment has been classified below Operating Income in Other non-operating expense (income) on the Consolidated Statements of Operations.

### 13. Subsequent Event

In January 2007, the Company began the consolidation of its tapered bearing manufacturing capacity. The Company plans to discontinue manufacturing tapered bearings in its Glasgow, Kentucky facility and consolidate the remaining manufacturing into other Company manufacturing facilities. The consolidation is anticipated to result in improving gross margin for this product line from a negative to a positive result over the next twelve months. This consolidation will result in a charge of approximately \$5,000 primarily in the fourth quarter of fiscal 2007. Approximately \$2,500 of this charge will be a non-cash impairment of fixed assets.

## 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 expressions 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, the risks identified under the heading Risk Factors set forth in our Annual Report on Form 10-K for the year ended April 1, 2006 and other filings made with the Securities and Exchange Commission. 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 of highly engineered precision plain, roller and ball bearings. Our precision solutions are integral to the manufacture and operation of most machines and mechanical systems, reduce wear to moving parts, facilitate proper power transmission and reduce damage and energy loss caused by friction. While we manufacture products in all major bearing categories, we focus primarily on the higher end of the bearing market where we believe our value added manufacturing and engineering capabilities enable us to differentiate ourselves from our competitors and enhance profitability. We have been providing bearing solutions to our customers since 1919. Over the past ten years, under the

leadership of our current management team, we have significantly broadened our end markets, products, customer base and geographic reach. We currently operate 16 manufacturing facilities in three countries.

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

### Outlook

Backlog as of December 30, 2006 was \$178.1 million versus \$152.6 million for the same period last year. We continue to see momentum from the diversified industrial, aerospace and defense markets and a slowdown in the class 8 truck OEM and aftermarket. Management believes that operating cash flows and available credit under the new credit facility will provide adequate resources to fund internal and external growth initiatives for the foreseeable future.

### Results of Operations

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

|                                      | Three Months Ended |   |                   |   | Nine Months Ended |   |                   |   |
|--------------------------------------|--------------------|---|-------------------|---|-------------------|---|-------------------|---|
|                                      | December 30, 2006  |   | December 31, 2005 |   | December 30, 2006 |   | December 31, 2005 |   |
| <b>Statement of Operations Data:</b> |                    |   |                   |   |                   |   |                   |   |
| Net sales                            | 100.0              | % | 100.0             | % | 100.0             | % | 100.0             | % |
| Gross margin                         | 32.1               |   | 30.2              |   | 31.8              |   | 30.0              |   |
| Selling, general and administrative  | 14.1               |   | 13.7              |   | 13.8              |   | 16.3              |   |
| Other, net                           | (0.7)              | ) | 0.5               |   | 0.0               |   | 0.5               |   |
| Operating income                     | 18.7               |   | 16.0              |   | 18.0              |   | 13.2              |   |
| Interest expense, net                | 1.6                |   | 4.4               |   | 2.0               |   | 6.3               |   |
| Loss on early extinguishment of debt |                    |   |                   |   | 1.6               |   | 1.9               |   |
| Other non-operating expense (income) | (1.6)              | ) |                   |   | (0.5)             | ) |                   |   |
| Income before income taxes           | 18.7               |   | 11.6              |   | 14.9              |   | 5.0               |   |
| Provision for income taxes           | 6.5                |   | 4.0               |   | 5.2               |   | 1.7               |   |
| Net income                           | 12.2               |   | 7.6               |   | 9.7               |   | 3.3               |   |

