

RBC Bearings INC  
Form 10-K  
June 12, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

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**FORM 10-K**

(Mark One)

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

**For the fiscal year ended March 31, 2007**

**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)

**One Tribology Center, Oxford, CT**  
(Address of Principal Executive Offices)

**95-4372080**

(I.R.S. Employer  
Identification No.)

**06478**  
(Zip Code)

**(203) 267-7001**

(Telephone Number, Including Area Code)

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

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

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

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(Title of Class)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

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The aggregate market value of the registrant's Class A Common Stock held by non-affiliates of the registrant on September 30, 2006 (based on the September 29, 2006 closing sales price of \$24.15 of the registrant's Class A Common Stock, as reported by the Nasdaq National Market) was approximately \$498,252,000.

Number of shares outstanding of the registrant's Class A Common Stock at June 4, 2007:

21,502,236 Shares of Class A Common Stock, par value \$0.01 per share.

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Documents Incorporated by Reference:

Portions of the registrant's proxy statement to be filed within 120 days of the close of the registrant's fiscal year in connection with the registrant's Annual Meeting of Shareholders to be held September 13, 2007 are incorporated by reference into Part III of this Form 10-K.

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## TABLE OF CONTENTS

		<b>Page</b>
<b><u>PART I</u></b>		
<u>Item 1</u>	<u>Business</u>	1
<u>Item 1A</u>	<u>Risk Factors</u>	7
<u>Item 1B</u>	<u>Unresolved Staff Comments</u>	16
<u>Item 2</u>	<u>Properties</u>	16
<u>Item 3</u>	<u>Legal Proceedings</u>	17
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u>	17
<u>Item 4A</u>	<u>Executive Officers of the Registrant</u>	17
<b><u>PART II</u></b>		
<u>Item 5</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
<u>Item 6</u>	<u>Selected Financial Data</u>	20
<u>Item 7</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	22
<u>Item 7A</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 8</u>	<u>Financial Statements and Supplementary Data</u>	37
<u>Item 9</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	68
<u>Item 9A</u>	<u>Controls and Procedures</u>	68
<u>Item 9B</u>	<u>Other Information</u>	71
<b><u>PART III</u></b>		
<u>Item 10</u>	<u>Directors and Executive Officers of the Registrant</u>	
<u>Item 11</u>	<u>Executive Compensation</u>	
<u>Item 12</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	
<u>Item 13</u>	<u>Certain Relationships and Related Transactions</u>	
<u>Item 14</u>	<u>Principal Accounting Fees and Services</u>	
<b><u>PART IV</u></b>		
<u>Item 15</u>	<u>Exhibits, Financial Statement Schedules</u>	71
<b><u>Signatures</u></b>	<b><u>Signatures</u></b>	75

## PART I

### ITEM 1. BUSINESS

#### RBC Bearings Incorporated

We are a well known international manufacturer and marketer of highly engineered precision plain, roller and ball bearings. Bearings, which are integral to the manufacture and operation of most machines and mechanical systems, reduce wear to moving parts, facilitate proper power transmission and reduce damage and energy loss caused by friction. While we manufacture products in all major bearing categories, we focus primarily on highly technical or regulated bearing products for specialized markets that require sophisticated design, testing and manufacturing capabilities. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. We have been providing bearing solutions to our customers since 1919. Over the past ten years, under the leadership of our current management team, we have significantly broadened our end markets, products, customer base and geographic reach. We currently have 19 facilities of which 17 are manufacturing facilities in four countries.

#### The Bearing Industry

The bearing industry is a highly fragmented multi-billion dollar market. Purchasers of bearings include producers of commercial and military aerospace equipment, automotive and commercial truck manufacturers, industrial equipment and machinery manufacturers, agricultural machinery manufacturers and construction, mining and specialized equipment manufacturers.

The increased demand for bearings in the diversified industrial market is being influenced by growth in industrial machinery and equipment shipments and nonresidential construction activity. In addition, increased usage of existing machinery will improve aftermarket demand for replacement bearing products. In the aerospace market, aging of the existing commercial aircraft fleet along with carrier traffic growth is expected to continue to expand demand for our bearing solutions. Lastly, growth in the defense market is being influenced by modernization programs necessitating increased spending on new equipment, as well as continued utilization of deployed equipment supporting robust aftermarket demand for replacement bearings.

#### Customers and Markets

We serve a broad range of end markets where we can add value with our specialty, precision bearing products and applications. We classify our customers into two principal categories: diversified industrial and aerospace and defense. These principal end markets utilize a large number of both commercial and specialized bearing products. Although we provide a relatively small percentage of total bearing products supplied to each of our overall principal markets, we believe we have leading market positions in many of the specialized bearing product markets in which we primarily compete. Financial information regarding geographic areas is set forth in Item 8, Note 21.

- ***Diversified Industrial Market (50% of net sales for the fiscal year ended March 31, 2007)***

We manufacture bearing products for a wide range of diversified industrial markets, including construction and mining, oil and natural resource extraction, heavy truck, packaging and semiconductor machinery. Nearly all mechanical devices and machinery require bearings to relieve friction where one part moves relative to another. Our products target existing market applications in which our engineering and manufacturing capabilities provide us with a competitive advantage in the marketplace.

Our largest diversified industrial customers include Applied Materials, Caterpillar, Hitachi Construction Machinery, Komatsu America, Parker-Hannifin Corporation and various aftermarket distributors including Applied Industrial, Kaman Corporation and Motion Industries. We believe that the diversification of our sales among the various markets of the industrial bearings market reduces our exposure to downturns in any individual market. We believe opportunities exist for growth and margin improvement in this market as a result of increasing demand for industrial machinery, the introduction of new products and the expansion of aftermarket sales.

- ***Aerospace and Defense Market (50% of net sales for the fiscal year ended March 31, 2007)***

We supply bearings for use in commercial and private aircraft. We supply bearings for many of the commercial aircraft currently operating worldwide and are the primary supplier for many of our product lines. This includes military contractors for airplanes, helicopters and missile systems. Commercial aerospace customers generally require precision products, often of



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special materials, made to unique designs and specifications. Many of our aerospace bearing products are designed and certified during the original development of the aircraft being served, which often makes us the primary bearing supplier for the life of the aircraft.

We manufacture bearing products used by the U.S. Department of Defense and certain foreign governments for use in fighter jets, troop transports, naval vessels, helicopters, gas turbine engines, armored vehicles, guided weaponry and satellites. We manufacture an extensive line of standard products that conform to many domestic military application requirements, as well as customized products designed for unique applications. We specialize in the manufacture of high precision ball and roller bearings, commercial ball bearings and metal-to-metal and self-lubricating plain bearings for the defense market. Our bearing products are manufactured to conform to U.S. military specifications and are typically custom designed during the original product design phase, which often makes us the sole or primary bearing supplier for the life of the product. In addition to products that meet military specifications, these customers often require precision products made of specialized materials to custom designs and specifications. Product approval for use on military equipment is often a lengthy process ranging from six months to six years.

Our largest aerospace and defense customers include Airbus, Boeing, General Electric, Lockheed Martin, Raytheon, Snecma Group, U.S. Department of Defense, United Technologies and various aftermarket channels. We estimate that over 49% of aerospace net sales are actually used as replacement parts, as bearings are regularly replaced on aircraft in conjunction with routine maintenance procedures. We believe our strong relationships with OEMs help drive our aftermarket sales since a portion of OEM sales are ultimately intended for use as replacement parts. We believe that growth and margin expansion in this segment will be driven primarily by expanding our international presence and the refurbishment and maintenance of existing commercial aircraft.

### Products

Bearings are employed to fulfill several functions including reduction of friction, transfer of motion and carriage of loads. We design, manufacture and market a broad portfolio of bearing products. The following table provides a summary of our product segments:

Segment	Net Sales for the Fiscal Year Ended			Representative Applications
	March 31, 2007	April 1, 2006	April 2, 2005	
Plain Bearings	\$143,907 (47.0%)	\$115,091 (41.9%)	\$93,250 (38.4%)	<ul style="list-style-type: none"> <li>• Aircraft engine controls and landing gear</li> <li>• Missile launchers</li> <li>• Mining and construction equipment</li> </ul>
Roller Bearings	\$92,123 (30.1%)	\$96,466 (35.1%)	\$92,281 (38.0%)	<ul style="list-style-type: none"> <li>• Aircraft hydraulics</li> <li>• Military and commercial truck chassis</li> <li>• Packaging machinery and gear pumps</li> </ul>
Ball Bearings	\$50,466 (16.5%)	\$46,378 (16.9%)	\$41,881 (17.2%)	<ul style="list-style-type: none"> <li>• Radar and night vision systems</li> <li>• Airframe control and actuation</li> <li>• Semiconductor equipment</li> </ul>
Other	\$19,566 (6.4%)	\$16,574 (6.1%)	\$15,604 (6.4%)	<ul style="list-style-type: none"> <li>• Precision ground ball screws for robotic handling and missile guidance</li> <li>• Collets for machine tools</li> </ul>

*Plain Bearings.* Plain bearings are primarily used to rectify inevitable misalignments in various mechanical components, such as aircraft controls, helicopter rotors, or in heavy mining and construction equipment. Such misalignments are either due to machining inaccuracies or result when components change position relative to each other. Plain bearings are produced with either self-lubricating or metal-to-metal designs and consist of several sub-classes, including rod end bearings, spherical plain bearings and journal bearings. Sales of plain bearings accounted for 47.0% of our net

sales in fiscal 2007.

*Roller Bearings.* Roller bearings are anti-friction products that utilize cylindrical rolling elements. We produce three main designs: tapered roller bearings, needle roller bearings and needle bearing track rollers and cam followers. We produce medium sized tapered roller bearings used primarily in heavy truck axle applications. We offer several needle roller bearing designs that are used in both industrial applications and certain U.S. military aircraft platforms. These products are generally specified for use where there are high loads and the design is constrained by space considerations. A significant portion of the sales of this product is to the aftermarket. Needle bearing track rollers and cam followers have wide and diversified use in the industrial market and are often prescribed as a primary component in articulated aircraft wings. We believe we are the world's

2

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largest producer of aircraft needle bearing track rollers. The sale of roller bearings accounted for 30.1% of our net sales in fiscal 2007.

*Ball Bearings.* Ball bearings are devices which utilize high precision ball elements to reduce friction in high speed applications. We specialize in four main types of ball bearings: high precision aerospace, airframe control, thin section and industrial ball bearings. High precision aerospace bearings are primarily sold to customers in the defense industry that require more technically sophisticated bearing products, such as missile guidance systems, providing higher degrees of fault tolerance given the criticality of the applications in which they are used. Airframe control ball bearings are precision ball bearings that are plated to resist corrosion and are qualified under a military specification. Thin section ball bearings are specialized bearings that use extremely thin cross sections and give specialized machinery manufacturers many advantages. We produce a general line of industrial ball bearings sold primarily to the aftermarket. Ball bearings accounted for 16.5% of our net sales in fiscal 2007.

*Other.* Our other products consist primarily of precision linear products and machine tool collets. Precision linear products are precision ground ball bearing screws that offer repeatable positioning accuracy in defense, machine tools, robotic handling and semiconductor equipment. Machine tool collets are cone-shaped metal sleeves, used for holding circular or rodlike pieces in a lathe or other machine, that provide effective part holding and accurate part location during machining operations. Our other products accounted for 6.4% of our net sales in fiscal 2007.

#### **Product Design and Development**

We produce specialized bearings that are often tailored to the specifications of a customer or application. Our sales professionals are highly experienced engineers who collaborate with our customers on a continual basis to develop bearing solutions. The product development cycle can follow many paths which are dependent on the end market or sales channel. The process normally takes between 3-6 years from concept to sale depending upon the application and the market. A common route that is used for major OEM projects begins when our design engineers meet with their customer counterparts at the machine design conceptualization stage and work with them through the conclusion of the product development.

Often, at the early stage, a bearing design concept is produced that addresses the expected demands of the application. Environmental demands are many but normally include load, stress, heat, thermal gradients, vibration, lubricant supply, corrosion resistance, with one or two of these environmental constraints being predominant in the design consideration. A bearing design must perform reliably for a period of time specified by the customer's product objectives.

Once a bearing is designed, a mathematical simulation is created to replicate the expected application environment and thereby allow optimization with respect to these design variables. Upon conclusion of the design and simulation phase, samples are produced and laboratory testing commences at one of our test laboratories. The purpose of this testing phase is not only to verify the design and the simulation model but also to allow further design improvement where needed. Finally, upon successful field testing by the customer, the product is ready for sale.

For the majority of our products, the culmination of this lengthy process is the receipt of a product approval or certification, generally obtained from either the OEM, the Department of Defense or the Federal Aviation Administration, or FAA, which allows us to supply the product to the customer. We currently have in excess of 32,000 of such approvals, which often gives us a significant competitive advantage, and in many of these instances we are the only approved supplier of a given bearing product.

#### **Manufacturing and Operations**

Our manufacturing strategies are focused on product reliability, quality and service. Custom and standard products are produced according to manufacturing schedules that ensure maximum availability of popular items for immediate sale while carefully considering the economies of lot production and special products. Capital programs and manufacturing methods development are focused on quality improvement and low production costs. A monthly review of product line production performance assures an environment of continuous attainment of profitability goals.

*Capacity.* Our plants currently run on a single shift, and light second and third shifts at selected locations, to meet the demands of our customers. We believe that current capacity levels and future annual estimated capital expenditures on



equipment up to approximately 4% of net sales should permit us to effectively meet demand levels for the foreseeable future. We also believe that we have the ability to increase capacity and move to full second or third shifts when required.

*Inventory Management.* Our increasing emphasis on the distributor/aftermarket sector has required us to maintain greater inventories of a broader range of products than the OEM market historically demanded. We operate an inventory

3

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management program designed to balance customer delivery requirements with economically optimal inventory levels. In this program, each product is categorized based on characteristics including order frequency, number of customers and sales volume. Using this classification system, our primary goal is to maintain a sufficient supply of standard items while minimizing warehousing costs. In addition, production cost savings are achieved by optimizing plant scheduling around inventory levels and customer delivery requirements. This leads to more efficient utilization of manufacturing facilities and minimizes plant production changes while maintaining sufficient inventories to service customer needs.

### **Sales, Marketing and Distribution**

Our marketing strategy is aimed at increasing sales within our two primary markets, targeting specific applications in which we can exploit our competitive strengths. To effect this strategy, we seek to expand into geographic areas not previously served by us and we continue to capitalize on new markets and industries for existing and new products. We employ a technically proficient sales force and utilize marketing managers, product managers, customer service representatives and product application engineers in our selling efforts.

We have accelerated the development of our sales force through the hiring of sales personnel with prior bearing industry experience, complemented by an in-house training program. We intend to continue to hire and develop expert sales professionals and strategically locate them to implement our expansion strategy. Today, our direct sales force is located to service North America, Europe and Latin America and is responsible for selling all of our products. This selling model leverages our relationship with key customers and provides opportunities to market multiple product lines to both established and potential customers. We also sell our products through a well-established, global network of industrial and aerospace distributors. This channel primarily provides our products to smaller OEM customers and the end users of bearings that require local inventory and service. In addition, specific larger OEM customers are also serviced through this channel to facilitate requirements for Just In Time deliveries or Kan Ban systems. Our worldwide distributor network provides our customers with more than 2,000 points of sale for our products. We intend to continue to focus on building distributor sales volume.

The sale of our products is supported by a well-trained and experienced customer service organization. This organization provides customers with instant access to key information regarding their bearing purchase and delivery requirements. We also provide customers with updated information through our web site, and we have developed on-line integration with specific customers, enabling more efficient ordering and timely order fulfillment for those customers.

We store product inventory in four company-owned and operated warehouses located on the East and West coasts of the U.S., and in France and Switzerland. The inventory is located in these warehouses based on thorough analysis of customer demand to provide superior service and product availability.

### **Competition**

Our principal competitors include Kaydon Corporation, New Hampshire Ball Bearings and McGill Manufacturing Company, Inc., although we compete with different companies for each of our product lines. We believe that for the majority of our products, the principal competitive factors affecting our business are product qualifications, product line breadth, service and price. Although some of our current and potential competitors may have greater financial, marketing, personnel and other resources than us, we believe that we are well positioned to compete with regard to each of these factors in each of the markets in which we operate.

*Product Qualifications.* Many of the products we produce are qualified for the application by the OEM, the U.S. Department of Defense, the FAA or a combination of these agencies. These credentials have been achieved for thousands of distinct items after years of design, testing and improvement. In many cases patent protection presides, in all cases there is strong brand identity and in numerous cases we have the exclusive product for the application.

*Product Line Breadth.* Our products encompass an extraordinarily broad range of designs which often create a critical mass of complementary bearings and components for our markets. This position allows many of our industrial and aircraft customers the ability for a single manufacturer to provide the engineering service and product breadth needed to achieve a series of OEM design objectives or aftermarket requirements. This ability enhances our value to the OEM considerably while strengthening our overall market position.

*Service.* Product design, performance, reliability, availability, quality, technical and administrative support are elements that define the service standard for this business. Our customers are sophisticated and demanding, as our products are fundamental and enabling components to the construction or operating of their machinery. We maintain inventory levels of our most popular items for immediate sale and service well over 15,000 voice and electronic contacts per month. Our customers

4

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have high expectations regarding product availability, and the primary emphasis of our service efforts is to ensure the widest possible range of available products and delivering them on a timely basis.

*Price.* We believe our products are priced competitively in the markets we serve. We continually evaluate our manufacturing and other operations to maximize efficiencies in order to reduce costs, eliminate unprofitable products from our portfolio and maximize our profit margins. While we compete with larger bearing manufacturers who direct the majority of their business activities, investments and expertise toward the automotive industries, our sales in this industry are only a small percentage of our business. We invest considerable effort to develop our price to value algorithms and we price to market levels where required by competitive pressures.

### **Suppliers and Raw Materials**

We obtain raw materials, component parts and supplies from a variety of sources and generally from more than one supplier. Our principal raw material is steel. Our suppliers and sources of raw materials are based in the U.S., Europe and Asia. We purchase steel at market prices, which during the past three years have increased to historical highs as a result of a relatively low level of supply and a relatively high level of demand. To date, we have generally managed to pass through these raw material price increases to our customers by assessing steel surcharges on, or price increases of, our bearing products. However, we have from time to time experienced a time lag of up to 3 months or more in our ability to pass through steel surcharges to our customers which has negatively impacted our gross margins. We will continue to pass on raw material price increases as competitive conditions allow.

### **Backlog**

As of March 31, 2007 we had order backlog of \$176.6 million compared to a backlog of \$160.8 million in the prior year. The amount of backlog includes orders which we estimate will be fulfilled within the next 12 months; however, orders included in our backlog are subject to cancellation, delay or other modifications by our customers prior to fulfillment. We sell many of our products pursuant to contractual agreements, single source relationships or long-term purchase orders, each of which may permit early termination by the customer. However, due to the nature of many of the products supplied by us and the lack of availability of alternative suppliers to meet the demands of such customers' orders in a timely manner, we believe that it is not practical or prudent for most of our customers to shift their bearing business to other suppliers.

### **Employees**

We had approximately 1,271 hourly employees and 601 salaried employees as of March 31, 2007, of whom 326 were employed in our European and Mexican operations. As of March 31, 2007, approximately 191 of our hourly employees were represented by unions in the U.S. We believe that our employee relations are satisfactory.

We are subject to three collective bargaining agreements with the United Auto Workers covering substantially all of the hourly employees at our Fairfield, Connecticut, West Trenton, New Jersey and Bremen, Indiana plants. These agreements expire on January 31, 2008, June 30, 2009 and October 31, 2009, respectively.

On February 15, 2006, our RBC Nice Bearings, Inc. subsidiary and the United Steelworkers of America (AFL-CIO) Local 6816-12 entered into a shutdown agreement in connection with our decision to close operations at our Kulpsville, Pennsylvania facility. Under the shutdown agreement, the union has agreed to take no action against us in connection with such shutdown. The agreement also addresses closure and other transition issues related to pensions, workers compensation insurance, adjustment assistance and other matters. The production that was conducted at the Nice facility has been moved to other RBC locations.

On February 6, 2007, our Tyson Bearing Company, Inc. subsidiary and the United Steelworkers of America (AFL-CIO) Local 7461-01 entered into a shutdown agreement in connection with our decision to close operations at our Glasgow, Kentucky facility. Under the shutdown agreement, the union has agreed to take no action against us in connection with such shutdown. The agreement also addresses closure and other transition issues related to pensions, workers compensation, adjustment assistance and other matters. The production that was conducted at the Tyson facility has moved to other RBC locations, and we anticipate no material impact on our production or our ability to service our customers. The effective date of the termination of the union contract with this union will be the date on which bargaining unit work related to the union contract is concluded. As of March 31, 2007, seven union employees were active at the Glasgow, Kentucky facility.



## Intellectual Property

We own U.S. and foreign patents and trademark registrations and U.S. copyright registrations, and have U.S. trademark and patent applications pending. We currently have approximately 45 issued or pending U.S. and foreign patents. We file patent applications and maintain patents to protect certain technology, inventions and improvements that are important to the development of our business, and we file trademark applications and maintain trademark registrations to protect product names that have achieved brand-name recognition among our customers. We also rely upon trade secrets, know-how and continuing technological innovation to develop and maintain our competitive position. Many of our brands are well recognized by our customers and are considered valuable assets of our business. We currently have approximately 202 issued or pending U.S. and foreign trademark registrations and applications. We do not believe, however, that any individual item of intellectual property is material to our business. See Risk Factors.

## Regulation

*Product Approvals.* Essential to servicing the aerospace market is the ability to obtain product approvals. We have a substantial number of product approvals in the form of OEM approvals or Parts Manufacturer Approvals, or PMAs, from the FAA. We also have a substantial number of active PMA applications in process. These approvals enable us to provide products used in virtually all domestic aircraft platforms presently in production or operation. The costs of obtaining required product approvals are not directly tracked, but are included in our manufacturing overhead and SG&A costs. We do not directly pass these costs on to our customers, but they are reflected indirectly in our overall product pricing.

We are subject to various other federal laws, regulations and standards. Although we are not presently aware of any pending legal or regulatory changes that may have a material impact on us, new laws, regulations or standards or changes to existing laws, regulations or standards could subject us to significant additional costs of compliance or liabilities, and could result in material reductions to our results of operations, cash flow or revenues.

## Environmental Matters

We are subject to federal, state and local environmental laws and regulations, including those governing discharges of pollutants into the air and water, the storage, handling and disposal of wastes and the health and safety of employees. We also may be liable under the Comprehensive Environmental Response, Compensation, and Liability Act or similar state laws for the costs of investigation and clean-up of contamination at facilities currently or formerly owned or operated by us, or at other facilities at which we have disposed of hazardous substances. In connection with such contamination, we may also be liable for natural resource damages, government penalties and claims by third parties for personal injury and property damage. Agencies responsible for enforcing these laws have authority to impose significant civil or criminal penalties for non-compliance. We believe we are currently in material compliance with all applicable requirements of environmental laws. We do not anticipate material capital expenditures for environmental controls in fiscal 2008.

Investigation and remediation of contamination is ongoing at some of our sites. In particular, state agencies have been overseeing groundwater monitoring activities at our facilities in Hartsville, South Carolina and Fairfield, Connecticut. At Hartsville, we are monitoring low levels of contaminants in the groundwater caused by former operations. The state will permit us to cease monitoring activities after two consecutive sampling periods demonstrate contaminants are below action levels. In connection with the purchase of our Fairfield, Connecticut facility in 1996, we agreed to assume responsibility for completing clean-up efforts previously initiated by the prior owner. We submitted data to the state that we believe demonstrates that no further remedial action is necessary although the state may require additional clean-up or monitoring. Although there can be no assurance, we do not expect any of those to be material.

We received notice in 2003 from the U.S. Environmental Protection Agency (EPA) that we had been named a potentially responsible *de minimis* party for past disposal of hazardous substances at the Operating Industries, Inc.'s landfill in Monterey, California. Any such disposal would have been conducted prior to our ownership, and we notified the former owners of a potential claim for indemnification pursuant to the terms of our asset purchase agreements. We are currently negotiating a *de minimis* settlement with the U.S. EPA and expect that any settlement, even if we are unsuccessful in obtaining indemnification, will not be material to our results of operations or to our business.

## Available Information

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

6

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that file electronically with the SEC. The public can obtain any documents that are filed by us at <http://www.sec.gov>.

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

## ITEM 1A. RISK FACTORS

### Cautionary Statement As To Forward-Looking Information

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including any projections of earnings, cash flows, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; future growth rates in the markets we serve; increases in foreign sales; supply and cost of raw materials, any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words may, estimate, intend, continue, believe, expect, anticipate, the negative of such terms or other comparable terminology.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition, results of operations and cash flows, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, such as those disclosed in this Annual Report on Form 10-K. Factors that could cause our actual results, performance and achievements or industry results to differ materially from estimates or projections contained in forward-looking statements include, among others, the following:

- Weaknesses and cyclicity in any of the industries in which our customers operate;
- Changes in marketing, product pricing and sales strategies or developments of new products by us or our competitors;
- Future reductions in U.S. governmental spending or changes in governmental programs, particularly military equipment procurement programs;
- Suspension or debarment from acting as a government supplier;
- Our ability to obtain and retain product approvals;
- Supply and costs of raw materials, particularly steel, and energy resources and our ability to pass through these costs on a timely basis;
- Our ability to address technological advances in metallurgy or in material advances and introduce new products to remain competitive;
- Our ability to acquire and integrate complementary businesses;
- Unexpected equipment failures, catastrophic events or capacity constraints;
- Development of new litigation;
- Our ability to attract and retain our management team and other highly-skilled personnel;



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- Increases in interest rates;
- Work stoppages and other labor problems for us and our customers or suppliers;
- Contractual limitations on our ability to expand our business;
- Regulatory developments in the U.S. and foreign countries;
- Developments or disputes concerning patents or other proprietary rights;
- Actual or anticipated changes in our earnings, fluctuations in our operating results or the failure to meet the expectations of financial market analysts and investors;
- Changes in accounting standards, policies, guidance, interpretation or principles;
- Risks associated with operating internationally, including currency translation risks;
- The operating and stock performance of comparable companies;
- Acts of terrorism or major catastrophic events;
- Investors' perceptions of us and our industry; and
- General economic, geopolitical, industry and market conditions.

Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this Annual Report on Form 10-K, including under Item 1. Business, Item 1A. Risk Factors, Item 7. Management's

Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

We are not under any duty to update any forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations. All forward-looking statements contained in this report and any subsequently filed reports are expressly qualified in their entirety by these cautionary statements.

Our business, operating results, cash flows or financial condition could be materially adversely affected by any of the following risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. You should carefully consider these risks before investing in shares of our common stock.

#### **Risk Factors Related to Our Company**

##### **The bearing industry is highly competitive, and this competition could reduce our profitability or limit our ability to grow.**

The global bearing industry is highly competitive, and we compete with many U.S. and non-U.S. companies, some of which benefit from lower labor costs and fewer regulatory burdens than us. We compete primarily based on product qualifications, product line breadth, service and price. Certain competitors are larger than us or subsidiaries of larger entities and may be better able to manage costs than us or may have greater financial resources than we have. Due to the competitiveness in the bearing industry we may not be able to increase prices for our products to cover increases in our costs, or we may face pressure to reduce prices, which could materially reduce our revenues, gross margin and profitability. Competitive factors, including changes in market penetration, increased price competition and the introduction of new products and technology by existing and new competitors could result in a material reduction in our revenues and profitability.

##### **The loss of a major customer could result in a material reduction in our revenues and profitability.**

Our top ten customers generated 32% of our net sales during fiscal 2007 and fiscal 2006. Accordingly, the loss of one or more of those customers or a substantial decrease in such customers' purchases from us could result in a material reduction in our revenues and profitability.

In addition, the consolidation and combination of defense or other manufacturers may eliminate customers from the industry and/or put downward pricing pressures on sales of component parts. For example, the consolidation that has occurred in the defense industry in recent years has significantly reduced the overall number of defense contractors in the industry. In addition, if one of our customers is acquired or merged with another entity, the new entity may discontinue using us as a supplier because of an existing business relationship with the acquiring company or because it may be more efficient to consolidate certain suppliers within the newly formed enterprise. The significance of the impact that such consolidation may have on our business is difficult to predict because we do not know when or if one or more of our customers will engage in merger or acquisition activity. However, if such activity involved our material customers it could materially impact our revenues and profitability.

##### **Weakness in any of the industries in which our customers operate, as well as the cyclical nature of our customers' businesses generally, could materially reduce our revenues and profitability.**

The commercial aerospace, mining and construction equipment and other diversified industrial industries to which we sell our products are, to varying degrees, cyclical and tend to decline in response to overall declines in industrial production. Margins in those industries are highly sensitive to demand cycles, and our customers in those industries historically have tended to delay large capital projects, including expensive maintenance and upgrades, during economic downturns. As a result, our business is also cyclical, and the demand for our products by these customers depends, in part, on overall levels of industrial production, general economic conditions and business confidence levels. Downward economic cycles have affected our customers and reduced sales of our products resulting in reductions in our revenues and net earnings. Any future material weakness in demand in any of these industries could materially reduce our revenues and profitability.

In addition, many of our customers have historically experienced periodic downturns, which often have had a negative effect on demand for our products. For example, the severe downturn in 2001 in the aerospace industry resulted in deferrals or cancellations in aircraft orders, which reduced the volume and price of orders placed for products used to manufacture commercial aircraft, including our bearings and other individual parts and components we manufacture. Previous industry downturns have negatively affected, and future industry downturns may negatively affect, our net sales, gross margin and net income.



**Future reductions or changes in U.S. government spending could negatively affect our business.**

In fiscal 2007, 6.5% of our net sales were made directly, and we estimate that approximately an additional 15.6% of our net sales were made indirectly, to the U.S. government to support military or other government projects. Our failure to obtain new government contracts, the cancellation of government contracts or reductions in federal budget appropriations regarding our products could result in materially reduced revenue. In addition, the funding of defense programs also competes with non-defense spending of the U.S. government. Our business is sensitive to changes in national and international priorities and the U.S. government budget. A shift in government defense spending to other programs in which we are not involved or a reduction in U.S. government defense spending generally could materially reduce our revenues, cash flow from operations and profitability. If we, or our prime contractors for which we are a subcontractor, fail to win any particular bid, or we are unable to replace lost business as a result of a cancellation, expiration or completion of a contract, our revenues or cash flow could be reduced.

**Fluctuating supply and costs of raw materials and energy resources could materially reduce our revenues, cash flow from operations and profitability.**

Our business is dependent on the availability and costs of energy resources and raw materials, particularly steel, generally in the form of stainless and chrome steel, which are commodity steel products. The availability and prices of raw materials and energy sources may be subject to curtailment or change due to, among other things, new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates and worldwide price levels. Although we currently maintain alternative sources for raw materials, our business is subject to the risk of price fluctuations and periodic delays in the delivery of certain raw materials. Disruptions in the supply of raw materials and energy resources could temporarily impair our ability to manufacture our products for our customers or require us to pay higher prices in order to obtain these raw materials or energy resources from other sources, which could thereby affect our net sales and profitability.

For example, we purchase steel at market prices, which during the past three years have increased to historical highs as a result of a relatively low level of supply and a relatively high level of demand. As a result, we are currently being assessed surcharges on certain of our purchases of steel, and under certain circumstances, we have experienced difficulty in identifying steel for purchase. If we are unable to purchase steel for our operations for a significant period of time, our operations would be disrupted, which could reduce or delay sales of our products, and, in turn, could result in a material reduction in our revenues, cash flow from operations and profitability. In addition, we may be unable to pass on the increased costs of raw materials to our customers, which could materially reduce our cash flow from operations and profitability.

We seek to pass through a significant portion of our additional costs to our customers through steel surcharges or price increases. However, even if we are able to pass these steel surcharges or price increases to our customers, there may be a time lag of up to 3 months or more between the time a cost increase goes into effect and our ability to implement surcharges or price increases, particularly for orders already in our backlog. As a result our gross margin percentage may decline, and we may not be able to implement other price increases for our products. We cannot provide assurances that we will be able to continue to pass these additional costs on to our customers at all or on a timely basis or that our customers will not seek alternative sources of supply if there are significant or prolonged increases in the price of steel or other raw materials or energy resources.

**We may not be able to address technological advances or maintain customer relationships which are necessary to remain competitive within our businesses.**

We believe that our customers rigorously evaluate their suppliers on the basis of product quality, price competitiveness, technical expertise, new product innovation, reliability and timeliness of delivery, product design capability, manufacturing expertise, operational flexibility and customer service. Our success will depend on our ability to continue to meet our customers' changing specifications with respect to these criteria. We must remain committed to product research and development, advanced manufacturing techniques and service to remain competitive. We may not be able to address technological advances in metallurgy or in materials science or introduce new products that may be necessary to remain competitive within our businesses, or our competitors may develop products superior to our products. Furthermore, we may be unable to adequately protect any of our own technological developments to produce a sustainable competitive advantage.

**Our products are subject to certain approvals, and the loss of such approvals could materially reduce our revenues and profitability.**

Essential to servicing the aerospace market is the ability to obtain product approvals. We have a substantial number of product approvals, which enable us to provide products used in virtually all domestic aircraft platforms presently in production or operation. Product approvals are typically issued by the FAA to designated OEMs who are Production Approval Holders of FAA approved aircraft. These Production Approval Holders provide quality control oversight and generally limit the number of suppliers directly servicing the commercial aerospace aftermarket. Regulations enacted by the FAA provide for an independent process (the PMA process), which enables suppliers who currently sell their products to the Production Approval Holders, to sell products to the aftermarket. Our foreign sales may be subject to similar approvals or U.S. export control restrictions. Although we have not lost any material product approvals in the past, we cannot assure you that we will not lose approvals for our products in the future. The loss of product approvals could result in lost sales and materially reduce our revenues and profitability.

**Under certain circumstances, the U.S. government has the right to debar or suspend us from acting as a U.S. government contractor or subcontractor, and if we are suspended or debarred from acting as a government supplier for any reason, such an action would materially reduce our revenues and profitability.**

In connection with our performance of certain U.S. government contracts, the federal government audits and reviews our performance, pricing practices and compliance with applicable laws, regulations and standards. It is possible that as a result of these audits, our revenues, cash flow or results of operations could be materially reduced as a result of lost sales or penalties. For example, the government could disallow certain costs that it originally reimbursed, and we may be required to refund cash already collected. It is also possible that a government audit, review or investigation could uncover improper or illegal activities that would subject us to civil, criminal and/or administrative sanctions, including, but not limited to, termination of contracts, reimbursement of payments received, fines, forfeiture of profits and suspension or debarment from doing business with federal government agencies. If any allegations of impropriety were made against us, whether or not true, our reputation could be adversely affected. If we were suspended or debarred from contracting with the federal government, or any specific agency, if our reputation was impaired or if the government ceased or significantly decreased the amount of business it does with us, our revenues and cash flow could be reduced. As a U.S. government contractor, we are also subject to various federal laws, regulations and standards. New laws, regulations or standards or changes to existing laws, regulations or standards could subject us to additional costs of compliance or liabilities and could result in material reductions to our results of operations, cash flow or revenues.

**We have outstanding debt, and may incur additional debt in the future for acquisitions or other purposes, which could materially impact our business.**

As of March 31, 2007, we had total indebtedness of \$59.4 million. Our ability to generate cash, make scheduled payments or to refinance our obligations depends on our successful financial and operating performance. Our financial and operating performance, cash flow and capital resources depend upon prevailing economic conditions and certain financial, business and other factors, many of which are beyond our control.

We may incur additional indebtedness in the future for acquisitions and other purposes, and the debt servicing costs associated with that indebtedness could have effects on our operations, including:

- limit our ability to obtain additional financing to operate our business;
- require us to dedicate a substantial portion of our cash flow to payments on our debt, reducing our ability to use our cash flow to fund working capital, capital expenditures and other general operational requirements;
- limit our flexibility to plan for and react to changes in our business or industry;
- place us at a competitive disadvantage relative to some of our competitors that have less debt than us; and
- increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates or a downturn in our business or the economy.

The occurrence of any one of these events could materially impact our business, financial condition, results of operations and ability to grow our business.

**Restrictions in our indebtedness agreements could limit our growth and our ability to respond to changing conditions.**

10

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The KeyBank Credit Agreement contains a number of restrictive covenants that limit our ability, among other things, to:

- incur additional indebtedness and issue preferred stock and guarantee indebtedness;
- create liens on our assets;
- pay dividends or make other equity distributions;
- purchase or redeem capital stock;
- create restrictions on payments of dividends or other amounts to us by our restricted subsidiaries;
- make investments;
- merge, consolidate or sell assets;
- engage in activities unrelated to our current business;
- engage in transactions with our affiliates; and
- sell or issue capital stock of certain subsidiaries.

In addition, the KeyBank Credit Agreement contains other financial covenants requiring us to maintain a minimum fixed charge coverage ratio and maximum senior leverage ratios and to satisfy certain other financial conditions. Our KeyBank Credit Agreement prohibits us from incurring capital expenditures of more than \$20 million per year. These restrictions could limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general or otherwise conduct necessary corporate activities.

As of March 31, 2007, we had \$42.0 million outstanding borrowings and letters of credit of \$21.4 million under our \$150.0 million KeyBank Credit Agreement. Under the KeyBank Credit Agreement, we had borrowing availability of \$86.6 million as of March 31, 2007.

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

As of March 31, 2007, approximately 15% of our hourly employees were represented by labor unions in the U.S. While we believe our relations with our employees are satisfactory, a lengthy strike or other work stoppage at any of our facilities, particularly at some of our larger facilities, could materially reduce our ability to operate our business. In addition, any attempt by our employees not currently represented by a union to join a union could result in additional expenses, including with respect to wages, benefits and pension obligations. We currently have three collective bargaining agreements, one agreement covering approximately 70 employees will expire in June 2009, one agreement covering approximately 32 employees will expire in October 2009, and one agreement covering approximately 82 employees will expire in January 2008.