#### *Three Month Period Ended December 30, 2006 Compared to Three Month Period Ended December 31, 2005*

*Net Sales.* Net sales for the three month period ended December 30, 2006 were \$76.5 million, an increase of \$9.1 million, or 13.6%, compared to \$67.4 million for the same period in fiscal 2006. During the three month period ended December 30, 2006, we experienced net sales growth in three of our four

segments, driven by demand across our end markets as well as our continued efforts to supply new products to existing and new customers and from the acquisition of All Power. Net sales to aerospace and defense customers grew 36.0% in the third quarter of fiscal 2007 compared to the same period last year, driven mainly by commercial and military aerospace aftermarket and OEM demand and the acquisition of All Power. Net sales to diversified industrial customers fell 3.7% in the third quarter of fiscal 2007 compared to the same period last year. Reflected in this change, our core markets of construction, mining, semiconductor capital equipment and general industrial distribution grew 3.6%, offset by a decrease in year-over-year volume in our class 8 truck aftermarket and OEM business.

The Plain Bearing segment achieved net sales of \$37.2 million for the three month period ended December 30, 2006, an increase of \$8.7 million, or 30.4%, compared to \$28.5 million for the same period in the prior year. The commercial and military aerospace market grew \$9.6 million due to an increase in airframe and aerospace bearing shipments to aircraft manufacturers and continued demand for aftermarket product, and the acquisition of All Power. This was offset by a \$0.9 million decline in net sales to our diversified industrial customers. Our small size plain bearings net sales to diversified industrial customers were strong compared to prior years, but this was offset by our larger sizes, which have been impacted by OEM supply-chain constraints, other than bearings.

The Roller Bearing segment achieved net sales of \$21.3 million for the three month period ended December 30, 2006, a decrease of \$2.1 million, or 8.7%, compared to \$23.4 million for the same period in the prior year. Net sales to the class 8 truck OEM and aftermarket declined by \$2.5 million, offset by an increase in aerospace applications and general industrial demand.

The Ball Bearing segment achieved net sales of \$13.4 million for the three month period ended December 30, 2006, an increase of \$2.0 million, or 17.2%, compared to \$11.4 million for the same period in the prior year. Of this increase, \$1.5 million was driven principally by increased demand from airframe applications and semiconductor capital equipment. Sales to our customers in the general industrial market increased \$0.5 million compared to the same period last fiscal year.

The Other segment, which is focused mainly on the sale of precision ball screws and machine tool collets, achieved net sales of \$4.6 million for the three month period ended December 30, 2006, an increase of \$0.5 million, or 13.3%, compared to \$4.1 million for the same period last year. This increase was primarily due to increased sales of machine tool collets.

*Gross Margin.* Gross margin was \$24.5 million, or 32.1% of net sales, for the three month period ended December 30, 2006, versus \$20.4 million, or 30.2% of net sales, for the comparable period in fiscal 2006. The increase in our gross margin as a percentage of net sales was primarily the result of an overall increase in volume, a shift in mix toward higher margin products and increased manufacturing efficiency.

*Selling, General and Administrative.* SG&A expenses increased by \$1.6 million, or 16.9%, to \$10.8 million for the three month period ended December 30, 2006 compared to \$9.2 million for the same period in fiscal 2006. As a percentage of net sales, SG&A increased to 14.1% for the three month period ended December 30, 2006 compared to 13.7% for the same period in fiscal 2006. SG&A expenses, excluding stock compensation expense of \$0.3 million, were \$10.5 million for the three month period ended December 30, 2006, or 13.7% of net sales. This compares to \$9.1 million, or 13.6% of net sales, for the same period last year, excluding stock compensation expense of \$0.1 million. Excluding these charges, SG&A increased \$1.4 million due to an increase in personnel necessary to support our increased volume, higher professional service fees, additional costs associated with being a public company and the inclusion of All Power.

*Other, net.* Other, net for the three month period ended December 30, 2006 was a gain of \$0.6 million compared to an expense of \$0.4 million for the same period in fiscal 2006. For the three month period ended December 30, 2006, other, net included an \$0.8 million gain on the sale of our Nice facility (see Note 11) offset by \$0.2 million of amortization of intangibles. For the three month period ended December 31, 2005, other, net consisted of an expense of \$0.1 million of bad debt expense, \$0.2 million of amortization of intangibles and \$0.1 million of other expenses.