Negotiations for the extension of these agreements may result in modifications to the terms of these agreements, and these modifications could cause us to incur increased costs relating to our labor force.

In addition, work stoppages at one or more of our customers or suppliers, including suppliers of transportation services, many of which have large unionized workforces, for labor or other reasons could also cause disruptions to our business that we cannot control, and these disruptions may materially reduce our revenues and profitability.

**Our business is capital intensive and may consume cash in excess of cash flow from our operations.**

Our ability to remain competitive, sustain our growth and expand our operations largely depends on our cash flow from operations and our access to capital. We intend to fund our cash needs through operating cash flow and borrowings under our KeyBank Credit Agreement. We may require additional equity or debt financing to fund our growth and debt repayment obligations. In addition, we may need additional capital to

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fund future acquisitions. Our business may not generate sufficient cash flow, and we may not be able to obtain sufficient funds to enable us to pay our debt obligations and capital expenditures or

11

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we may not be able to refinance on commercially reasonable terms, if at all. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity.

**Unexpected equipment failures, catastrophic events or capacity constraints may increase our costs and reduce our sales due to production curtailments or shutdowns.**

Our manufacturing processes are dependent upon critical pieces of equipment, such as furnaces, continuous casters and rolling equipment, as well as electrical equipment, such as transformers, and this equipment may, on occasion, be out of service as a result of unanticipated failures. In addition to equipment failures, our facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions, earthquakes or violent weather conditions. In the future, we may experience material plant shutdowns or periods of reduced production as a result of these types of equipment failures or catastrophes. Interruptions in production capabilities will inevitably increase our production costs and reduce sales and earnings for the affected period.

Certain of our facilities are operating at a single shift with light second and third shifts, and additional demand may require additional shifts and/or capital investments at these facilities. We cannot assure you that we will be able to add additional shifts as needed in a timely way and production constraints may result in lost sales. In certain markets we refrain from making additional capital investments to expand capacity where we believe market expansion in a particular end market is not sustainable or otherwise does not justify the expansion or capital investment. Our assumptions and forecasts regarding market conditions in these end markets may be erroneous and may result in lost earnings, potential sales going to competitors and inhibit our growth.

**The occurrence of extraordinary events, such as a major terrorist attack, may adversely affect our business, resulting in a decrease in our revenues.**

Future terrorist attacks cannot be predicted, and their occurrence can be expected to negatively affect the economy of the U.S. and other countries in which we do business. Such attacks may have a material impact on the markets in which we operate, particularly commercial aerospace, as increased terrorist activity around the world is likely to cause a reduction in air travel. For example, in the period following September 11, 2001, aircraft orders declined significantly and materially reduced our sales to the aerospace market. Similar effects are likely to result if there is a significant increase in terrorist activity around the world, particularly if commercial airliners are again involved in one or more major terrorist incidents. Other kinds of significant terror incidents may also impair our ability to conduct our manufacturing and other business activities for extended periods depending on the nature and severity of the event.

**We may not be able to continue to make the acquisitions necessary for us to realize our growth strategy.**

The acquisition of businesses that complement or expand our operations has been and continues to be an important element of our business strategy. We frequently engage in evaluations of potential acquisitions and negotiations for possible acquisitions, some of which, if consummated, could be significant to us. We cannot assure you that we will be successful in identifying attractive acquisition candidates or completing acquisitions on favorable terms in the future for a number of different reasons including the increased competition for targets, which may increase acquisition costs, and consolidation in our industries reducing the number of acquisition targets. Our inability to acquire businesses, or to operate them profitably once acquired, could have a material adverse effect on our business, financial position, cash flow and growth.

**The costs and difficulties of integrating acquired businesses could impede our future growth.**

We cannot assure you that any future acquisition will enhance our financial performance. Our ability to effectively integrate any future acquisitions will depend on, among other things, the culture of the acquired business matching with our culture, the ability to retain and assimilate employees of the acquired business, the ability to retain customers and integrate customer bases, the adequacy of our implementation plans, the ability of our management to oversee and operate effectively the combined operations and our ability to achieve desired operating efficiencies and sales goals. The integration of any acquired businesses might cause us to incur unforeseen costs, which would lower our future earnings and would prevent us from realizing the expected benefits of these acquisitions.

Even if we are able to integrate future acquired businesses with our operations successfully, we cannot assure you that we will realize all of the cost savings, synergies or revenue enhancements that we anticipate from such integration or that we will realize such benefits within the expected time frame. As a result of our acquisitions of other businesses, we may be subject to the risk of unforeseen business uncertainties or legal liabilities relating to those acquired businesses for which the sellers may not



indemnify us, or be financially able to indemnify us. Future acquisitions may also result in potentially dilutive issuances of securities.

**We depend heavily on our senior management and other key personnel, the loss of whom could materially affect our financial performance and prospects.**

Our business is managed by a small number of key executive officers, including Dr. Michael J. Hartnett. Our future success will depend on, among other things, our ability to keep the services of these executives and to hire other highly qualified employees at all levels. Dr. Hartnett is the only member of our senior management team with a long-term employment contract. The remainder of our key executives are at-will employees.

We compete with other potential employers for employees, and we may not be successful in hiring and retaining executives and other skilled employees that we need. Our ability to successfully execute our business strategy, market and develop our products and serve our customers could be adversely affected by a shortage of available skilled employees or executives.

**Our international operations are subject to risks inherent in such activities.**

We have established operations in certain countries outside the U.S., including Mexico, France, Switzerland and England. Of our 19 facilities, 5 are located outside the U.S., including 3 manufacturing facilities.

Approximately 24% of our net sales were derived from sales directly or indirectly outside the U.S. for fiscal 2007. We expect that this proportion is likely to increase as we seek to increase our penetration of foreign markets, including through acquisitions, particularly within the aerospace and defense markets. Our foreign operations are subject to the risks inherent in such activities such as: currency devaluations, logistical and communications challenges, costs of complying with a variety of foreign laws and regulations, greater difficulties in protecting and maintaining our rights to intellectual property, difficulty in staffing and managing geographically diverse operations, acts of terrorism or war or other acts that may cause social disruption which are difficult to quantify or predict and general economic conditions in these foreign markets. We are not aware of any proposed material regulatory changes, but our international operations may be negatively impacted by changes in government policies, such as changes in laws and regulations (or the interpretation thereof), restrictions on imports and exports, sources of supply, duties or tariffs, the introduction of measures to control inflation and changes in the rate or method of taxation. To date we have not experienced significant difficulties with the foregoing risks associated with our international operations, however, as the size of our international operations has continued to grow, we expect these risks to become increasingly important to our business operations.

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

Our Swiss operations utilize the Swiss franc as the functional currency and our French operations utilize the Euro as the functional currency. Foreign currency transaction gains and losses are included in earnings. Foreign currency transaction exposure arises primarily from the transfer of foreign currency from one subsidiary to another within the group and to foreign currency denominated trade receivables. Unrealized currency translation gains and losses are recognized upon translation of the foreign subsidiaries' balance sheets to U.S. dollars. Because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our earnings. While we monitor exchange rates, 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 affect our financial performance in the future. The impact of future exchange rate fluctuations on our results of operations cannot be accurately predicted. See Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Exchange Rates.

**Our pension plans are underfunded, and we may be required to make significant future contributions to the plans.**

As of March 31, 2007, we maintained four noncontributory defined benefit pension plans. The plans were underfunded by \$1.1 million in the aggregate as of March 31, 2007 and \$3.8 million as of April 1, 2006, which is the amount by which the accumulated benefit obligations exceed the sum of the fair market value of plans' assets. We are required to make cash contributions to our pension plans to the extent necessary to comply with minimum funding requirements imposed by employee benefit laws and tax laws. The amount of any such required contributions is determined based on annual actuarial valuation of the plans as performed by the plans' actuaries. The amount of future contributions will depend upon asset returns, then-current discount rates and a number of other factors, and, as a result, the amount we may elect or be required to contribute to our pension plans in the future may increase significantly. Additionally, there is a risk that if the Pension Benefit Guaranty Corporation



concludes that its risk with respect to our pension plans may increase unreasonably if the plans continue to operate, if we are unable to satisfy the minimum funding requirement for the plans or if the plans become unable to pay benefits, then the Pension Benefit Guaranty Corporation could terminate the plans and take control of their assets. In such event, we may be required to make an immediate payment to the Pension Benefit Guaranty Corporation of all or a substantial portion of the underfunding as calculated by the Pension Benefit Guaranty Corporation based upon its own assumptions. The underfunding calculated by the Pension Benefit Guaranty Corporation could be substantially greater than the underfunding we have calculated because, for example, the Pension Benefit Guaranty Corporation may use a significantly lower discount rate. If such payment is not made, then the Pension Benefit Guaranty Corporation could place liens on a material portion of our assets and the assets of any members of our controlled group. Such action could result in a material increase in our pension related expenses and a corresponding reduction in our cash flow and net income. For additional information concerning our pension plans and plan liabilities, see Note 13 to our consolidated financial statements for the fiscal year ended March 31, 2007.

**We may incur material losses for product liability and recall related claims.**

We are subject to a risk of product and recall related liability in the event that the failure, use or misuse of any of our products results in personal injury, death, or property damage or our products do not conform to our customers' specifications. In particular, our products are installed in a number of types of vehicle fleets, including airplanes, trains, automobiles, heavy trucks and farm equipment, many of which are subject to government ordered as well as voluntary recalls by the manufacturer. If one of our products is found to be defective, causes a fleet to be disabled or otherwise results in a product recall, significant claims may be brought against us. Although we have not had any material product liability or recall related claims made against us, and we currently maintain product liability insurance coverage for product liability, although not for recall related claims, we cannot assure you that product liability or recall related claims, if made, would not exceed our insurance coverage limits or would be covered by insurance which, in turn, may result in material losses related to these claims, increased future insurance costs and a corresponding reduction in our cash flow and net income.

**Environmental regulations impose substantial costs and limitations on our operations, and environmental compliance may be more costly than we expect.**

We are subject to various federal, state and local environmental laws and regulations, including those governing discharges of pollutants into the air and water, the storage, handling and disposal of wastes and the health and safety of employees. These laws and regulations could subject us to material costs and liabilities, including compliance costs, civil and criminal fines imposed for failure to comply with these laws and regulatory and litigation costs. We also may be liable under the federal Comprehensive Environmental Response, Compensation, and Liability Act, or similar state laws, for the costs of investigation and clean-up of contamination at facilities currently or formerly owned or operated by us or at other facilities at which we have disposed of hazardous substances. In connection with such contamination, we may also be liable for natural resource damages, government penalties and claims by third parties for personal injury and property damage. Compliance with these laws and regulations may prove to be more limiting and costly than we anticipate. New laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs or become the basis for new or increased liabilities that could cause a material increase in our environmental related compliance costs and a corresponding reduction in our cash flow and net income. Investigation and remediation of contamination at some of our sites is ongoing. Actual costs to clean-up these sites may exceed our current estimates. Although we have indemnities for certain pre-closing environmental liabilities from the prior owners in connection with our acquisition of several of our facilities, we cannot assure you that the indemnities will be adequate to cover known or newly discovered pre-closing liabilities.

**Our intellectual property and other proprietary rights are valuable, and any inability to protect them could adversely affect our business and results of operations; in addition, we may be subject to infringement claims by third parties.**

Our ability to compete effectively is dependent upon our ability to protect and preserve the intellectual property and other proprietary rights and materials owned, licensed or otherwise used by us. We have numerous U.S. and foreign patents, trademark registrations and U.S. copyright registrations. Our issued patents are expected to expire by their own terms at various dates and most such patents will not expire for at least 5 years. We also have U.S. and foreign trademark and patent applications pending. We cannot assure you that our pending trademark and patent applications will result in trademark registrations and issued patents, and our failure to secure rights under these applications may limit our ability to protect the intellectual property rights that these applications were intended to cover. Although we have attempted to protect our intellectual property and other proprietary rights both in the United States and in foreign countries through a combination of patent, trademark, copyright and trade secret protection and non-disclosure agreements, these steps may be insufficient to prevent unauthorized use of our intellectual property and other proprietary rights, particularly in foreign countries where the protection available for such intellectual property and other proprietary rights may be limited. To date we are not currently engaged in and have not had any



material infringement or other claims pertaining to our intellectual property brought against us in recent years. We cannot assure you that any of our intellectual property rights will not be infringed upon or that our trade secrets will not be misappropriated or otherwise become known to or independently developed by competitors. We may not have adequate remedies available for any such infringement or other unauthorized use. We cannot assure you that any infringement claims asserted by us will not result in our intellectual property being challenged or invalidated, that our intellectual property will be held to be of adequate scope to protect our business or that we will be able to deter current and former employees, contractors or other parties from breaching confidentiality obligations and misappropriating trade secrets. In addition, we may become subject to claims against us which could require us to pay damages or limit our ability to use certain intellectual property and other proprietary rights found to be in violation of a third party's rights, and, in the event such litigation is successful, we may be unable to use such intellectual property and other proprietary rights at all or on reasonable terms. Regardless of its outcome, any litigation, whether commenced by us or third parties, could be protracted and costly and could result in increased litigation related expenses, the loss of intellectual property rights or payment of money or other damages, which may result in lost sales and reduced cash flow and decrease our net income. See Business Intellectual Property.

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

As of March 31, 2007, we had an order backlog of \$176.6 million, which we estimate will be fulfilled within the next 12 months. However, orders included in our backlog are subject to cancellation, delay or other modifications by our customers prior to fulfillment. For these reasons, we cannot assure you that orders included in our backlog will ultimately result in the actual receipt of revenues from such orders.

**If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.**

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. To date we have not detected any material weakness or significant deficiencies in our internal controls over financial reporting. However, we are continuing to evaluate and, where appropriate, enhance our policies, procedures and internal controls. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we could be subject to regulatory scrutiny, civil or criminal penalties or shareholder litigation. In addition, failure to maintain adequate internal controls could result in financial statements that do not accurately reflect our financial condition. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

**Any reduction of Continued Dumping and Subsidy Offset Act (CDSOA) distributions in the future would reduce our earnings and cash flows.**

The CDSOA provides for distribution of monies collected by the U.S. Customs Service from antidumping cases to qualifying domestic producers where the domestic producers have continued to invest in their technology, equipment and personnel. We reported approximately \$1.2 million in CDSOA receipts for the year ended March 31, 2007. In February 2006, U.S. legislation was enacted that would end CDSOA distributions for imports covered by antidumping duty orders entering the United States after September 30, 2007. Instead, any such antidumping duties collected would remain with the U.S. Treasury. This legislation is not expected to have a significant effect on potential CDSOA distributions in our fiscal year ending 2008, but would be expected to reduce any distributions in years beyond our fiscal year ending 2008, with distributions eventually ceasing. In separate cases in July and September 2006, the U.S. Court of International Trade, or CIT, ruled that the procedure for determining recipients eligible to receive CDSOA distributions is unconstitutional. The CIT has not finally ruled on other matters, including any remedy as a result of its ruling. We are unable to determine, at this time, if these rulings will have a material adverse impact on our future receipt of CDSOA distributions or our financial results. It is possible that the CIT rulings might prevent us from receiving any CDSOA distributions in our fiscal year ending 2008. In addition to the CIT ruling, there are a number of other factors that can affect whether we receive any CDSOA distributions and the amount of such distributions in any year. These factors include, among other things, potential additional changes in the law, ongoing and potential additional legal challenges to the law, and the administrative operation of the law. Any reduction of CDSOA distributions would reduce our earnings and cash flow.

**Risk Factors Related to our Common Stock**

**Provisions in our charter documents and under Delaware law may prevent or frustrate attempts by our stockholders to change our management and hinder efforts to acquire a controlling interest in us.**





Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- a classified board of directors;
- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings; and
- the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval.

The affirmative vote of the holders of at least 66 2/3% of our shares entitled to vote is necessary to amend or repeal the above provisions of our certificate of incorporation. In addition, absent approval of our board of directors, many of our bylaw provisions may only be amended or repealed by the affirmative vote of the holders of at least 66 2/3% of our shares entitled to vote.

Our certificate of incorporation authorizes the issuance of blank check preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors. Accordingly, the board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could materially adversely affect the voting power or other rights of the holders of our common stock, including purchasers in this offering. Holders of the common stock will not have preemptive rights to subscribe for a pro rata portion of any capital stock which may be issued by us. In the event of issuance, such preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of us. Although we have no present intention to issue any new shares of preferred stock, we may do so in the future.

In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns, or within the last three years has owned, 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Accordingly, Section 203 may discourage, delay or prevent a change in control of our company.

**If there are substantial sales of our common stock, our stock price could decline.**

If our existing stockholders sell a large number of shares of our common stock or the public market perceives that existing stockholders might sell shares of our common stock, the market price of our common stock could decline significantly.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

Our principal executive offices are located at One Tribology Center, Oxford, Connecticut 06478. We also use this facility for manufacturing our plain bearing products, both Teflon® lined and metal-to-metal, and commercial ball bearings.

In addition, we own facilities in Hartsville, South Carolina; Fairfield, Connecticut; Rancho Dominguez, California; Santa Ana, California; Walterboro, South Carolina; Bremen, Indiana; Plymouth, Indiana; Bishopville, South Carolina; and Torrington, Connecticut. We also have leases in effect with respect to facilities in the following locations until the following dates: West Trenton, New Jersey, February 2, 2012; Oxford, Connecticut, September 30, 2014; Torrington, Connecticut, December 22, 2008; Glasgow, Kentucky, June 30, 2007; Delemont, Switzerland, December 31, 2009; Reynosa, Mexico, June 13, 2013; Oklahoma City, Oklahoma, September 30, 2021; Irwindale, California, May 31, 2008; Bishopville, South Carolina, January 31, 2016; Hartsville, South Carolina, September 30, 2014; and Santa Fe Springs, California, July 1, 2009.

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We also have several small field offices located in various locales in the United States to support field sales operations. These offices are less than twenty five hundred square feet.

16

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We believe that our existing property, facilities and equipment are generally in good condition, are well maintained and adequate to carry on our current operations. We also believe that our existing manufacturing facilities have sufficient capacity to meet increased customer demand. Substantially all of our owned domestic properties and most of our other assets are subject to a lien securing our obligations under our KeyBank Credit Agreement.

**ITEM 3. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2007.

**ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT**

The following information is included in accordance with the provisions of Part III, Item 10.

The executive officers are elected by the Board of Directors normally for a term of one year and until the election of their successors. The executive officers of the company as of June 12, 2007 are as follows:

Name	Age	Current Position and Previous Positions During Last Five Years		
Dr. Michael J. Hartnett	61	1992		Chairman, President and Chief Executive Officer
Daniel A. Bergeron	47	2003 2003 2006		Vice President Finance Vice President and Chief Financial Officer and Secretary Vice President and Chief Financial Officer and Assistant Secretary
Phillip H. Beausoleil	63	1995 2007		General Manager, ITB and TDC General Manager, ITB, TDC and All Power
Thomas C. Crainer	49	2000 2003		General Manager Schaublin SA General Manager, Heim, RBC-API and Schaublin SA
Richard J. Edwards	51	1996		Vice President and General Manager, RBC Divisions
Thomas J. Williams	55	2006		Corporate General Counsel and Secretary
Thomas M. Burigo	55	2003 2005 2006		Manager of Accounting Director of Accounting Corporate Controller

**PART II**

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

**Price range of our Common Stock**

Our common stock is quoted on the Nasdaq National Market under the symbol ROLL. As of May 29, 2007, there were 49 holders of record of our common stock.