*Operating Income.* Operating income was \$14.3 million, or 18.7% of net sales, for the three month period ended December 30, 2006 compared to \$10.8 million, or 16.0% of net sales, for the three month period ended December 31, 2005. Operating income excluding stock compensation expense, Nice facility consolidation expense, gain on sale of Nice building, and disposal of fixed assets was \$13.8 million, an increase of 27.5% compared to adjusted operating income for the same period last year. Operating income as a percentage of net sales excluding these charges was 18.1% for the three month period ended December 30, 2006 compared to 16.1% for the same adjusted period last year. Operating income for the Plain Bearing segment was \$9.8 million for the three month period ended December 30, 2006, or 26.4% of net sales, compared to \$7.3 million for the same period last year, or 25.5% of net sales. The Roller Bearing segment achieved an operating income for the three month period ended December 30, 2006 of \$5.5 million, or 25.9% of net sales, compared to \$5.5 million, or 23.4% of net sales, for the three month period ended December 31, 2005. The Ball Bearing segment achieved an operating income of \$4.5 million, or 33.6% of net sales, for the three month period ended December 30, 2006, compared to \$2.9 million, or 25.0% of net sales, for the same period in fiscal 2006. The Other segment achieved an operating income of \$0.3 million, or 7.1% of net sales, for the three month period ended December 30, 2006, compared to \$0.4 million, or 10.2% of net sales, for the same period in fiscal 2006. The increase in operating income in the Plain and Ball segments was driven primarily by an increase in net sales; the increase in operating income in the Roller segment was attributable to manufacturing efficiencies. Our operating income as a percentage of net sales increased in the Plain, Roller and Ball segments primarily as a result of leveraging our fixed cost base.

*Interest Expense, Net.* Interest expense, net decreased by \$1.8 million, or 58.9%, to \$1.2 million in the three month period ended December 30, 2006, compared to \$3.0 million in the same period last fiscal year. Amortization of deferred financing costs and debt discount are recorded as a component of net interest expense. Amortization expense included in interest expense, net was \$0.1 million for the three month period ended December 30, 2006 compared to \$0.2 million for the three month period ended December 31, 2005.

*Other Non-Operating Expense (Income).* In the three month period ended December 30, 2006, we received approximately \$1.2 million in payments under the U.S. Continued Dumping and Subsidy Offset Act (CDSOA) for 2006. The CDSOA distributes antidumping duties paid by overseas companies to domestic firms hurt by unfair trade.

*Income Before Income Taxes.* Income before taxes increased by \$6.5 million, to \$14.3 million for the three month period ended December 30, 2006 compared to a \$7.8 million for the three month period ended December 31, 2005.

*Income Taxes.* Income tax expense for the three month period ended December 30, 2006 was \$5.0 million compared to \$2.7 million for the three month period ended December 31, 2005. Our effective income tax rate for the three month periods ended December 30, 2006 and December 31, 2005 was 34.7%.

*Net Income.* Net income increased by \$4.3 million to \$9.4 million for the three month period ended December 30, 2006 compared to \$5.1 million for the three month period ended December 31,





2005. Net income excluding the after tax impact of stock compensation expense, Nice facility consolidation expense, gain on the sale of Nice building, disposal of fixed assets, and the CDSOA payment increased 60.2% to \$8.2 million compared to \$5.1 million for the same adjusted period last year.

*Nine Month Period Ended December 30, 2006 Compared to Nine Month Period Ended December 31, 2005*

*Net Sales.* Net sales for the nine month period ended December 30, 2006 were \$225.0 million, an increase of \$26.2 million, or 13.2%, compared to \$198.8 million for the same period in fiscal 2006. During the nine month period ended December 30, 2006, we experienced net sales growth in three of our four segments, driven by demand across our end markets as well as our continued efforts to supply new products to existing and new customers and the acquisition of All Power. Net sales to aerospace and defense customers grew 28.4% in the nine month period of fiscal 2007 compared to the same period last year, driven mainly by commercial and military aerospace aftermarket and OEM demand and the acquisition of All Power. Net sales to diversified industrial customers grew 1.7% in the nine month period of fiscal 2007 compared to the same period last year. Reflected in this change, our core markets of construction, mining, semiconductor, capital equipment and general industrial distribution grew 7.1%, offset by a decrease in year-over-year volume in the class 8 truck OEM and aftermarket.

The Plain Bearing segment achieved net sales of \$104.3 million for the nine month period ended December 30, 2006, an increase of \$22.2 million, or 27.0%, compared to \$82.1 million for the same period in the prior year. Net sales to our diversified industrial customers accounted for \$2.1 million of the increase, driven primarily by demand in the construction and mining heavy equipment sectors and general aftermarket demand. The commercial and military aerospace market accounted for \$20.1 million of the increase due to an increase in airframe and aerospace bearing shipments to aircraft manufacturers and continued demand for aftermarket product and the inclusion of All Power.

The Roller Bearing segment achieved net sales of \$68.9 million for the nine month period ended December 30, 2006, a decrease of \$2.3 million, or 3.2%, compared to \$71.2 million for the same period in the prior year. Net sales to the class 8 truck OEM and aftermarket declined by \$4.4 million, offset by an increase in aerospace applications and general industrial demand.

The Ball Bearing segment achieved net sales of \$37.7 million for the nine month period ended December 30, 2006, an increase of \$4.5 million, or 13.5%, compared to \$33.2 million for the same period in the prior year. The increase was driven principally by increased demand from airframe and electro-optical devices, semiconductor equipment, and our increased demand from the airframe builders.

The Other segment, which is focused mainly on the sale of precision ball screws and machine tool collets, achieved net sales of \$14.1 million for the nine month period ended December 30, 2006, an increase of \$1.9 million, or 15.2%, compared to \$12.2 million for the same period last year. This increase was primarily due to increased market demand in Europe.

*Gross Margin.* Gross margin was \$71.6 million, or 31.8% of net sales, for the nine month period ended December 30, 2006, versus \$59.6 million, or 30.0% of net sales, for the comparable period in fiscal 2006. The increase in our gross margin as a percentage of net sales was primarily the result of an overall increase in volume, product mix, slightly higher prices, and increased manufacturing efficiency.

*Selling, General and Administrative.* SG&A expenses decreased by \$1.3 million, or 4.1%, to \$31.0 million for the nine month period ended December 30, 2006 compared to \$32.3 million for the same period in fiscal 2006. As a percentage of net sales, SG&A was 13.8% for the nine month period ended December 30, 2006 compared to 16.3% for the same period in fiscal 2006. SG&A expenses for the

nine month period ended December 30, 2006, excluding stock compensation expense of \$0.5 million, were \$30.5 million, or 13.5% of net sales for the same period last year, compared to \$26.9 million, or 13.5% of net sales, excluding stock compensation expense of \$0.2 million and non-recurring compensation expense of \$5.2 million. Excluding these charges, SG&A increased \$3.6 million due to an increase in personnel necessary to support our increased volume, higher professional service fees, additional costs associated with being a public company and the inclusion of All Power.

*Other, net.* Other, net for the nine month period ended December 30, 2006 was \$0.1 million compared to \$1.0 million for the same period in fiscal 2006. For the nine month period ended December 30, 2006, other, net included \$0.4 million of plant shutdown expenses related to our Nice plant consolidation and \$0.5 million of amortization of intangibles offset by a \$0.8 million gain related to the sale of the Nice facility. For the nine month period ended December 31, 2005, other, net consisted of \$0.2 million of non-recurring management fees, \$0.3 million of bad debt expense, and \$0.5 million of amortization of intangible assets.