The following table shows the high and low sales prices of our common stock (beginning August 10, 2005) as reported by the Nasdaq National Market during the periods indicated:



	Fiscal 2007		Fiscal 2006	
	High	Low	High	Low
First Quarter	\$ 27.19	\$ 19.33	\$	\$
Second Quarter	25.57	19.63	17.68	14.60
Third Quarter	30.12	23.78	18.27	14.20
Fourth Quarter	34.88	25.81	22.24	16.25

The last reported sale price of our common stock on the Nasdaq National Market on June 4, 2007 was \$39.55 per share.

### Dividend Policy

We have never declared or paid any cash dividends on our common stock and do not expect to pay cash dividends for the foreseeable future. Our current policy is to retain all of our earnings to finance future growth. In addition, covenants in our credit facilities restrict our ability to pay dividends. Any future declaration of dividends will be determined by our board of directors, based upon our earnings, capital requirements, financial condition, debt covenants, tax consequences and other factors deemed relevant by our board of directors.

### Issuer Purchases of Equity Securities

Total share repurchases for the three months ended March 31, 2007 are as follows:

Period	Total number of shares purchased	Average price paid per share	Number of shares purchased as part of the publicly announced program	Approximate dollar value of shares still available to be purchased under the program (000 s)
01/01/2007 - 01/31/2007	26,107	\$ 26.38	26,107	\$ 6,811
02/01/2007 - 02/28/2007				6,811
03/01/2007 - 03/31/2007	11,249	32.00	11,249	
Total	37,356	\$ 28.07	37,356	\$

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. This plan expired on March 31, 2007.

During the fourth quarter of fiscal 2007, we did not issue any common stock that was not registered under the Securities Act.

### Equity Compensation Plans

Information regarding equity compensation plans required to be disclosed pursuant to this Item is included elsewhere in this Annual Report on Form 10-K.

### Use of Proceeds from Registered Securities

Our Registration Statement on Form S-1 (Reg. No. 333-132480), as amended, together with our Registration Statement on Form S-1 MEF (Reg. No. 333-133219), filed April 11, 2006, became effective April 11, 2006, and the offering commenced the same day. The offering terminated subsequent to the sale of 7,817,000 shares of common stock, excluding shares sold in connection with the exercise of the underwriters overallotment option. Merrill Lynch & Co., KeyBanc Capital Markets and Robert W. Baird & Co. acted as underwriters for the offering.

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We registered 7,817,000 shares of common stock at \$0.01 par value per share, plus 1,172,550 additional shares to cover the underwriters overallotment option. 1,821,471 shares were registered for our account, plus an additional 1,172,550 in connection with exercise of the overallotment option. The aggregate public offering price of the 2,994,021 shares sold by us was \$20.50 per share resulting in gross proceeds before expenses and underwriting commissions and discounts of approximately

18

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\$61.4 million. The selling stockholders sold 5,995,529 shares of common stock, resulting in aggregate gross proceeds to the selling stockholders of approximately \$122.9 million before expenses and underwriting commissions and discounts.

Expenses incurred in connection with the issuance and distribution of the securities registered were as follows (excluding fees associated with the refinancing of our senior credit facility):

Underwriting discounts and commissions	\$ 3.1 million
Other estimated expenses	1.3 million
Total estimated expenses	\$ 4.4 million

None of such payments were direct or indirect payments to directors or officers of the issuer or their associates or to persons owning 10 percent or more of any class of equity securities of the issuer or any of its affiliates or direct or indirect payments to others. The net offering proceeds to us after deducting underwriters' discounts and the total expenses described above totals approximately \$57.0 million.

The proceeds of the offering (excluding payments for commissions, fees and expenses described above) were used to prepay outstanding balances under the Amended Term Loan.

### Performance Graph

The following graph shows the total return to our stockholders compared to a peer group and the Nasdaq Composite over the period from July 31, 2005 to March 31, 2007. Each line on the graph assumes that \$100 was invested in our common stock on August 10, 2005 or in the respective indices at the closing price on July 31, 2005. The graph then presents the value of these investments, assuming reinvestment of dividends, through the close of trading on March 31, 2007.

	8/10/2005	4/1/2006	3/31/2007
RBC Bearings Incorporated	\$ 100.00	\$ 134.25	\$ 218.93
Nasdaq Composite Index	100.00	109.71	115.32
Peer Group	100.00	124.18	179.51



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

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

**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth our selected consolidated historical financial and other data as of the dates and for the periods indicated. The selected financial data as of and for the years ended March 31, 2007, April 1, 2006, April 2, 2005, April 3, 2004 and March 29, 2003 have been derived from our historical consolidated financial statements audited by Ernst & Young LLP, independent registered public accounting firm. Historical results are not necessarily indicative of the results expected in the future. You should read the data presented below together with, and qualified by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements included elsewhere in this Form 10-K.

	Fiscal Year Ended				
	March 31, 2007	April 1, 2006	April 2, 2005	April 3, 2004	March 29, 2003
	(in thousands, except share and per share amounts)				
<b>Statement of Operations Data:</b>					
Net sales(1)	\$ 306,062	\$ 274,509	\$ 243,016	\$ 187,331	\$ 172,860
Cost of sales	205,953	191,561	174,602	135,433	124,086
Gross margin	100,109	82,948	68,414	51,898	48,774
Selling, general and administrative(2)	42,256	41,945	32,749	28,107	26,647
Other, net	5,934	2,424	3,526	1,662	1,424
Operating income	51,919	38,579	32,139	22,129	20,703
Interest expense, net	5,505	15,735	19,669	20,380	21,023
Loss (gain) on early extinguishment of debt(3)	3,576	3,771	6,950		(780)
Other non-operating expense (income)	(1,229)		(355)	16	298
Income before income taxes	44,067	19,073	5,875	1,733	162
Provision for (benefit from) income taxes	15,588	6,634	(1,385)	1,070	113
Net income	28,479	12,439	7,260	663	49
Preferred stock dividends		(893)	(2,280)	(2,144)	(1,313)
Participation rights of preferred stock in undistributed earnings		(630)	(1,142)		
Net income (loss) available to common stockholders	\$ 28,479	\$ 10,916	\$ 3,838	\$ (1,481)	\$ (1,264)
Net income (loss) per common share:(4)					
Basic	\$ 1.38	\$ 0.84	\$ 0.62	\$ (0.24)	\$ (0.20)
Diluted	\$ 1.33	\$ 0.76	\$ 0.35	\$ (0.24)	\$ (0.20)
Weighted average common shares:(4)					
Basic	20,579,498	12,931,185	6,202,615	6,188,903	6,188,903
Diluted	21,335,307	14,452,264	10,854,584	6,188,903	6,188,903
<b>Other Financial Data:</b>					
Capital expenditures	\$ 16,174	\$ 10,341	9,526	4,951	6,522

	As of March 31, 2007 (in thousands)	April 1, 2006	April 2, 2005	April 3, 2004	March 29, 2003
<b>Balance Sheet Data:</b>					
Cash	\$ 5,184	\$ 16,126	\$ 2,635	\$ 3,250	\$ 3,553
Working capital	138,970	146,612	120,656	105,550	89,411

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Total assets	273,713	275,923	250,169	234,746	232,356
Total debt	59,405	165,747	220,079	215,224	210,933
Total stockholders equity (deficit)	168,171	73,340	(7,759 )	(16,285 )	(17,649 )

20

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- (1) Net sales were \$172.9 million in fiscal 2003 compared to \$168.3 million in fiscal 2002, an increase of \$4.6 million, or 2.7%. Net sales in the compared periods included net sales totaling \$2.1 million in fiscal 2003 for RBC France, which was acquired in December 2002, and \$5.2 million in fiscal 2003 and \$3.7 million in fiscal 2002 generated by RBC Oklahoma, which was acquired effective August 2001. Excluding RBC France and RBC Oklahoma's sales, our net sales increased \$1.0 million or 0.6% from period to period.

Net sales were \$243.0 million in fiscal 2005 compared to \$187.3 million in fiscal 2004, an increase of \$55.7 million. Net sales in the compared periods included net sales of \$19.3 million in fiscal 2005 and \$6.1 million in fiscal 2004 for RBC-API, which was acquired in December 2003.

Net sales were \$274.5 million in fiscal 2006 compared to \$243.0 million in fiscal 2005, an increase of \$31.5 million. Net sales in the compared periods included net sales of \$1.7 million in fiscal 2006 for SWP, which was acquired in September 2005.

Net sales were \$306.1 million in fiscal 2007 compared to \$274.5 million in fiscal 2006, an increase of \$31.6 million. Net sales in the compared periods included net sales of \$8.4 million in fiscal 2007 for All Power, which was acquired in September 2006.

- (2) Selling, general and administrative expense for the fiscal year ended April 1, 2006 included non-recurring compensation expense of \$5.2 million as well as \$0.4 million of stock compensation. See Related Party Transactions.
- (3) Loss on early extinguishment of debt of \$7.0 million in fiscal 2005 included \$4.3 million for non-cash write-off of deferred financing fees associated with retired debt, \$1.8 million of redemption premium and \$0.9 million of accrued interest for the 30-day call period related to the early extinguishment of \$110.0 million of 9 5/8% senior subordinated notes in July 2004.

Loss on early extinguishment of debt of \$3.8 million in fiscal 2006 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 retirement of all of our 13% discount debentures in September 2005, \$0.5 million of prepayment fees related to the repayment of all of the outstanding balance under our second lien term loan in August 2005 and \$0.4 million in interest expense for the 30-day call period related to the early extinguishment of our 13% discount debentures.

Loss on early extinguishment of debt in fiscal 2007 was \$3.6 million for the non-cash write-off of deferred financing costs associated with the early termination of the senior credit facility.

- (4) Amounts shown for periods prior to August 15, 2005 include shares of both Class A common stock and Class B common stock, all of which were reclassified into a single class of common stock on a one-for-one basis in connection with our initial public offering as of such date.

Amounts for the fiscal year ended April 1, 2006 reflect the consummation of our initial public offering in August 2005, which included: (1) the sale by us of 7,034,516 shares at the offering price of \$14.50 per share, (2) the repayment of all of our \$38.6 million in aggregate principal amount of 13% senior subordinated discount debentures due 2009, (3) the repayment of all outstanding indebtedness under our \$45.0 million second lien term loan, (4) the addition of \$40.0 million to our Term Loan and (5) the redemption of all of our then outstanding Class C and Class D preferred stock for an aggregate redemption price of \$38.6 million.

Amounts for the fiscal year ended March 31, 2007 reflect the consummation of our secondary public offering in April 2006, which included: (1) the sale by us of 8,989,550 shares of our common stock (5,995,529 sold by certain of our stockholders) at the offering price of \$20.50 per share and (2) the repayment of \$57.8 million of our Term Loan.

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

### Overview

We are a well known international manufacturer of highly engineered precision plain, roller and ball bearings. Our precision solutions are integral to the manufacture and operation of most machines and mechanical systems, reduce wear to moving parts, facilitate proper power transmission and reduce damage and energy loss caused by friction. While we manufacture products in all major bearing categories, we focus primarily on the higher end of the bearing market where we believe our value added manufacturing and engineering capabilities enable us to differentiate ourselves from our competitors and enhance profitability. We estimate that approximately two-thirds of our net sales during fiscal 2007 were generated by products for which we hold the number one or two market position. We have been providing bearing solutions to our customers since 1919. Over the past ten years, under the leadership of our current management team, we have significantly broadened our end markets, products, customer base and geographic reach. We currently operate 19 facilities of which 17 are manufacturing facilities in four countries.

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

During fiscal 2007, the world economy continued to emerge from the slowdown experienced from 2000 to 2003, and we experienced favorable conditions across our two major markets: diversified industrial and aerospace and defense. In particular the economy of our diversified industrial market has been driven by requirements in non-residential construction, mining and the oil and gas sectors. These conditions have resulted in demand for bearings for both OEM and replacement markets. In the aerospace market a strong recovery continued, and we believe it is at the mid-stages of an extended cycle. Expansion of the commercial aircraft sector, in response to increased passenger demand and the need of the carriers to upgrade the worldwide fleet, drove increased build schedules at Boeing and Airbus. The defense sector continued to replace and develop its weapons and cargo platforms. This sector demonstrated increased requirements for replacement bearings for combat systems strained by extensive use in harsh environments over the past four years. For the fiscal year ended March 31, 2007, approximately 24% of our revenues were derived from sales directly or indirectly outside the U.S. We expect this component of our business to increase in response to our emphasis on continued penetration of foreign markets, particularly those in aerospace.

Approximately 20% of our costs are attributable to raw materials, a majority of which are related to steel and related products. During the past three years, steel prices have increased to historically high levels, responding to unprecedented levels of world demand. To date, we have generally been able to pass through these costs to our customers through price increases and the assessment of surcharges, although there can be a time lag of up to 3 months or more.

Competition in specialized bearing markets is based on engineering design, brand, lead times and reliability of product and service. These markets are generally not as price sensitive as the markets for standard bearings.

We have demonstrated expertise in acquiring and integrating bearing and precision-engineered component manufacturers that have complementary products or distribution channels and provide significant potential for margin enhancement. We have consistently increased the profitability of acquired businesses through a process of methods and systems improvement coupled with the introduction of complementary and proprietary new products. Since October 1992 we have completed 15 acquisitions which have significantly broadened our end markets, products, customer base and geographic reach.

### Sources of Revenue

Revenue is generated primarily from sales of bearings to the diversified industrial market and the aerospace and defense markets. Sales are often made pursuant to sole-source relationships, long-term agreements and purchase orders with our clients. We recognize revenues principally from the sale of products at the point of passage of title, which is at the time of shipment.

Sales to the diversified industrial market accounted for 50% of our net sales for the fiscal year ended March 31, 2007. Sales to the aerospace and defense markets accounted for 50% of our net sales for the same period. We anticipate that sales to the aerospace and defense markets will

increase as a percentage of our net sales.

Aftermarket sales of replacement parts for existing equipment platforms represented approximately 58% of our net sales for fiscal 2007. We continue to develop our OEM relationships which have established us as a leading supplier on many

22

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important aerospace and defense platforms. Over the past several years, we have experienced increased demand from the replacement parts market, particularly within the aerospace and defense sectors; one of our business strategies has been to increase the proportion of sales derived from this segment. We believe these activities increase the stability of our revenue base, strengthen our brand identity and provide multiple paths for revenue growth.

Approximately 24% of our net sales were derived from sales directly or indirectly outside the U.S. for fiscal 2007, compared to 20% for fiscal 2006. We expect that this proportion will increase as we seek to increase our penetration of foreign markets, particularly within the aerospace and defense sectors. In fiscal 2007 and fiscal 2006, our top ten customers, four of which were OEMs and the remaining six of which were distributors, generated 32% of our net sales. Out of the 32% of net sales generated by our top ten customers during the fiscal year ended March 31, 2007, 20% of net sales was generated by our top four customers. No single customer was responsible for generating more than 8% of our net sales for the same period.

### **Cost of Revenues**

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

During the past three years, our gross margin was impacted by rising raw material prices, in particular, steel and related products. In response, we have, to date, managed to pass on the majority of these price increases of raw materials to our customers through steel surcharges assessed on, or price increases of, our bearing products. However, we have from time to time experienced a time lag of up to 3 months or more in our ability to pass through steel surcharges to our customers, which has negatively impacted our gross margin. We will continue to pass on raw material price increases as competitive conditions allow.

We have not been significantly impacted by recent increases in energy prices because energy costs, the most significant component of which is natural gas used in heat treating operations, represent approximately 3% of our overall costs.

We monitor gross margin performance through a process of monthly operation management reviews. We will develop new products to target certain markets allied to our strategies by first understanding volume levels and product pricing and then constructing manufacturing strategies to achieve defined margin objectives. We only pursue product lines where we believe that the developed manufacturing process will yield the targeted margins. Management monitors gross margins of all product lines on a monthly basis to determine which manufacturing processes or prices should be adjusted.

### **Selling, General and Administrative Expenses**

Selling, general and administrative, or SG&A, expenses relate primarily to the compensation and associated costs of selling, general and administrative personnel, professional fees, insurance, facility costs and information technology. We expect SG&A expenses will increase in absolute terms as we increase our sales efforts and incur increased costs related to the anticipated growth of our business and the additional costs associated with operating as a public company.

### **Other Expenses**

On February 15, 2006, our RBC Nice Bearings, Inc. subsidiary and the United Steelworkers of America (AFL-CIO) Local 6816-12 entered into a shutdown agreement in connection with our decision to close operations at our Kulpsville, Pennsylvania facility. Under the shutdown agreement, the union has agreed to take no action against us in connection with such shutdown. The agreement also addresses closure and other transition issues related to pensions, workers compensation insurance, adjustment assistance and other matters. The production that was conducted at the Nice facility has been moved to other RBC locations, and we anticipate no material impact on our production or our ability to service our customers. Shutdown costs included \$0.6 million of severance and \$0.4 million for fixed asset impairments which were recorded in fiscal 2006.

On February 6, 2007, our Tyson Bearing Company, Inc. subsidiary and the United Steelworkers of America (AFL-CIO) Local 7461-01 entered into a shutdown agreement in connection with our decision to close operations at our Glasgow, Kentucky facility. Under the shutdown agreement, the union has agreed to take no action against us in connection with such shutdown. The agreement also addresses closure and other transition issues related to pensions, workers compensation insurance, adjustment assistance and other matters. The production that was conducted at the Tyson facility has been moved to other RBC locations, and we anticipate no material impact on our production or our ability to service our customers. The consolidation is anticipated to result in improved gross margin for this product line from a negative to a positive result over the next twelve months. This consolidation resulted in a charge of approximately \$5,088 in fiscal 2007. Approximately \$2,211 of this charge related to the disposal of fixed assets.