*Operating Income.* Operating income was \$40.4 million, or 18.0% of net sales, for the nine month period ended December 30, 2006 compared to \$26.3 million, or 13.2% of net sales, for the nine month period ended December 31, 2005. Operating income excluding stock compensation expense, Nice facility consolidation expense, gain on the sale of Nice building and disposal of fixed assets increased 27.4% to \$40.6 million for the nine months ended December 30, 2006 compared to \$31.9 million for the comparable adjusted period last year. Operating income as a percentage of sales excluding these charges was 18.1% for the first nine months of fiscal 2007 compared to 16.0% for the same adjusted period last year. Operating income for the Plain Bearing segment was \$28.0 million for the nine month period ended December 30, 2006, or 26.8% of net sales, compared to \$21.4 million for the same period last year, or 26.1% of net sales. The Roller Bearing segment achieved an operating income for the nine month period ended December 30, 2006 of \$17.6 million, or 25.5% of net sales, compared to \$16.7 million, or 23.4% of net sales, for the nine month period ended December 31, 2005. The Ball Bearing segment achieved an operating income of \$10.4 million, or 27.6% of net sales, for the nine month period ended December 30, 2006, compared to \$7.7 million, or 23.3% of net sales, for the same period in fiscal 2006. The Other segment achieved an operating income of \$1.8 million, or 12.9% of net sales, for the nine month period ended December 30, 2006, compared to \$1.2 million or 10.1% of net sales, for the same period in fiscal 2006. The increase in operating income in the Plain, Ball and Other segments was driven primarily by an increase in net sales; the increase in operating income in the Roller segment was attributable to manufacturing efficiencies. Our operating income as a percentage of net sales increased primarily as a result of mix, volume, methods and pricing improvement.

*Interest Expense, net.* Interest expense, net decreased by \$8.0 million to \$4.6 million for the nine month period ended December 30, 2006 compared to \$12.6 million for the nine month period ended December 31, 2005. Amortization of deferred financing costs and debt discount are recorded as a component of net interest expense. Amortization expense included in interest expense, net was \$0.3 million for the nine month period ended December 30, 2006 compared to \$0.6 million for the nine month period ended December 31, 2005.

*Loss on Early Extinguishment of Debt.* For the nine month period ended December 30, 2006, loss on extinguishment of debt was \$3.6 million for the non-cash write-off of deferred financing costs associated with the early termination of the senior credit facility. For the nine month period ended December 31, 2005, loss on extinguishment of debt of \$3.8 million included \$1.6 million for non-cash write-off of deferred financing fees and unamortized bond discount associated with retired debt, \$1.3 million of redemption premium associated with the redemption of all of our 13% discount debentures in September of 2005, \$0.5 million pre-payment fees related to the prepayment of all of the outstanding

balance under our second lien term loan in August of 2005, and \$0.4 million in interest expense for the 30 day call period related to the early extinguishment of our 13% discount debentures.

*Other Non-Operating Expense (Income).* In the nine month period ended December 30, 2006, we received approximately \$1.2 million in payments under the U.S. Continued Dumping and Subsidy Offset Act (CDSOA) for 2006. The CDSOA distributes antidumping duties paid by overseas companies to domestic firms hurt by unfair trade.

*Income Before Income Taxes.* Income before taxes was \$33.5 million for the nine month period ended December 30, 2006 compared to income before taxes of \$9.9 million for the nine month period ended December 31, 2005.

*Income Taxes.* Income taxes for the nine month period ended December 30, 2006 provided an expense of \$11.7 million compared to an expense of \$3.4 million for the nine month period ended December 31, 2005. Our effective income tax rate for the nine month period ended December 30, 2006 was 35.0% compared to an effective income tax rate of 34.7% for the nine month period ended December 31, 2005. The effective tax rates are lower than the combined federal and state statutory rates in fiscal 2007 and 2006 due to a foreign tax rate differential.

*Net Income.* Net income was \$21.8 million for the nine month period ended December 30, 2006 compared to net income of \$6.5 million for the nine month period ended December 31, 2005. Net income excluding the after tax impact of stock compensation expense, Nice facility consolidation expense, gain on sale of Nice building, disposal of fixed assets, loss on early extinguishment of debt, and the CDSOA payment, increased 85.7% to \$23.4 million for the first nine months of fiscal 2007 compared to \$12.6 million for the same adjusted period last year.

## **Liquidity and Capital Resources**

### ***Liquidity***

On August 31, 2006, our board of directors authorized us to repurchase up to \$7.5 million of our common stock during fiscal 2007, from time to time on the open market, in block trade transactions and through privately negotiated transactions depending on market conditions, alternative uses of capital and other factors. Purchases may be commenced, suspended or discontinued at any time without prior notice. As of December 30, 2006, no repurchases have been made. However, in January 2007, the Company repurchased 26,107 shares of its common stock at an average price of \$26.38 per share on the open market.

On April 18, 2006, pursuant to a purchase agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, KeyBank Capital Markets and Robert W. Baird & Co., we, along with certain of our stockholders, sold 8,989,550 shares of our common stock (5,995,529 sold by certain of our stockholders). The offering yielded us aggregate net proceeds of approximately \$57.8 million after payment of the underwriting discount, commissions and offering expenses. The full amount of the net proceeds were used to prepay outstanding balances under the Amended Term Loan.

On June 26, 2006 we entered into the KeyBank Credit Agreement and related security and guaranty agreements with certain banks, KeyBank National Association, as Administrative Agent, and J.P. Morgan Chase Bank, N.A. as Co-Lead Arrangers and Joint Lead Book Runners. The KeyBank Credit Agreement provides us with a \$150.0 million five-year senior secured revolving credit facility which can be increased by up to \$75.0 million, in increments of \$25.0 million, under certain circumstances and

subject to certain conditions (including the receipt from one or more lenders of the additional commitment).

Amounts outstanding under the KeyBank Credit Agreement generally bear interest at the prime rate, or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on our consolidated ratio of net debt to adjusted EBITDA from time to time. Currently, our margin is 0.0% for prime rate loans and 1.0% for LIBOR rate loans. Amounts outstanding under the KeyBank Credit Agreement are due and payable on its expiration date (June 24, 2011). We may elect to prepay some or all of the outstanding balance from time to time without penalty.

As of December 30, 2006, \$52,000 was outstanding under the KeyBank credit facility. We recorded a non-cash pre-tax charge of approximately \$3,576 in the first quarter of fiscal 2007 to write off deferred debt issuance costs associated with the early termination of the Amended Credit Agreement. Deferred financing fees of \$889 associated with the KeyBank Credit Agreement were also recorded in the first nine months of fiscal 2007.

Approximately \$21,410 of the KeyBank credit facility is being utilized to provide letters of credit to secure RBCA's obligations relating to certain Industrial Development Revenue Bonds (the IRB's) and insurance programs. As of December 30, 2006, RBCA had the ability to borrow up to an additional \$76,590 under the KeyBank credit facility.

On December 8, 2003, Schaublin entered into a bank credit facility, or Swiss Credit Facility, with Credit Suisse providing for 10.0 million Swiss francs, or approximately \$8.2 million, of term loan, or Swiss Term Loan, and up to 2.0 million Swiss francs, or approximately \$1.6 million, of revolving credit loans and letters of credit, or the Swiss Revolver. The credit agreement for the Swiss Credit Facility contains affirmative and negative covenants regarding the Schaublin financial position and results of operations and other terms customary to such financings. As of December 30, 2006, we were in compliance with all such covenants. On November 8, 2004, we amended the Swiss Credit Facility to increase the Swiss Revolver to 4.0 million Swiss francs, or approximately \$3.3 million. As of December 30, 2006, \$3.3 million was outstanding under the Swiss Term Loan, and no loans or letters of credit were outstanding under the Swiss Revolver.