**Results of Operations**

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

	Fiscal Year Ended					
	March 31, 2007		April 1, 2006		April 2, 2005	
<b>Statement of Operations Data:</b>						
Net sales	100.0	%	100.0	%	100.0	%
Gross margin	32.7		30.2		28.2	
Selling, general and administrative	13.8		15.3		13.5	
Other, net	1.9		0.9		1.5	
Operating income	17.0		14.0		13.2	
Interest expense, net	1.8		5.7		8.1	
Loss on early extinguishment of debt	1.2		1.4		2.9	
Other non-operating expense (income)	(0.4	)	0.0		(0.2	)
Income before income taxes	14.4		6.9		2.4	
Provision for (benefit from) income taxes	5.1		2.4		(0.6	)
Net income	9.3		4.5		3.0	

**Segment Information**

We have four reportable product segments: Plain Bearings, Roller Bearings, Ball Bearings and Other. Other consists primarily of precision ball screws and machine tool collets. The following table shows our net sales and operating income with respect to each of our reporting segments plus Corporate for the last three fiscal years:

	Fiscal Year Ended						
	March 31, 2007		April 1, 2006		April 2, 2005		
	(in thousands)						
<b>Net External Sales</b>							
Plain	\$	143,907	\$	115,091	\$	93,250	
Roller		92,123		96,466		92,281	
Ball		50,466		46,378		41,881	
Other		19,566		16,574		15,604	
Total	\$	306,062	\$	274,509	\$	243,016	
<b>Operating Income</b>							
Plain	\$	41,163	\$	30,955	\$	22,647	
Roller		18,766		23,340		17,030	
Ball		12,523		9,692		9,070	
Other		2,200		1,478		797	
Corporate		(22,733	)	(26,886	)	(17,405	)
Total	\$	51,919	\$	38,579	\$	32,139	

**Geographic Information**

The following table summarizes our net sales, by shipping location, for the periods shown:



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	Fiscal Year Ended		
	March 31, 2007	April 1, 2006	April 2, 2005
	(in thousands)		
<b>Geographic Revenues</b>			
Domestic	\$ 265,644	\$ 243,576	\$ 215,381
Foreign	40,418	30,933	27,635
Total	\$ 306,062	\$ 274,509	\$ 243,016

24

For additional information concerning our business segments, see Item 8, Note 21.

***Fiscal 2007 Compared to Fiscal 2006***

***Net Sales.*** Net sales for fiscal 2007 were \$306.1 million, an increase of \$31.6 million, or 11.5%, compared to \$274.5 million for the same period in fiscal 2006. During fiscal 2007, we experienced net sales growth in three of our four segments, driven by demand across end markets as well as continued efforts to supply new products to existing and new customers. Overall, net sales to aerospace and defense customers grew 25.8% in fiscal 2007 compared to the same period last year, driven mainly by commercial and military aerospace aftermarket, OEM demand and the inclusion of recently acquired All Power. Net sales to diversified industrial customers grew 0.3% in fiscal 2007 compared to the same period last year. Reflected in this change, our core markets of construction, mining, semiconductor capital equipment and distribution were up 6.8% offset by a decline in year-over-year volume in our Class 8 truck market.

The Plain Bearings segment achieved net sales of \$143.9 million in fiscal 2007, an increase of \$28.8 million, or 25.0%, compared to \$115.1 million for the same period in the prior year. The commercial and military aerospace market accounted for \$28.2 million of the increase due to an increase in airframe and aerospace bearing shipments to aircraft manufacturers and continued demand for aftermarket product. Net sales to diversified industrial customers accounted for \$0.6 million of the increase driven by general industrial applications.

The Roller Bearings segment achieved net sales of \$92.1 million in fiscal 2007, a decrease of \$4.4 million, or 4.5%, compared to \$96.5 million for the same period in the prior year. \$8.1 million of this decrease was attributable to sales to customers in the industrial market, mainly a result of the slow down in the class 8 truck market. The aerospace and defense market accounted for the offsetting \$3.7 million increase, driven primarily by increasing build rates and maintenance requirements for commercial and military aircraft.

The Ball Bearings segment achieved net sales of \$50.5 million in fiscal 2007, an increase of \$4.1 million, or 8.8%, compared to \$46.4 million for the same period in the prior year. The increase was driven principally by increased demand from airframe, electro-optical, and satellite and communications applications and increased penetration of the airframe market.

The Other segment, which is focused mainly on the sale of precision ball screws and machine tool collets, achieved net sales of \$19.6 million in fiscal 2007, an increase of \$3.0 million, or 18.1%, compared to \$16.6 million for the same period last year. This increase was primarily due to increased sales of machine tool collets to the industrial market in Europe and precision ball screws to aerospace and industrial applications.

***Gross Margin.*** Gross margin was \$100.1 million, or 32.7% of net sales, in fiscal 2007, versus \$82.9 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, higher prices, increased manufacturing efficiency, and overall product mix.

***Selling, General and Administrative.*** SG&A expenses increased by \$0.4 million, or 0.7%, to \$42.3 million in fiscal 2007 compared to \$41.9 million for the same period in fiscal 2006. The increase was primarily due to higher stock compensation expense of \$0.4 million, higher professional service fees of \$1.3 million and an increase of \$3.9 million for personnel necessary to support increased volume, offset by \$5.2 million in non-recurring compensation expense in fiscal 2006. As a percentage of net sales, SG&A was 13.8% in fiscal 2007 compared to 15.3% for the same period in fiscal 2006.

***Other, net.*** Other, net in fiscal 2007 was \$5.9 million compared to \$2.4 million for the same period in fiscal 2006. In fiscal 2007, other, net included plant consolidation expenses for both the Tyson and Nice facilities of \$3.2 million, a loss on disposal of fixed assets of \$2.7 million relating primarily to the Tyson plant consolidation, a gain on the sale of the Nice facility of \$0.8 million, amortization of intangibles of \$0.7 million and \$0.2 million of bad debt expense. In fiscal 2006, other, net included amortization of intangibles of \$0.7 million, severance costs of \$0.6 million and losses on fixed asset disposals of \$0.4 million for the RBC Nice Bearings, Inc. plant consolidation, \$0.2 million of non-recurring management fees, \$0.3 million of bad debt expense, and \$0.2 million of other expenses.

***Operating Income.*** Operating income was \$51.9 million, or 17.0% of net sales, in fiscal 2007 compared to \$38.6 million, or 14.0% of net sales, in fiscal 2006. Operating income for the Plain Bearings segment was \$41.2 million in fiscal 2007, or 28.6% of net sales, compared to \$31.0 million for the same period last year, or 26.9% of net sales. The Roller Bearings segment achieved an operating income in fiscal 2007 of \$18.8 million, or 20.4% of net sales, compared to \$23.3 million, or 24.2% of net sales, in fiscal 2006. The Ball Bearings segment achieved an operating income of



\$12.5 million, or 24.8% of net sales, in fiscal 2007, compared to \$9.7 million, or 20.9% of net sales, for the same period in fiscal 2006. The Other segment achieved an operating income of \$2.2 million, or 11.2% of net sales, in fiscal 2007, compared to \$1.5 million or 8.9% 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 decrease in operating income in the Roller segment was primarily driven by the decrease in net sales to industrial distributor customers.

*Interest Expense, net.* Interest expense, net decreased by \$10.2 million to \$5.5 million in fiscal 2007, compared to \$15.7 million in fiscal 2006, driven by debt reduction. Amortization of deferred financing costs and debt discount are recorded as a component of net interest expense. Amortization expenses included in interest expense, net were \$0.4 million in fiscal 2007 compared to \$0.8 million in fiscal 2006.

*Loss on Early Extinguishment of Debt.* For fiscal 2007, loss on early extinguishment of debt was \$3.6 million for non-cash write-off of deferred financing fees. For fiscal 2006, loss on early 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 our 13% discount debentures in September 2005, \$0.5 million prepayment fees related to the prepayment of all the outstanding balance under our second lien term loan in August 2005 and \$0.4 million in interest expense for the 30-day call period related to the early extinguishment of our 13% debentures.

*Other Non-Operating Expense (Income).* In fiscal 2007, 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 \$44.1 million in fiscal 2007 compared to income before taxes of \$19.1 million in fiscal 2006.

*Income Taxes.* Income tax expense in fiscal 2007 was \$15.6 million compared to \$6.6 million in fiscal 2006. The effective income tax rate in fiscal 2007 was 35.4% compared to 34.8% in fiscal 2006. The increase in the effective income tax rate from year to year is primarily due to the recording of a valuation allowance on certain state net operating losses due to plant shutdowns as well as the elimination of the ETI benefit, partially offset by a reduction in state tax expense due to the elimination of most state franchise taxes.

*Net Income.* Net income was \$28.5 million in fiscal 2007 compared to net income of \$12.4 million in fiscal 2006.

#### ***Fiscal 2006 Compared to Fiscal 2005***

*Net Sales.* Net sales for fiscal 2006 were \$274.5 million, an increase of \$31.5 million, or 13.0%, compared to \$243.0 million for the same period in fiscal 2005. During fiscal 2006, we experienced net sales growth in each of our four segments, driven by strong demand across end markets as well as continued efforts to supply new products to existing and new customers. Overall, net sales to diversified industrial customers grew 5.4% in fiscal 2006 compared to the same period last year. Reflected in this change, our core markets of construction, mining, semiconductor capital equipment and distribution were up 8.1% offset by a small change in year-to-year volume in our Class 8 market sector. Net sales to aerospace and defense customers grew 24.2% in fiscal 2006 compared to the same period last year, driven mainly by commercial and military aerospace aftermarket and OEM demand.

The Plain Bearings segment achieved net sales of \$115.1 million in fiscal 2006, an increase of \$21.8 million, or 23.4%, compared to \$93.3 million for the same period in the prior year. Net sales to diversified industrial customers accounted for \$9.1 million of the increase, driven primarily by strong demand in the construction and mining heavy equipment sectors, general industrial applications, and strong industrial aftermarket demand. The commercial and military aerospace market accounted for \$12.7 million of the increase due to an increase in airframe and aerospace bearing shipments to aircraft manufacturers and continued demand for aftermarket product.

The Roller Bearings segment achieved net sales of \$96.5 million in fiscal 2006, an increase of \$4.2 million, or 4.5%, compared to \$92.3 million for the same period in the prior year. \$0.1 million of this increase was attributable to sales to customers in the industrial market. Net sales to the class 8 truck market declined by \$2.1 million offset by strong demand from mining, construction equipment and general industrial applications of \$2.2 million. The aerospace and defense market accounted for the remaining \$4.1 million of the increase, driven primarily by increasing build rates and maintenance requirements for commercial and military aircraft.



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The Ball Bearings segment achieved net sales of \$46.4 million in fiscal 2006, an increase of \$4.5 million, or 10.7%, compared to \$41.9 million for the same period in the prior year. The increase was driven principally by increased demand from airframe, electro-optical, and satellite and communications applications and increased penetration of the airframe market. Sales to our customers in the industrial market were flat year over year.

The Other segment, which is focused mainly on the sale of precision ball screws and machine tool collets, achieved net sales of \$16.6 million in fiscal 2006, an increase of \$1.0 million, or 6.2%, compared to \$15.6 million for the same period last year. This increase was primarily due to increased sales of machine tool collets to the industrial market and precision ball screws to military aerospace applications.

*Gross Margin.* Gross margin was \$82.9 million, or 30.2% of net sales, in fiscal 2006, versus \$68.4 million, or 28.2% of net sales, for the comparable period in fiscal 2005. The increase in our gross margin as a percentage of net sales was primarily the result of an overall increase in volume, higher prices, increased manufacturing efficiency, and overall product mix.

*Selling, General and Administrative.* SG&A expenses increased by \$9.2 million, or 28.1%, to \$41.9 million in fiscal 2006 compared to \$32.7 million for the same period in fiscal 2005. The \$9.2 million increase was primarily due to non-recurring compensation expense of \$5.2 million, stock option compensation expense of \$0.4 million, professional service fees associated with the implementation of Sarbanes-Oxley 404 of \$0.4 million, an increase in personnel necessary to support increased volume, higher professional service fees, and additional costs associated with being a public company. As a percentage of net sales, SG&A was 15.3% in fiscal 2006 compared to 13.5% for the same period in fiscal 2005.

*Other, net.* Other, net in fiscal 2006 was \$2.4 million compared to \$3.5 million for the same period in fiscal 2005. In fiscal 2006, other, net included amortization of intangibles of \$0.7 million, severance costs of \$0.6 million and losses on fixed asset disposals of \$0.4 million for the RBC Nice Bearings, Inc. plant consolidation, \$0.2 million of non-recurring management fees, \$0.3 million of bad debt expense, and \$0.2 million of other expenses. In fiscal 2005, other, net consisted of amortization of intangibles of \$0.5 million, \$0.5 million of management fees, losses on fixed asset disposals of \$2.0 million, and \$0.5 million of bad debt expense.

*Operating Income.* Operating income was \$38.6 million, or 14.1% of net sales, in fiscal 2006 compared to \$32.1 million, or 13.2% of net sales, in fiscal 2005. Operating income for the Plain Bearings segment was \$31.0 million in fiscal 2006, or 26.9% of net sales, compared to \$22.6 million for the same period last year, or 24.3% of net sales. The Roller Bearings segment achieved an operating income in fiscal 2006 of \$23.3 million, or 24.2% of net sales, compared to \$17.0 million, or 18.5% of net sales, in fiscal 2005. The Ball Bearings segment achieved an operating income of \$9.7 million, or 20.9% of net sales, in fiscal 2006, compared to \$9.1 million, or 21.7% of net sales, for the same period in fiscal 2005. The Other segment achieved an operating income of \$1.5 million, or 8.9% of net sales, in fiscal 2006, compared to \$0.8 million or 5.1% of net sales, for the same period in fiscal 2005. The increase in operating income in each of the segments was driven primarily by an increase in net sales. In addition, operating income as a percentage of net sales increased for each of the segments primarily as a result of leveraging the fixed cost base over higher net sales.

*Interest Expense, net.* Interest expense, net decreased by \$4.0 million to \$15.7 million in fiscal 2006, compared to \$19.7 million in fiscal 2005. Amortization of deferred financing costs and debt discount are recorded as a component of net interest expense. Amortization expenses included in interest expense, net were \$0.8 million in fiscal 2006 compared to \$1.1 million in fiscal 2005.

*Loss on Early Extinguishment of Debt.* For fiscal 2006, loss on early 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 our 13% discount debentures in September 2005, \$0.5 million prepayment fees related to the prepayment of all the outstanding balance under our second lien term loan in August 2005 and \$0.4 million in interest expense for the 30-day call period related to the early extinguishment of our 13% debentures. For fiscal 2005, loss on early extinguishment of debt of \$7.0 million included \$4.3 million for non-cash write-off of deferred financing fees associated with retired debt, \$1.8 million of redemption premium and \$0.9 million in interest expense for the 30-day call period related to the early extinguishment of our \$110.0 million of 9 5/8% senior subordinated notes in July 2004.

*Income Before Income Taxes.* Income before taxes was \$19.1 million in fiscal 2006 compared to income before taxes of \$5.9 million in fiscal 2005.

*Income Taxes.* Income tax expense in fiscal 2006 was \$6.6 million compared to a benefit of \$1.4 million in fiscal 2005. The effective income tax rate in fiscal 2006 was 34.8% compared to a benefit income tax rate of 23.6% in fiscal 2005. The change in the effective income tax rate from year to year is mostly due to the application, in fiscal 2005, of the APB 23 exception for accounting for deferred taxes for temporary differences related to undistributed earnings of foreign subsidiaries that are invested indefinitely.

*Net Income.* Net income was \$12.4 million in fiscal 2006 compared to net income of \$7.3 million in fiscal 2005.

## **Liquidity and Capital Resources**

Our business is capital intensive. Our capital requirements include manufacturing equipment and materials. In addition, we have historically fueled our growth in part through acquisitions. We have historically met our working capital, capital expenditure requirements and acquisition funding needs through our net cash flows provided by operations, various debt arrangements and sale of equity to investors.

### *Liquidity*

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., 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 \$57.0 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 August 15, 2005, pursuant to a purchase agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, KeyBanc Capital Markets and Jefferies & Company, Inc., we, along with certain of our stockholders, sold 10,531,200 shares of our common stock (3,496,684 sold by certain of our stockholders). The offering yielded us aggregate net proceeds of \$92.1 million after payment of the underwriting discount and offering expenses. After redemption of our Class C and Class D preferred stock for \$34.6 million, our net proceeds were \$57.5 million. Immediately prior to the consummation of the initial public offering, all outstanding shares of Class B preferred stock were converted in accordance with their terms into 1,846,396 shares of Class A common stock, 306,298 shares of Class C preferred stock and 240,000 shares of Class D preferred stock. All shares of Class C and Class D preferred stock were redeemed with cash or common stock and all shares of Class A and Class B common stock were reclassified as common stock on a one-for-one basis. In connection with the initial public offering, we filed an Amended and Restated Certificate of Incorporation (the "Amendment"). The Amendment increased our authorized capital stock to 70,000,000 shares, (i) 60,000,000 of which is common stock, \$0.01 par value per share, and (ii) 10,000,000 of which is preferred stock, \$0.01 par value per share.

On August 15, 2005, we entered into a Fifth Amended and Restated Credit Agreement (the "Amended Credit Agreement"), among Roller Bearing Company of America, Inc. ("RBCA"), the other Credit Parties signatory thereto; General Electric Capital Corporation, a Delaware corporation, for itself, as lender, and as agent for the lenders, concurrently with the closing of our initial public offering. Pursuant to the Amended Credit Agreement, we increased our term loan borrowings by approximately \$40.0 million from \$110.0 million under the term loan portion of the Amended Credit Agreement. The Amended Credit Agreement provided a \$55.0 million revolving credit agreement (the "Amended Revolving Credit Facility") and a \$150.0 million term loan (the "Amended Term Loan"). The principal amount of the Amended Term Loan was to be repaid in twenty-five (25) consecutive quarterly installments commencing December 31, 2005. Each loan was secured by a lien against substantially all of our assets and subjected us to standard affirmative and negative covenants, as well as financial leverage tests.

The Amended Revolving Credit Facility bore interest at a floating rate of either the higher of the base rate on corporate loans or the federal funds rate plus 50 basis points, plus 1.25%; or LIBOR plus 2.50%. We had the right to elect the applicable interest rate on the Amended Revolving Credit Facility. The Amended Term Loan bore interest at a floating rate of either the higher of the base rate on corporate loans or the federal rate plus 50 basis points, plus 1.50%; or LIBOR plus 2.75%. We had the right to elect the applicable interest rate on the Amended Term Loan.

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 \$150.0 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).





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Amounts outstanding under the KeyBank Credit Agreement generally bear interest at the prime rate, or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on our consolidated ratio of net debt to adjusted EBITDA from time to time. Currently, our margin is 0.0% for prime rate loans and 0.75% 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). We can elect to prepay some or all of the outstanding balance from time to time without penalty.

The KeyBank Credit Agreement requires us to comply with various covenants, including among other things, financial covenants to maintain a ratio of consolidated net debt to adjusted EBITDA not to exceed 3.5 to 1 (3.25 to 1 beginning June 30, 2007), and a consolidated fixed charge coverage ratio not to exceed 1.5 to 1. As of March 31, 2007, we were in compliance with all such covenants.

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

On June 26, 2006, we borrowed approximately \$79.0 million 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 \$78.0 million balance outstanding under the Amended Credit Agreement. As of March 31, 2007, \$42.0 million was outstanding under the KeyBank Credit Agreement. We recorded a non-cash pre-tax charge of approximately \$3.6 million in fiscal 2007 to write off deferred debt issuance costs associated with the early termination of the Amended Credit Agreement. Deferred financing fees of \$0.9 million associated with the KeyBank Credit Agreement were also recorded in fiscal 2007.

Approximately \$21.4 million of the KeyBank Credit Agreement is being utilized to provide letters of credit to secure our obligations relating to certain Industrial Development Revenue Bonds (the IRB's) and insurance programs. As of March 31, 2007, we had the ability to borrow up to an additional \$86.6 million under the KeyBank Credit Agreement.