#### **Cash Flow**

##### *Nine Month Period Ended December 30, 2006 Compared to the Nine Month Period Ended December 31, 2005*

In the nine month period ended December 30, 2006, we generated cash of \$42.2 million from operating activities compared to \$13.2 million for the nine month period ended December 31, 2005. The increase of \$29.0 million was mainly a result of an increase of \$15.3 million in net income, an increase of \$4.3 million in deferred income taxes, a change in operating assets and liabilities of \$7.7 million and an increase in non-cash charges of \$1.7 million.

Cash used for investing activities for the nine month period ended December 30, 2006 included \$8.0 million relating to capital expenditures compared to \$7.8 million for the nine month period ended December 31, 2005. Investing activities also included \$8.8 million relating to the acquisition of All Power offset by proceeds of \$3.5 million related to the disposal of assets.

Financing activities used \$32.0 million in the nine month period ended December 30, 2006. We received net proceeds of \$57.8 million from our secondary offering (see Note 2) which were used, in addition to \$10.0 million in cash from operations, to pay down the term loan under the Amended Credit

Agreement. The balance of approximately \$78.0 million was refinanced and further reduced to \$52.0 million by using approximately \$26.0 million from cash from operations.

### *Capital Expenditures*

Our capital expenditures were \$8.0 million for the nine month period ended December 30, 2006. We expect to make net capital expenditures of approximately \$12.0 to \$14.0 million during fiscal 2007 in connection with our existing business. We intend to fund our fiscal 2007 capital expenditures principally through existing cash, internally generated funds and borrowings under our KeyBank credit facility. We may also make substantial additional capital expenditures in connection with acquisitions.

### *Obligations and Commitments*

As of December 30, 2006, there was no material change in capital lease, operating lease or pension and post-retirement benefit obligations reflected on our consolidated balance sheets as compared to such obligations and liabilities as of April 1, 2006.

Debt and interest obligations have been significantly reduced since April 1, 2006 due to the debt refinancing discussed in the *Liquidity* section above.

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

### **Quantitative and Qualitative Disclosure About Market Risk**

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

*Interest Rates.* We are exposed to market risk from changes in the interest rates on a significant portion of our outstanding indebtedness. Outstanding balances under our KeyBank credit facility generally bear interest at the prime rate or LIBOR (the London inter-bank offered rate for deposits in U.S. dollars for the applicable LIBOR period) plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on our consolidated ratio of net debt to adjusted EBITDA from time to time. As of December 30, 2006, our margin is 0.0% for prime rate loans (prime rate at December 30, 2006 was 8.25%) and 1.0% for LIBOR rate loans (one month LIBOR rate at December 30, 2006 was 5.33%). As of December 30, 2006, based on the aggregate amount of \$52.0 million outstanding under our KeyBank credit facility, a 100 basis point change in interest rates would have changed our interest expense by approximately \$0.5 million per year.

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

*Foreign Currency Exchange Rates.* As a result of increased sales in Europe, our exposure to risk associated with fluctuating currency exchange rates between the U.S. dollar, the Euro and the Swiss Franc has increased. Our Swiss operations utilize the Swiss franc as the functional currency and our French operations utilize the Euro as the functional currency. Foreign currency transaction gains and losses are included in earnings. Approximately 12% of our net sales were denominated in foreign currencies for fiscal 2006 and approximately 13% for the first nine months of fiscal 2007. We expect that this proportion is likely to increase as we seek to increase our penetration of foreign markets, particularly within the aerospace and defense markets. Foreign currency transaction exposure arises primarily from the transfer of foreign currency from one subsidiary to another within the group, and to foreign currency denominated trade receivables. Unrealized currency translation gains and losses are recognized upon

translation of the foreign subsidiaries' balance sheets to U.S. dollars. Because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our earnings. We currently do not have exchange rate hedges in place to reduce the risk of an adverse currency exchange movement. Although currency fluctuations have not had a material impact on our financial performance in the past, such fluctuations may materially affect our financial performance in the future. The impact of future exchange rate fluctuations on our results of operations cannot be accurately predicted.