On December 8, 2003, Schaublin entered into a bank credit facility (the Swiss Credit Facility) with Credit Suisse providing for 10.0 million Swiss francs, or approximately \$8.2 million, of term loan (the Swiss Term Loan) and up to 2.0 million Swiss francs, or approximately \$1.6 million, of revolving credit loans and letters of credit (the Swiss Revolving Credit Facility). We pledged 99.4% of the present and future share capital of Schaublin S.A. (1,366 shares) against this facility. On November 8, 2004, Schaublin amended the Swiss Credit Facility to increase the Swiss Revolving Credit Facility to 4.0 million Swiss francs, or approximately \$3.3 million. Borrowings under the Swiss Revolving Credit Facility bear interest at a floating rate of LIBOR plus 2.25%. As of March 31, 2007, the term loan was paid off in full and there were no borrowings outstanding under the Swiss Credit Facility. 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 March 31, 2007, we were in compliance with all such covenants.

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

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

### **Cash Flows**

#### *Fiscal 2007 Compared to Fiscal 2006*

In the fiscal year ended March 31, 2007, we generated cash of \$55.7 million from operating activities compared to \$24.6 million for the fiscal year ended April 1, 2006. The increase of \$31.1 million was mainly a result of an increase of \$16.0 million in net income, a change in operating assets and liabilities of \$5.8 million and the net of non-cash charges of \$9.3 million. The change in working capital investment was primarily attributable to a decrease in inventory due to improved turns



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and a decrease in accounts payable offset by an increase in accounts receivable related to increased sales and an increase in non-current assets.

Cash used for investing activities for fiscal 2007 included \$16.2 million relating to capital expenditures compared to \$10.3 million for fiscal 2006. Investing activities also included \$8.8 million relating to the acquisition of the All Power Manufacturing business offset by proceeds of \$3.6 million related primarily to the sale of the RBC Nice Bearings facility.

In fiscal 2007, financing activities used \$45.5 million. We received net proceeds of \$57.8 million from our secondary offering (see Item 8, Note 1) 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 \$42.0 million by using approximately \$36.0 million in cash from operations. In addition, we received \$3.1 million from the exercise of stock options and warrants, received an income tax benefit of \$3.4 million related to the exercise of non-qualified stock options, repurchased 37,356 shares of stock for \$1.1 million, used \$0.3 million of funds for capital lease obligations and paid \$0.9 million of financing fees in connection with our KeyBank Credit Agreement.

### *Fiscal 2006 Compared to Fiscal 2005*

In the fiscal year ended April 1, 2006, we generated cash of \$24.6 million from operating activities compared to \$9.9 million for the fiscal year ended April 2, 2005. The increase of \$14.7 million was mainly a result of an increase of \$5.1 million in net income, a change in operating assets and liabilities of \$4.5 million and the net of non-cash charges of \$5.1 million. The change in working capital investment was primarily attributable to a decrease in accounts receivable due to strong collection activity offset by increased inventory to better service customer demand and a decrease in accounts payable.

Cash used for investing activities for fiscal 2006 included \$10.3 million relating to capital expenditures compared to \$9.5 million for fiscal 2005. Investing activities also included \$2.7 million relating to the acquisition of the RBC Southwest Products business.

In fiscal 2006, we decreased borrowings under the Amended Revolving Credit Facility by \$5.0 million, received proceeds from the sale of stock of \$92.1 million, used \$30.6 million to redeem Class C redeemable preferred stock, used \$4.0 million to redeem Class D preferred stock, received \$0.5 million from the exercise of stock options and warrants, retired term loans of \$45.0 million, retired the 13% senior secured discount debentures of \$38.6 million, increased our bank term loan by \$41.1 million, made payments on term loans of \$7.1 million, used \$0.3 million of funds for capital lease obligations and paid \$1.3 million of financing fees in connection with our Amended Credit Agreement.

### *Capital Expenditures*

Our capital expenditures in fiscal 2007 were \$16.2 million. We expect to make capital expenditures of approximately \$13.0 to \$17.0 million during fiscal 2008 in connection with our existing business. We have funded our fiscal 2007 capital expenditures, and expect to fund fiscal 2008 capital expenditures, principally through existing cash, internally generated funds and borrowings under our KeyBank Credit Agreement. We may also make substantial additional capital expenditures in connection with acquisitions.

### *Obligations and Commitments*

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Because these estimates are necessarily subjective, our actual payments in future periods are likely to vary from those presented in the table. The following table summarizes certain of our contractual obligations and principal and interest payments under our debt instruments and leases as of March 31, 2007:

Contractual Obligations	Payments Due By Period				
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
	(in thousands)				
Total debt(1)	\$ 59,405	\$ 750	\$ 1,350	\$ 43,320	\$ 13,985
Capital lease obligations	625	169	326	130	
Operating leases	20,142	4,443	6,480	3,933	5,286
Interest payments(2)	18,352	3,537	6,920	4,613	3,282
Pension and postretirement benefits	15,218	1,187	2,612	2,909	8,510
Total contractual cash obligations	\$ 113,742	\$ 10,086	\$ 17,688	\$ 54,905	\$ 31,063



(1) Includes the \$42.0 million five-year senior secured revolving credit facility under our KeyBank Credit Agreement, a \$0.7 million note payable and other debt totaling \$16.7 million.

(2) Interest payments are calculated based on beginning of period debt balances that reflect contractual debt amortization over the term of the instruments and assume a constant LIBOR rate of 5.32%. To the extent that actual rates change, our interest rate obligations will change accordingly.

#### Quarterly Results of Operations

	Quarter Ended								
	Mar. 31, 2007	Dec. 30, 2006	Sept. 30, 2006	Jul. 1, 2006	Apr. 1, 2006	Dec. 31, 2005	Oct. 1, 2005	Jul. 2, 2005	
	(Unaudited) (in thousands, except per share data)								
Net sales	\$ 81,039	\$ 76,544	\$ 73,248	\$ 75,231	\$ 75,751	\$ 67,390	\$ 65,367	\$ 66,001	
Gross margin	28,554	24,543	23,503	23,509	23,324	20,361	19,987	19,276	
Operating income	11,478	14,333	12,610	13,498	12,300	10,788	5,093	10,398	
Net income (loss)	\$ 6,718	\$ 9,359	\$ 7,378	\$ 5,024	\$ 5,955	\$ 5,099	\$ (1,960)	\$ 3,345	
Net income (loss) per common share:									
Basic(1)(2)	\$ 0.32	\$ 0.45	\$ 0.36	\$ 0.25	\$ 0.35	\$ 0.31	\$ (0.18)	\$ 0.34	
Diluted(1)(2)	\$ 0.31	\$ 0.44	\$ 0.35	\$ 0.24	\$ 0.33	\$ 0.29	\$ (0.18)	\$ 0.22	

(1) See Note 2 to the Consolidated Financial Statements for a discussion of net income (loss) per common share.

(2) Net income (loss) per common share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not necessarily equal the total for the year.

#### 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. We have not completed our analysis of the potential impact of FIN 48 on our financial statements.

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 ended after December 15, 2006. We adopted SFAS No. 158 effective March 31, 2007. Refer to Item 8, Notes 2, 13 and 14 for additional discussion of the impact of adopting SFAS No. 158.

#### Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to product returns, bad debts, inventories, recoverability of intangible assets, income taxes, financing operations, pensions and other postretirement benefits and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.



We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Revenue Recognition.* We recognize revenue in accordance with SEC Staff Accounting Bulletin 101 Revenue Recognition in Financial Statements as amended by Staff Accounting Bulletin 104. The SEC requires that the following four basic criteria must be met before we recognize revenue:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectibility is reasonably assured.

We recognize revenue upon the passage of title on the sale of manufactured goods, which is at time of shipment, and under the units-of-delivery method in a limited number of aerospace long-term projects.

*Accounts Receivable.* We are required to estimate the collectibility of our accounts receivable, which requires a considerable amount of judgment in assessing the ultimate realization of these receivables, including the current credit-worthiness of each customer. Changes in required reserves may occur in the future as conditions in the marketplace change.

*Inventory.* Inventories are stated at the lower of cost or market value. Cost is principally determined by the first-in, first-out method. We account for inventory under a full absorption method. We record adjustments to the value of inventory based upon past sales history and forecasted plans to sell our inventories. The physical condition, including age and quality, of the inventories is also considered in establishing its valuation. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from actual requirements if future economic conditions, customer inventory levels or competitive conditions differ from our expectations.

*Goodwill and Intangible Assets.* Goodwill (representing the excess of the amount paid to acquire a company over the estimated fair value of the net assets acquired) and intangible assets with indefinite useful lives are not amortized but instead are tested for impairment annually (performed by us during the fourth quarter of each fiscal year), or when events or circumstances indicate that its value may have declined. This determination of any goodwill impairment is made at the reporting unit level and consists of two steps. First, we determine the fair value of a reporting unit and compare it to our carrying amount. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the goodwill's implied fair value. The fair value of our reporting units is calculated by the weighted average of two approaches; the first approach is the present value of future cash flow technique. We projected the five year free cash flow of each reporting unit and used an 8.69% discount rate. In addition, a terminal value was applied using the same discount rate of 8.69%. The discount rate of 8.69% is based on a weighted average cost of capital. The discount rate was derived using an analysis of six similar companies which we believe have a comparable level of risk, plus RBC Bearings Inc. The second approach is a multiple of EBITDA. We used a multiple of 9.72x based on the average of the six similar companies plus RBC Bearings Inc. using EBITDA as of December 31, 2006. Although no changes are expected as a result of the comparison, if the assumptions management makes regarding estimated cash flows are less favorable than expected, we may be required to record an impairment charge in the future.

Intangible assets with indefinite useful lives, other than Goodwill, were also reviewed for impairment. We reviewed the current fiscal year, and determined there were no triggering events that occurred during this fiscal year that would lead to impairment of our existing intangible assets with indefinite useful lives. Therefore, no further actions were necessary.

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Definite-lived intangible assets are being amortized over their useful lives of 5 to 17 years. Also included in intangible assets as of April 1, 2006 is an asset relating to our minimum pension liability.

*Income Taxes.* As part of the process of preparing the consolidated financial statements, we are required to estimate the income taxes in each jurisdiction in which we operate. This process involves estimating the actual current tax liabilities together with assessing temporary differences resulting from the differing treatment of items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included in the Consolidated Balance Sheet. We must then assess the likelihood that the deferred tax assets will be recovered, and to the extent that we believe that recovery is not

32

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more than likely, we are required to establish a valuation allowance. If a valuation allowance is established or increased during any period, we are required to include this amount as an expense within the tax provision in the Consolidated Statements of Operations. Significant judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance recognized against net deferred tax assets.

*Pension Plans and Postretirement Health Care.* We have noncontributory defined benefit pension plans covering union employees in our Heim division plant in Fairfield, Connecticut and in our Bremen subsidiary plant in Plymouth, Indiana.

Effective in fiscal 2007, the pension plans for the Nice subsidiary in Kulpsville, Pennsylvania and the Tyson subsidiary plant in Glasgow, Kentucky have been frozen in accordance with the respective Shutdown Agreements. No further benefits will accrue against these two plans and no new employees will become eligible to participate in these plans. We will continue to maintain these plans. The impact of curtailment for these plans was \$299, which was included in the net periodic benefit cost for fiscal 2007.

Our funding policy is to make the minimum annual contribution required by the Employee Retirement Income Security Act of 1974. Plan obligations and annual pension expense are determined by independent actuaries using a number of assumptions provided by us including assumptions about employee demographics, retirement age, compensation levels, pay rates, turnover, expected long-term rate of return on plan assets, discount rate and the amount and timing of claims. Each plan assumption reflects our best estimate of the plan's future experience. The most sensitive assumption in the determination of plan obligations for pensions is the discount rate. The discount rate used in determining the funded status as of March 31, 2007 and April 1, 2006 was 6.00% and 5.75%, respectively. In developing the overall expected long-term rate of return on plan assets assumption, a building block approach was used in which rates of return in excess of inflation were considered separately for equity securities and debt securities. The excess returns were weighted by the representative target allocation and added along with an appropriate rate of inflation to develop the overall expected long-term rate of return on plan assets assumption.

Our pension expense was \$701,000 and \$677,000 for the years ended March 31, 2007 and April 1, 2006, respectively, and is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on the assets of our pension plans of 9.0% each year.

The discount rate that we use for determining future pension obligations is based on a review of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate determined on this basis has decreased from 5.90% at April 2, 2005 to 5.75% at April 1, 2006, and increased to 6.00% at March 31, 2007.

Lowering the expected long-term rate of return on the assets of our pension plans by 1.00% (from 9.00% to 8.00%) would have increased our pension expense for fiscal 2007 by approximately \$141,000. Increasing the expected long-term rate of return on the assets of our pension plans by 1.00% (from 9.00% to 10.00%) would have reduced our pension expense for fiscal 2007 by approximately \$141,000.

Lowering the discount rate assumption used to determine net periodic pension cost by 1.00% (from 5.75% to 4.75%) would have increased our pension expense for fiscal 2007 by approximately \$185,000. Increasing the discount rate assumption used to determine net periodic pension cost by 1.00% (from 5.75% to 6.75%) would have reduced our pension expense for fiscal 2007 by approximately \$142,000.

Lowering the discount rate assumption used to determine the funded status as of March 31, 2007 by 1.00% (from 6.00% to 5.00%) would have increased the projected benefit obligation of our pension plans by approximately \$2.2 million. Increasing the discount rate assumption used to determine the funded status as of March 31, 2007 by 1.00% (from 6.00% to 7.00%) would have reduced the projected benefit obligation of our pension plans by approximately \$1.8 million.

Our investment program objective is to achieve a rate of return on plan assets which will fund the plan liabilities and provide for required benefits while avoiding undue exposure to risk to the plan and increases in funding requirements. Our target allocation of plan assets was 100 percent equity investments as of March 31, 2007 and April 1, 2006.

Our foreign operation, Schaublin, sponsors a pension plan for its approximately 150 employees, in conformance with Swiss pension law. The plan is funded with a reputable (S&P rating AA-) Swiss insurer. Through the insurance contract, the Company has effectively transferred all investment and mortality risk to the insurance company, which guarantees the federally mandated annual rate of return and the conversion rate at retirement. As a result, the plan has no unfunded liability; the interest cost is exactly offset by actual return. Thus, the net periodic cost is equal to the amount of annual premium paid by the Company. For fiscal years 2007, 2006 and 2005, the Company reported premium payments equal to \$475,546, \$445,195, and \$518,084, respectively.



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For the benefit of employees at our Heim, West Trenton and Bremen facilities, we sponsor contributory defined benefit health care plans that provide postretirement medical and life insurance benefits to union employees who have attained certain age and/or service requirements while employed by us.

Effective in fiscal 2007, the postretirement medical and life insurance benefits for the Nice subsidiary in Kulpville, Pennsylvania and the Tyson subsidiary in Glasgow, Kentucky have been curtailed in accordance with the respective Shutdown Agreements. The impact of curtailment for these plans was \$(568), which was included in the net periodic benefit cost (income) for fiscal 2007.

The plans are unfunded and costs are paid as incurred. Postretirement benefit obligations as of March 31, 2007 and April 1, 2006 were, respectively, \$2.7 million (\$2.5 million in Other non-current liabilities and \$0.2 million in Current liabilities) and \$2.6 million in Other non-current liabilities in our consolidated balance sheet.

Our income for the Postretirement Plans was \$290,000 and \$30,000 for the years ended March 31, 2007 and April 1, 2006, respectively, and was calculated based upon a number of actuarial assumptions. The income for the year ended March 31, 2007 was primarily the result of a gain on the curtailment of two of the plans.

We use a March 31 measurement date for our plans. We expect to contribute approximately \$0.2 million to our postretirement benefit plans in fiscal year 2008.

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was signed into law. Our prescription drug benefit for all postretirement plans is capped at a set amount each month, which is paid to the retirees so they can obtain prescription drug coverage. As such, we are not self-insured for prescription drugs, and the Act has no impact on the recorded obligation.

During fiscal 2004, the plans were amended to contractually limit the benefit to be provided for certain groups of current and future retirees. As a result, there is no health care trend associated with these groups. The discount rate used in determining the accumulated postretirement benefit obligation was 6.00% as of March 31, 2007 and 6.25% as of April 1, 2006. The discount rate used in determining the net periodic benefit cost was 6.25% for fiscal 2007, 5.90% for fiscal 2006, and 6.25% for fiscal 2005. The 1983 Group Annuity Mortality table was used to determine the postretirement net periodic benefit costs in fiscal 2007, 2006, and 2005.

Lowering the discount rate assumption used to determine net periodic benefit cost by 1.00% (from 6.25% to 5.25%) would have decreased our postretirement expense for fiscal 2007 by approximately \$24,000. Increasing the discount rate assumption used to determine net periodic benefit cost by 1.00% (from 6.25% to 7.25%) would have increased our postretirement expense for fiscal 2007 by approximately \$23,000. A decrease in the discount rate would reduce expense, while an increase in the discount rate would increase expense due to the impact of the Tyson Bearings Inc. curtailment and the resulting reduction of an accrued pension benefit obligation.

Lowering the discount rate assumption used to determine the accumulated postretirement benefit obligation as of March 31, 2007 by 1.00% (from 6.00% to 5.00%) would have increased the accumulated postretirement benefit obligation of our postretirement plans by approximately \$262,000. Increasing the discount rate assumption used to determine the accumulated postretirement benefit obligation, as of March 31, 2007 by 1.00% (from 6.00% to 7.00%) would have reduced the accumulated postretirement benefit obligation of our postretirement plans by approximately \$223,000.

*Stock-Based Compensation.* Effective April 2, 2006, the first day of the Company's fiscal year, we 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. We have 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, our net income for fiscal 2007 reflected a charge for stock option grants of \$321 (net of income taxes of \$167). This represents a \$0.02 impact on basic and diluted earnings per share for the year ended March 31, 2007. In addition, prior to the adoption of SFAS No. 123(R), we 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),



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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. We used an outside valuation firm to assist in estimating the fair value of stock option grants made during fiscal 2007.

Prior to fiscal 2007, we 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 our 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, our net income would have been reduced to the following pro forma amounts:

	Fiscal Year Ended	
	April 1, 2006	April 2, 2005
	(in thousands)	
Net income, as reported	\$ 12,439	\$ 7,260
Plus: stock-based compensation expense included in reported net income, net of the tax	230	264
Less: stock-based compensation expense determined under fair value method, net of tax	(1,842)	(540)
Pro forma net income	\$ 10,827	\$ 6,984
Net income per common share, as reported:		
Basic	\$ 0.84	\$ 0.62
Diluted	\$ 0.76	\$ 0.35
Net income per common share, pro forma:		
Basic	\$ 0.72	\$ 0.57
Diluted	\$ 0.64	\$ 0.33

For purposes of the pro forma disclosures, the estimated fair value of the options and warrants is amortized to expense over the service period that generally is the option or warrant vesting period. The weighted average fair value per share of options and warrants granted was \$8.70 in fiscal 2007, \$6.00 in fiscal 2006 and \$8.17 in fiscal 2005.