#### **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 30, 2006. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 30, 2006, 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.

#### **ITEM 5. Changes in Internal Control over Financial Reporting**

No change in our internal control over financial reporting occurred during the nine month period ended December 30, 2006 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).

#### **ITEM 6. Limitation on Effectiveness of Controls**

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. The design of any control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

**Part II - OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

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

**ITEM 1A. Risk Factors**

There have been no material changes to our risk factors and uncertainties during the nine month period ended December 30, 2006. For a discussion of the Risk Factors, refer to Part I, Item 1A, Risk Factors, contained in the Company's Annual Report on Form 10-K for the period ended April 1, 2006.

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

**Unregistered Sales of Equity Securities**

None.

**Use of Proceeds**

Not applicable.

**ITEM 3. Defaults Upon Senior Securities**

Not applicable.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

None.

**ITEM 5. Other Information**

Not applicable.

**ITEM 6. Exhibits**

**Exhibit**

| <b>Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                     |
|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1          | Credit Agreement, dated as of June 26, 2006 by and between RBC Bearings Incorporated and KeyBank National Association, as Administrative Agent and Lender filed as Exhibit 99.1 on Form 8-K dated July 18, 2006 is hereby incorporated by reference herein.                    |
| 10.2          | Parent Guaranty, dated June 26, 2006, by and between RBC Bearings Incorporated and KeyBank National Association, as Administrative Agent and Lender filed as Exhibit 99.2 on Form 8-K dated July 18, 2006 is hereby incorporated by reference herein.                          |
| 10.3          | Security Agreement, dated June 26, 2006, by and between Roller Bearing Company of America, Incorporated and KeyBank National Association, as Administrative Agent and Lender filed as Exhibit 99.3 on Form 8-K dated July 18, 2006 is hereby incorporated by reference herein. |
| 31.01         | Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).                                                                                                                                                                                   |
| 31.02         | Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).                                                                                                                                                                                   |
| 32.01         | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*                                                                                                                                                       |
| 32.02         | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*                                                                                                                                                       |

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

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**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

/s/ Dr. Michael J. Hartnett  
By: Dr. Michael J. Hartnett  
Its: Chief Executive Officer

RBC Bearings Incorporated

/s/ Daniel A. Bergeron  
By: Daniel A. Bergeron  
Its: Chief Financial Officer

Dated: February 8, 2007

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**EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Exhibit Description</b>                                                                                                                                                                                                                                                     |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1                  | Credit Agreement, dated as of June 26, 2006 by and between RBC Bearings Incorporated and KeyBank National Association, as Administrative Agent and Lender filed as Exhibit 99.1 on Form 8-K dated July 18, 2006 is hereby incorporated by reference herein.                    |
| 10.2                  | Parent Guaranty, dated June 26, 2006, by and between RBC Bearings Incorporated and KeyBank National Association, as Administrative Agent and Lender filed as Exhibit 99.2 on Form 8-K dated July 18, 2006 is hereby incorporated by reference herein.                          |
| 10.3                  | Security Agreement, dated June 26, 2006, by and between Roller Bearing Company of America, Incorporated and KeyBank National Association, as Administrative Agent and Lender filed as Exhibit 99.3 on Form 8-K dated July 18, 2006 is hereby incorporated by reference herein. |
| 31.01                 | Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).                                                                                                                                                                                   |
| 31.02                 | Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).                                                                                                                                                                                   |
| 32.01                 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*                                                                                                                                                       |
| 32.02                 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*                                                                                                                                                       |

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