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

	Fiscal Year Ended					
	March 31, 2007		April 1, 2006		April 2, 2005	
Dividend yield	0.0	%	0.0	%	0.0	%
Expected weighted-average life	4.9		7.0		3.0	
Risk-free interest rate	5.0	%	3.5	%	3.5	%
Expected volatility	34.4	%	32.0	%	0.4	%

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and warrants which have no vesting restrictions and are fully transferable. In addition, option and warrant valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because our options and warrants have characteristics significantly different from those of traded options and warrants, and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of our options and warrants.

On April 1, 2006, we accelerated the vesting of 523,585 stock options whose exercise prices were below our closing stock price on the date the vesting of the options was accelerated. As a result, a charge of approximately \$73,000, net of tax, was recorded in fiscal 2006. The accelerated vesting of these stock options was intended to eliminate compensation expense associated with these options in future periods due to the adoption of SFAS No. 123(R), Share-Based Payment. The impact of the acceleration of vesting is also included in the pro forma table above.



### **Impact of Inflation and Changes in Prices of Raw Materials and Supplies**

To date, inflation in the economy as a whole has not significantly affected our operations. However, we purchase steel at market prices, which during the past three years have increased to historical highs as a result of a relatively low level of supply and a relatively high level of demand. To date, we have generally been able to pass through these price increases through price increases on our products, the assessment of steel surcharges on our customers or entry into long-term agreements with our customers which often contain escalator provisions tied to our invoiced price of steel. However, even if we are able to pass these steel surcharges or price increases to our customers, there may be a time lag of up to 3 months or more between the time a price increase goes into effect and our ability to implement surcharges or price increases, particularly for orders already in our backlog. As a result, our gross margin percentage may decline, and we may not be able to implement other price increases for our products.

Competitive pressures and the terms of certain of our long-term contracts may require us to absorb at least part of these cost increases, particularly during periods of high inflation. Our principal raw material is 440c and 52100 wire and rod steel (types of stainless and chrome steel), which has historically been readily available. Recently, because of extraordinarily high demand for certain grades of steel, suppliers have in some instances allocated certain types of steel in limited quantities to customers. However, to date, we have never experienced a work stoppage due to a supply shortage. We maintain multiple sources for raw materials including steel and have various supplier agreements. Through sole-source arrangements, supplier agreements and pricing, we have been able to minimize our exposure to fluctuations in raw material prices.

Our suppliers and sources of raw materials are based in the U.S., Europe and Asia. We believe that our sources are adequate for our needs in the foreseeable future, that there exist alternative suppliers for our raw materials and that in most cases readily available alternative materials can be used for most of our raw materials.

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

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

*Interest Rates.* We 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 Agreement bear interest at a variable rate based on prime (for any day, a floating rate equal to the higher of (1) the rate publicly posted as the base rate posted by at least 75% of the nation's 30 largest banks or (2) the Federal Funds Rate plus 50 basis points per year) or LIBOR (the London inter-bank offered rate for deposits in U.S. dollars for the applicable LIBOR Period) ranging from 30 to 120 days as adjusted each interest period. As of March 31, 2007, based on the aggregate amount of \$42.0 million outstanding under our KeyBank Credit Agreement, a 100 basis point change in interest rates would have changed our interest expense by approximately \$0.4 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 14% of our net sales were denominated in foreign currencies for fiscal 2007 compared to 12% in fiscal 2006. 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.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

36

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

RBC Bearings Incorporated

We have audited the accompanying consolidated balance sheets of RBC Bearings Incorporated as of March 31, 2007 and April 1, 2006, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income (loss), and cash flows for each of the three years in the period ended March 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of RBC Bearings Incorporated at March 31, 2007 and April 1, 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 2 and 13 to the consolidated financial statements, effective April 2, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, using the modified prospective transition method and, effective March 31, 2007, adopted the provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of RBC Bearings Incorporated's internal control over financial reporting as of March 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 8, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Hartford, Connecticut  
June 8, 2007

**RBC Bearings Incorporated****Consolidated Balance Sheets**

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

	March 31, 2007	April 1, 2006
<b>ASSETS</b>		
Current assets:		
Cash	\$ 5,184	\$ 16,126
Accounts receivable, net of allowance for doubtful accounts of \$867 in 2007 and \$838 in 2006	54,636	50,935
Inventory	103,022	103,148
Deferred income taxes	7,115	5,412
Prepaid expenses and other current assets	2,914	2,453
Total current assets	172,871	178,074
Property, plant and equipment, net	61,209	58,028
Goodwill	29,631	25,150
Intangible assets, net of accumulated amortization of \$2,329 in 2007 and \$1,616 in 2006	5,793	3,981
Deferred financing costs, net of accumulated amortization of \$409 in 2007 and \$1,269 in 2006	1,207	4,233
Deferred income taxes		4,616
Other assets	3,002	1,841
Total assets	\$ 273,713	\$ 275,923

See accompanying notes.

	March 31, 2007	April 1, 2006
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 21,299	\$ 19,436
Accrued expenses and other current liabilities	11,683	8,572
Current portion of long-term debt	750	3,217
Capital lease obligations	169	237
Total current liabilities	33,901	31,462
Long-term debt, less current portion	58,655	162,530
Capital lease obligations, less current portion	456	170
Deferred income taxes	6,479	
Other non-current liabilities	6,051	8,421
Total liabilities	105,542	202,583
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares: 10,000,000 in 2007 and 2006; none issued and outstanding		
Common stock, \$.01 par value; authorized shares: 60,000,000 in 2007 and 2006; issued and outstanding shares: 21,408,994 in 2007 and 16,976,381 in 2006	214	170
Additional paid-in capital	169,489	103,317
Accumulated other comprehensive loss	(2,206 )	(3,392 )
Retained earnings (accumulated deficit)	1,724	(26,755 )
Treasury stock, at cost, 37,356 shares in 2007	(1,050 )	
Total stockholders' equity	168,171	73,340
Total liabilities and stockholders' equity	\$ 273,713	\$ 275,923

See accompanying notes.

**RBC Bearings Incorporated****Consolidated Statements of Operations**

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

	<b>Fiscal Year Ended</b>		
	<b>March 31, 2007</b>	<b>April 1, 2006</b>	<b>April 2, 2005</b>
Net sales	\$ 306,062	\$ 274,509	\$ 243,016
Cost of sales	205,953	191,561	174,602
Gross margin	100,109	82,948	68,414
Operating expenses:			
Selling, general and administrative	42,256	41,945	32,749
Other, net	5,934	2,424	3,526
Total operating expenses	48,190	44,369	36,275
Operating income	51,919	38,579	32,139
Interest expense, net	5,505	15,735	19,669
Loss on early extinguishment of debt	3,576	3,771	6,950
Other non-operating expense (income)	(1,229)	)	(355)
Income before income taxes	44,067	19,073	5,875
Provision for (benefit from) income taxes	15,588	6,634	(1,385)
Net income	28,479	12,439	7,260
Preferred stock dividends		(893)	(2,280)
Participation rights of preferred stock in undistributed earnings		(630)	(1,142)
Net income available to common stockholders	\$ 28,479	\$ 10,916	\$ 3,838
Net income per common share:			
Basic	\$ 1.38	\$ 0.84	\$ 0.62
Diluted	\$ 1.33	\$ 0.76	\$ 0.35
Weighted average common shares:			
Basic	20,579,498	12,931,185	6,202,615
Diluted	21,335,307	14,452,264	10,854,584

See accompanying notes.

## RBC Bearings Incorporated

## Consolidated Statements of Stockholders Equity (Deficit) and Comprehensive Income (Loss)

(dollars in thousands)

	Class B Preferred Stock Amount	Class C Preferred Stock Amount	Class D Preferred Stock Amount	Common Stock Shares	Amount	Add- itional Paid-in Capital	Deferred Compen- sation	Accum- ulated Other Compre- hensive Loss	Retained Earnings (Accum- ulated Deficit)	Treasury Stock Shares Amount	Total Stock- holders Equity (Deficit)	Compre- hensive Income/ (Loss)
Balance at April 3, 2004	\$ 2	\$	\$	6,188,903	\$ 62	\$ 33,448	\$	\$ (3,343)	\$ (46,454)	\$	\$ (16,285)	
Net income									7,260		7,260	\$ 7,260
Grants of options to purchase Class A common stock at below fair market value						769	(769)					
Amortization of deferred stock compensation							420				420	
Exercise of stock options				13,866		35					35	
Currency translation adjustments								488			488	488
Minimum pension liability adjustment, net of taxes of \$338								323			323	323
Comprehensive income												\$ 8,071
Balance at April 2, 2005	2			6,202,769	62	34,252	(349)	(2,532)	(39,194)		(7,759)	
Net income									12,439		12,439	\$ 12,439
Stock compensation charge for options granted at below market value						16	(16)					
Amortization of deferred stock compensation							365				365	
Conversion of Class B preferred stock	(2)	)3	2	1,846,396	19	(22)						
Redemption of Class C preferred stock		(3)	)			(30,627)					(30,630)	
Redemption of Class D preferred stock			(2)	)275,863	3	(4,001)					(4,000)	
Net proceeds from issuance of common stock				7,034,516	70	92,058					92,128	
Exercise of common stock				139,284	1	497					498	

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options and warrants							
Income tax benefit on IRS settlement			2,478			2,478	
Cashless exercise of common stock options and warrants	1,477,553	15	(15	)			
Income tax benefit on exercise of non-qualified common stock options and warrants			8,681			8,681	
Currency translation adjustments					(569	)	(569
Minimum pension liability adjustment, net of taxes of \$223					(291	)	(291
Comprehensive income							\$ 11,579
Balance at April 1, 2006	16,976,381	170	103,317		(3,392	)	(26,755
Net income					28,479		28,479
Net proceeds from issuance of common stock	2,994,021	30	57,794				57,824
Repurchase of common stock						(37,356)	(1,050
Stock-based compensation			767				767
Exercise of common stock options and warrants	1,362,917	13	3,077				3,090
Issuance of restricted stock	75,675	1					1
Income tax benefit on IRS settlement			1,122				1,122
Income tax benefit realized on exercise of non-qualified common stock options and warrants			3,412				3,412
Minimum pension liability adjustment, net of taxes of \$549					887		887
Currency translation adjustments					908		908
Adoption of SFAS No. 158, net of taxes of \$377					(609	)	(609
Comprehensive income							\$ 30,274

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Balance at March 31, 2007	\$	\$	\$	21,408,994	\$	214	\$	169,489	\$	(2,206)	\$	1,724	(37,356)	\$	(1,050)	\$	168,171
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See accompanying notes.

41

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## RBC Bearings Incorporated

## Consolidated Statements of Cash Flows

(dollars in thousands)

	Fiscal Year Ended		
	March 31, 2007	April 1, 2006	April 2, 2005
<b>Cash flows from operating activities:</b>			
Net income	\$ 28,479	\$ 12,439	\$ 7,260
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	8,933	8,664	8,285
Deferred income taxes (benefit)	9,282	3,956	(3,113)
Amortization of intangible assets	713	667	500
Amortization of deferred financing costs and debt discount	353	829	1,113
Stock-based compensation	767	365	420
Loss on disposition of assets	1,917	24	1,778
Loss on early extinguishment of debt (non-cash portion)	3,576	1,536	4,303
Other	(169)	20	21
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(1,215)	2,713	(9,251)
Inventory	2,489	(8,025)	(4,725)
Prepaid expenses and other current assets	(401)	246	232
Other non-current assets	37	298	(377)
Accounts payable	917	470	5,451
Accrued expenses and other current liabilities	1,326	(224)	(1,879)
Other non-current liabilities	(1,269)	664	(150)
Net cash provided by operating activities	55,735	24,642	9,868
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	(16,174)	(10,341)	(9,526)
Acquisition of businesses, net of cash acquired	(8,753)	(2,682)	(755)
Proceeds from sale of assets	3,574	44	274
Net cash used in investing activities	(21,353)	(12,979)	(10,007)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in revolving credit facility	42,000	(5,000)	2,500
Net proceeds from sale of stock in initial public offering		92,128	
Net proceeds from issuance of common stock	57,824		
Repurchase of common stock	(1,050)		
Redemption of Class C redeemable preferred stock		(30,630)	
Redemption of Class D preferred stock		(4,000)	
Exercise of stock options and warrants	3,090	498	35
Retirement of senior subordinated notes			(110,000)
Income tax benefit realized on exercise of non-qualified common stock options and warrants	3,412		
Proceeds from term loans		41,100	155,000
Retirement of senior subordinated discount debentures		(38,562)	
Retirement of term loans	(144,875)	(45,000)	(40,000)
Payments on term loans	(4,654)	(7,054)	(3,190)
Principal payments on capital lease obligations	(317)	(257)	(282)
Financing fees paid in connection with senior credit facility	(903)	(1,312)	(4,400)
Net cash provided by (used in) financing activities	(45,473)	1,911	(337)
Effect of exchange rate changes on cash	149	(83)	(139)
<b>Cash and cash equivalents:</b>			
Increase (decrease) during the year	(10,942)	13,491	(615)
Cash, at beginning of year	16,126	2,635	3,250
Cash, at end of year	\$ 5,184	\$ 16,126	\$ 2,635
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for:			



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Interest	\$ 5,929	\$ 17,135	\$ 20,301
Income taxes	\$ 780	\$ 892	\$ 207

See accompanying notes.

42

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**RBC Bearings Incorporated**

**Notes to Consolidated Financial Statements**

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

**1. Organization and Business**

RBC Bearings Incorporated (the Company, collectively with its subsidiaries), is a Delaware corporation. The Company operates in four reportable business segments roller bearings, plain bearings, ball bearings, other and corporate in which it manufactures roller bearing components and assembled parts and designs and manufactures high-precision roller and ball bearings. The Company sells to a wide variety of original equipment manufacturers (OEMs) and distributors who are widely dispersed geographically. In fiscal 2007, 2006 and 2005, no one customer accounted for more than 8% of the Company's sales. The Company's segments are further discussed in Note 21.

On August 15, 2005, pursuant to a purchase agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, KeyBanc Capital Markets and Jefferies & Company, Inc., the Company and the selling stockholders sold 10,531,200 shares of the Company's common stock (3,496,684 sold by the selling stockholders). The offering yielded aggregate net proceeds to the Company of \$92,128 after payment of the underwriting discount and offering expenses. After redemption of the Company's Class C and Class D preferred stock for \$34,630, the net proceeds to the Company were \$57,498. Immediately prior to the consummation of the initial public offering, all outstanding shares of Class B preferred stock were converted in accordance with their terms into 1,846,396 shares of Class A common stock, 306,298 shares of Class C preferred stock and 240,000 shares of Class D preferred stock. All shares of Class C and Class D preferred stock were redeemed with cash or common stock and all shares of Class A and Class B common stock were reclassified as common stock on a one-for-one basis. In connection with the initial public offering, the Company filed an Amended and Restated Certificate of Incorporation (the Amendment). The Amendment increased the Company's authorized capital stock to 70,000,000 shares, (i) 60,000,000 of which is common stock, \$0.01 par value per share, and (ii) 10,000,000 of which is preferred stock, \$0.01 par value per share.

The proceeds of the offering and additional term loan borrowings under the Amended Credit Agreement (as discussed in Note 10) were used as follows: (1) to redeem all of the Company's outstanding 13% senior subordinated discount debentures by payment to the Bank of New York, as trustee for the holders of debentures, of a total payoff amount of approximately \$40,000; (2) to redeem 293,536 shares of Class C Preferred Stock held by Whitney RBHC Investor, LLC (Whitney) for an aggregate redemption price of \$29,354; (3) to redeem 12,762 shares of Class C Preferred Stock held by Dr. Michael Hartnett for an aggregate redemption price of \$1,276; (4) to repurchase 230,000 shares of Class D Preferred Stock held by Whitney for an aggregate repurchase price of \$7,667, of which \$3,833 was paid in cash out of the proceeds of the offering and term loan borrowings and the balance of which was paid by issuance of 264,368 shares of Common Stock; (5) to repurchase 10,000 shares of Class D Preferred Stock held by Hartnett for an aggregate repurchase price of \$333, of which \$167 was paid in cash out of the proceeds of the offering and term loan borrowings, and the balance of which was paid by issuance of 11,495 shares of Common Stock; (6) to repay approximately \$45,000 of indebtedness under the Company's second lien term loan credit facility, which represented repayment in full of all amounts owing under such facility, plus approximately \$1,400 in fees and expenses in connection with such repayment and amendment; (7) to pay approximately \$5,000 in mandatory prepayments under the Company's credit facility in connection with the initial public offering; and (8) to pay \$2,732 in legal, printing, accounting and other miscellaneous expenses payable in connection with the initial public offering.

On February 15, 2006, the Company's RBC Nice Bearings, Inc. subsidiary and the United Steelworkers of America (AFL-CIO) Local 6816-12 entered into a shutdown agreement in connection with its decision to close operations at its Kulpsville, Pennsylvania facility. In connection with the shutdown agreement, the union has agreed to take no action against the Company in connection with such shutdown. The agreement also addresses closure and other transition issues related to pensions, workers compensation, adjustment assistance and other matters. The production that was conducted at the Nice facility, part of the Ball Bearings segment, has been moved to other RBC locations, and the Company anticipates no material impact on production or its ability to service its customers. Shutdown costs included \$624 of severance and a loss of \$400 for fixed asset disposals which were recorded in operating expenses (Other, net) in fiscal 2006.

On February 6, 2007, the Company's Tyson Bearing Company, Inc. subsidiary and the United Steelworkers of America (AFL-CIO) Local 7461-01 entered into a shutdown agreement in connection with its decision to close operations at its Glasgow, Kentucky facility. In connection with the shutdown agreement, the union has agreed to take no action against the Company in connection with such shutdown. The agreement also addresses closure and other transition issues related to pensions, workers compensation, adjustment assistance and other matters. The production that was conducted at the Tyson facility, part of the Roller Bearings segment, has been moved to other RBC locations, and the Company anticipates no material impact on production or its ability to service its customers. The consolidation is anticipated to result in improved gross margin



for this product line, from a negative to a positive result over the next twelve months. This consolidation resulted in a charge of approximately \$5,088 which was recorded in operating expenses (Other, net) in fiscal 2007. Approximately \$2,211 of this charge related to the non-cash disposal of fixed assets.

## 2. Summary of Significant Accounting Policies

### General

The consolidated financial statements include the accounts of RBC Bearings Incorporated, Roller Bearing Company of America, Inc. ( RBCA ) and its wholly-owned subsidiaries, Industrial Tectonics Bearings Corporation ( ITB ), RBC Linear Precision Products, Inc. ( LPP ), RBC Nice Bearings, Inc. ( Nice ), RBC Precision Products Bremen, Inc. ( Miller ), RBC Precision Products Plymouth, Inc. ( Bremen ), Tyson Bearings, Inc. ( Tyson ), Schaublin Holdings S.A. and its wholly-owned subsidiaries ( Schaublin ), RBC de Mexico S DE RL DE CV ( Mexico ), RBC Oklahoma, Inc. ( RBC Oklahoma ), RBC Aircraft Products, Inc. ( API ), Shanghai Representative office of Roller Bearing Company of America, Inc. ( RBC Shanghai ), RBC Southwest Products, Inc. ( SWP ) 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.

The Company has a fiscal year consisting of 52 or 53 weeks, ending on the Saturday closest to March 31. Based on this policy, fiscal years 2007, 2006 and 2005 contained 52 weeks.

### Cash and Cash Equivalents

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

### Inventory

Inventories are stated at the lower of cost or market, using the first-in, first-out method. A reserve against inventory is recorded for obsolete and slow-moving inventory within each class of inventory. Effective April 2, 2006, the Company has adopted Statement of Financial Accounting Standards ( SFAS ) No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4, which did not have a material impact on the consolidated financial position, results of operations or cash flows of the Company (see Note 5).

### Shipping and Handling

The sales price billed to customers includes the costs associated with shipping and handling, which is included in net sales. The costs to the Company for shipping and handling are included in cost of sales.

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation and amortization of property, plant and equipment, including equipment under capital leases, is provided for by the straight-line method over the estimated useful lives of the respective assets or the lease term, if shorter. Amortization of assets under capital leases is reported within depreciation and amortization. The cost of equipment under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair market value of the leased equipment at the inception of the lease. Expenditures for normal maintenance and repairs are charged to expense as incurred.

The estimated useful lives of the Company's property, plant and equipment follows:

Buildings	20-30 years
Machinery and equipment	3-10 years
Leasehold improvements	Shorter of the term of lease or estimated useful life



### **Recognition of Revenue and Accounts Receivable and Concentration of Credit Risk**

The Company recognizes revenue only after the following four basic criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectibility is reasonably assured.

Revenue is recognized upon the passage of title, which is at the time of shipment. Accounts receivable, net of applicable allowances, is recorded when goods are shipped.

The Company sells to a large number of OEMs and distributors who service the aftermarket. The Company's credit risk associated with accounts receivable is minimized due to its customer base and wide geographic dispersion. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral or charge interest on outstanding amounts. At March 31, 2007 and April 1, 2006, the Company had no concentrations of credit risk greater than 10% of accounts receivables.

### **Allowance for Doubtful Accounts**

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company reviews the collectibility of its receivables on an ongoing basis taking into account a combination of factors. The Company reviews potential problems, such as past due accounts, a bankruptcy filing or deterioration in the customer's financial condition, to ensure the Company is adequately accrued for potential loss. Accounts are considered past due based on when payment was originally due. If a customer's situation changes, such as a bankruptcy or creditworthiness, or there is a change in the current economic climate, the Company may modify its estimate of the allowance for doubtful accounts. The Company will write-off accounts receivable after reasonable collection efforts have been made and the accounts are deemed uncollectible.

### **Goodwill and Amortizable Intangible Assets**

Goodwill (representing the excess of the amount paid to acquire a company over the estimated fair value of the net assets acquired) and intangible assets with indefinite useful lives are not amortized but instead are tested for impairment annually, or when events or circumstances indicate that its value may have declined. This determination of any goodwill impairment is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the goodwill's implied fair value. The fair value of the Company's reporting units is calculated by comparing the weighted average of the net present value of future cash flows and a market approach based on the reporting units' carrying value. The Company utilizes discount rates determined by management to be similar with the level of risk in its current business model. The Company performs the annual impairment testing during the fourth quarter of each fiscal year and has determined that, to date, no impairment of goodwill exists. Although no changes are expected, if the actual results of the Company are less favorable than the assumptions the Company makes regarding estimated cash flows, the Company may be required to record an impairment charge in the future.

The Company's definite-lived intangible asset categories, which are described in Note 8, are amortized over their estimated useful lives of 5 to 17 years. Also included in intangible assets, as of April 1, 2006, is an asset relating to the Company's minimum pension liability, as further described in Note 13.

### **Deferred Financing Costs**

Deferred financing costs are amortized by the effective interest method over the lives of the related credit agreements (5 to 25 years).

### **Income Taxes**

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The Company accounts for income taxes using the liability method, which requires it to recognize a current tax liability or asset for current taxes payable or refundable and a deferred tax liability or asset for the estimated future tax effects of temporary differences between the financial statement and tax reporting bases of assets and liabilities to the extent that they are realizable. Deferred tax expense (benefit) results from the net change in deferred tax assets and liabilities during the year.

45

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Temporary differences relate primarily to the timing of deductions for depreciation, goodwill amortization relating to the acquisition of operating divisions, basis differences arising from acquisition accounting, pension and retirement benefits, and various accrued and prepaid expenses. Deferred tax assets and liabilities are recorded at the rates expected to be in effect when the temporary differences are expected to reverse.

**Net Income (Loss) Per Common Share**

Basic net income (loss) per common share is computed by dividing net income (loss) available to common stockholders (both Class A and Class B common stockholders share equally in net income (loss)) 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 FASB 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 (loss) per common share is computed by dividing net income (loss) 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 (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 (loss) 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.

If the above calculations resulted in a net loss available to common stockholders (due to a net loss for the period or the effect of accrued preferred stock dividends) and if the effect of including common shares equivalents and the assumed conversion of preferred stock, or use of the two-class method, was anti-dilutive, then diluted net loss per common share would equal basic net loss per common share.

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

	Fiscal Year Ended					
	March 31, 2007		April 1, 2006		April 2, 2005	
Numerator:						
Net income	\$	28,479	\$	12,439	\$	7,260
Preferred stock dividends*			(893	)	(2,280	)
Participation rights of preferred stock in undistributed earnings**			(630	)	(1,142	)
Numerator for basic and diluted net income per common share income available to common stockholders under the two-class method		28,479		10,916		3,838
Preferred stock dividends and participation rights of preferred stock				1,523		3,422
Numerator for diluted net income per common share income available to common stockholders after assumed conversion of preferred stock	\$	28,479	\$	12,439	\$	7,260



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	Fiscal Year Ended			
	March 31, 2007		April 1, 2006	April 2, 2005
Denominator:				
Denominator for basic net income per common share weighted-average shares	20,579,498		12,931,185	6,202,615
Effect of dilution due to employee stock options and warrants	755,809		866,725	2,805,574
Effect of dilution due to convertible preferred stock*			654,354	1,846,395

Denominator for diluted net income per common share adjusted weighted-average shares	21,335,307		14,452,264	10,854,584
Basic net income per common share	\$ 1.38		\$ 0.84	\$ 0.62
Diluted net income per common share	\$ 1.33		\$ 0.76	\$ 0.35

\* through August 15, 2005 (see Note 1).

\*\* 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 an undistributed net loss resulted from reducing net income by the preferred stock dividends.

For additional disclosures regarding the outstanding preferred stock and the employee stock options and warrants, see Note 16.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, valuation of inventories, accrued expenses, depreciation and amortization, income taxes and tax valuation reserves, pension and postretirement obligations and the valuation of options and warrants.

#### **Impairment of Long-Lived Assets**

The Company assesses the net realizable value of its long-lived assets and evaluates such assets for impairment whenever indicators of impairment are present.

For amortizable long-lived assets to be held and used, if indicators of impairment are present, management determines whether the sum of the estimated undiscounted future cash flows is less than the carrying amount. The amount of asset impairment, if any, is based on the excess of the carrying amount over its fair value, which is estimated based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. To date, no indicators of impairment exist.

Long-lived assets to be disposed of by sale or other means are reported at the lower of carrying amount or fair value, less costs to sell.

#### **Foreign Currency Translation and Transactions**

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars using the exchange rate in effect at the balance sheet date. Results of operations are translated using the average exchange rate prevailing throughout the period. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are included in accumulated other comprehensive loss, while gains and losses resulting from foreign currency transactions, which were not material for any of the fiscal years presented, are included in interest expense. Net income of the Company's foreign operations for fiscal 2007, 2006 and 2005 amounted to \$5,767, \$2,624, and \$2,148, respectively. Net assets of the Company's foreign operations were \$30,208 and \$24,304 at March 31, 2007 and April 1, 2006, respectively.

#### **Fair Value of Financial Instruments**

The carrying amounts reported in the balance sheet for cash, accounts receivable, prepaids and other current assets, and accounts payable and accruals approximate their fair value.

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

**Accumulated Other Comprehensive Income (Loss)**

The components of comprehensive income (loss) that relate to the Company are net income, foreign currency translation adjustments and the pension plan additional minimum liability and after-tax impact of the adoption of SFAS No. 158 on pension benefits, all of which are presented in the consolidated statements of stockholders' equity (deficit) and comprehensive income (loss).

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

	Currency Translation	Pension and Postretirement Liability	Total
Balance at April 3, 2004	\$ (1,304 )	\$ (2,039 )	\$ (3,343 )
Currency translation	488		488
Minimum pension liability		323	323
Balance at April 2, 2005	(816 )	(1,716 )	(2,532 )
Currency translation	(569 )		(569 )
Minimum pension liability		(291 )	(291 )
Balance at April 1, 2006	(1,385 )	(2,007 )	(3,392 )
Currency translation	908		908
Minimum pension liability		887	887
Adoption of SFAS No. 158		(609 )	(609 )
Balance at March 31, 2007	\$ (477 )	\$ (1,729 )	\$ (2,206 )

**Stock-Based Compensation**

Effective April 2, 2006, the first day of the Company's 2007 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) (the vesting of all awards granted to employees prior to the effective date of SFAS No. 123(R) was accelerated in fiscal 2006 and has 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 fiscal 2007 reflected a charge for stock option grants of \$321 (net of income taxes of \$167). This represents a \$0.02 impact on basic and diluted earnings per share for the year ended March 31, 2007. 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 fiscal 2007.

Prior to its adoption of SFAS No. 123(R), 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 was recognized only if the exercise price of grants issued was 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:

	Fiscal Year Ended	
	April 1, 2006	April 2, 2005
Net income, as reported	\$ 12,439	\$ 7,260

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Plus: stock-based compensation expense included in reported net income, net of tax	230	264
Less: stock-based compensation expense determined under fair value method, net of tax	(1,842)	(540)
Pro forma net income	\$ 10,827	\$ 6,984

48

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Net income per common share, as reported:		
Basic	\$ 0.84	\$ 0.62
Diluted	\$ 0.76	\$ 0.35
Net income per common share, pro forma:		
Basic	\$ 0.72	\$ 0.57
Diluted	\$ 0.64	\$ 0.33

For purposes of the pro forma disclosures, the estimated fair value of the options and warrants was amortized to expense over the service period that generally was the option or warrant vesting period.

On April 1, 2006, the Company accelerated the vesting of 523,585 stock options whose exercise prices were below its closing stock price on the date the vesting of the options was accelerated. As a result, a charge of approximately \$73, net of tax, was recorded in fiscal 2006. The accelerated vesting of these stock options was intended to eliminate compensation expense associated with these options in future periods due to the adoption of SFAS No. 123(R). The impact of the acceleration of vesting is also included in the pro forma table above.

### Recent Accounting Pronouncement

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.

### 3. Acquisitions

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. The purchase price allocation is as follows: accounts receivable (\$1,969), inventory (\$1,382), other current assets (\$409), property, plant and equipment (\$1,614), intangible assets (\$3,672), goodwill (\$4,481), current liabilities (\$1,508) and long-term liabilities (\$2,093). 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. Goodwill associated with the acquisition is expected to be deductible for tax purposes.

On September 2, 2005, SWP purchased certain assets of the Southwest Products Company, a manufacturer of spherical bearings, journal bearings, and push-pull controls for military weapon systems and military and commercial aerospace applications located in Irwindale, California. The total consideration paid was \$2,682. The purchase price allocation is as follows: accounts receivable (\$114), inventory (\$630), property, plant and equipment (\$720), intangible assets (\$1,449) and accrued expenses (\$231). The products associated with the acquisition are complementary with products already provided by other Company businesses. SWP is included in the Plain Bearings reportable segment.

On December 22, 2004, RBCA purchased certain net assets of the US Bearings division of Network Electronic Corporation, a manufacturer of lined and unlined spherical, rod-end and other specialty bearings located in Chatsworth, California. The total consideration paid was \$1,228. The purchase price allocation is as follows: inventory (\$522), property, plant and equipment (\$585), intangible assets (\$438) and accrued expenses (\$317). All of the products associated with the acquisition are complementary with products already provided by other Company businesses. US Bearings is included in the Plain Bearings reportable segment.

The results of operations subsequent to the effective dates of the acquisitions are included in the results of operations of the Company. Unaudited pro forma consolidated results of operations of the Company, based upon pre-acquisition unaudited historical information provided for the years ended March 31, 2007, April 1, 2006, and April 2, 2005, as if the All Power, SWP and USB acquisitions took place on April 4, 2004, are as follows:

	Fiscal Year Ended
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	March 31, 2007	April 1, 2006	April 2, 2005
Net sales	\$ 311,519	\$ 289,187	\$ 258,135
Net income	\$ 29,520	\$ 13,916	\$ 7,568
Net income per common share:			
Basic	\$ 1.43	\$ 0.96	\$ 0.67
Diluted	\$ 1.38	\$ 0.86	\$ 0.38

49

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**4. Allowance for Doubtful Accounts**

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

<b>Fiscal Year Ended</b>	<b>Balance at Beginning of Year</b>	<b>Additions</b>	<b>Other*</b>	<b>Write-offs</b>	<b>Balance at End of Year</b>
March 31, 2007	\$ 838	\$ 183	\$ 39	\$ (193)	\$ 867
April 1, 2006	628	244		(34)	838
April 2, 2005	770	472		(614)	628

\*acquired in All Power transaction (see Note 3).

## 5. Inventory

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

	March 31, 2007	April 1, 2006
Raw materials	\$ 8,133	\$ 7,845
Work in process	32,457	30,147
Finished goods	62,432	65,156
	\$ 103,022	\$ 103,148

In November 2004, the 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 Company 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.

## 6. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	March 31, 2007	April 1, 2006
Land	\$ 8,152	\$ 7,405
Buildings and improvements	18,323	17,060
Machinery and equipment	109,059	118,030
	135,534	142,495
Less: accumulated depreciation and amortization	74,325	84,467
	\$ 61,209	\$ 58,028

## 7. Restructuring of Operations

On December 18, 2006, the Company completed the final phase of its Nice consolidation plan with the sale of its facility located in Kulpsville, Pennsylvania. The asset was sold for approximately \$3,507 after expenses and the Company realized a gain on the sale of approximately \$807 before taxes.

In January 2007, the Company began the consolidation of its tapered bearing manufacturing capacity. The Company has discontinued manufacturing tapered bearings in its Glasgow, Kentucky facility and has consolidated the remaining



manufacturing into other Company manufacturing facilities. The consolidation is anticipated to result in improved gross margin for this product line from a negative to a positive result over the next twelve months. This consolidation resulted in a charge of approximately \$5,088 in fiscal 2007. Approximately \$2,211 of this charge related to the non-cash disposal of fixed assets. The remaining charge of \$2,877 includes termination benefits of approximately \$1,153, moving costs of approximately \$755, rent of approximately \$628 and cleanup and turnover costs of approximately \$250. As of March 31, 2007, \$1,984 has been paid and \$893 has been accrued. In addition to the accrued costs, \$113 is expected to be incurred and paid in the first quarter of fiscal 2008,

In addition to the sale and disposal of fixed assets at the Kulpville, Pennsylvania and Glasgow, Kentucky facilities, during the year ended March 31, 2007, the Company recorded a loss of \$513 on the sale and disposal of property, plant and equipment no longer expected to be used. During the year ended April 1, 2006, the Company recorded a loss of \$24 on the sale and disposal of property, plant and equipment and recorded a \$400 reserve for the impairment of fixed assets in connection with the shutdown of the Kulpville facility. During the year ended April 2, 2005, the Company recorded a loss of \$1,778 on the sale and disposal of property, plant and equipment related to the consolidation of production lines and outsourcing certain components to low-cost producers.

## 8. Goodwill and Amortizable Intangible Assets

### Goodwill

During fiscal 2007, goodwill increased \$4,481 in connection with the acquisition of All Power. No changes to goodwill occurred in fiscal 2006.

Goodwill balances, by segment, consist of the following:

	March 31, 2007	April 1, 2006
Roller	\$ 15,673	\$ 15,673
Plain	13,958	9,477
	\$ 29,631	\$ 25,150

### Intangible Assets

The Company's definite-lived intangible assets are amortized over their useful lives of 5 to 17 years. Also included in intangible assets, at April 1, 2006, is an asset relating to the Company's minimum pension liability, as further described in Note 13.

	March 31, 2007		April 1, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product approvals	\$ 3,083	\$ 240	\$ 1,612	\$ 135
Customer relationships and lists	2,704	987	1,305	695
Trade names	1,195	316	989	206
Distributor agreements	722	612	722	468
Minimum pension liability intangible asset			508	
Other	418	174	461	112
Total	\$ 8,122	\$ 2,329	\$ 5,597	\$ 1,616

Amortization expense for definite-lived intangible assets during fiscal year 2007, 2006, and 2005 was \$713, \$667 and \$500, respectively. Estimated amortization expense for the five succeeding fiscal years and thereafter is as follows:

2008	\$ 752
2009	512
2010	512

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2011	512
2012	512
2013 and thereafter	2,993

51

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## 9. Accrued Expenses and Other Current Liabilities

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

	March 31, 2007	April 1, 2006
Employee compensation and related benefits	\$ 4,290	\$ 3,909
Plant consolidation costs	893	718
Interest	178	1,014
Taxes	3,140	386
Insurance	1,100	681
Other	2,082	1,864
	\$ 11,683	\$ 8,572

## 10. Debt

On August 15, 2005, the Company entered into a Fifth Amended and Restated Credit Agreement (the "Amended Credit Agreement"), among RBCA; the other Credit Parties signatory thereto; General Electric Capital Corporation, a Delaware corporation, for itself, as lender, and as agent for the lenders, concurrently with the closing of the Company's initial public offering. Pursuant to the Amended Credit Agreement, the Company increased its term loan borrowings by approximately \$40,000 from \$110,000 under the term loan portion of the Amended Credit Agreement. The Amended Credit Agreement provided a \$55,000 revolving credit agreement (the "Amended Revolving Credit Facility") and a \$150,000 term loan (the "Amended Term Loan"). The principal amount of the Amended Term Loan was to be repaid in twenty-five (25) consecutive quarterly installments commencing December 31, 2005. Each loan was secured by a lien against substantially all of the assets of the Company and subjected the Company to standard affirmative and negative covenants, as well as financial leverage tests.

The Amended Revolving Credit Facility bore interest at a floating rate of either the higher of the base rate on corporate loans or the federal funds rate plus 50 basis points, plus 1.25%; or LIBOR plus 2.50%. The Company had the right to elect the applicable interest rate on the Amended Revolving Credit Facility. The Amended Term Loan bore interest at a floating rate of either the higher of the base rate on corporate loans or the federal rate plus 50 basis points, plus 1.50%; or LIBOR plus 2.75%. The Company had the right to elect the applicable interest rate on the Amended Term Loan.

On June 26, 2006, RBCA terminated the 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 0.75% 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 repay 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. As of March 31, 2007, 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's 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.

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

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Credit Agreement. As of March 31, 2007, \$42,000 was outstanding under the KeyBank Credit Agreement. The Company recorded a non-cash pre-tax charge of approximately \$3,576 in fiscal 2007 to write off

52

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deferred debt issuance costs associated with the early termination of the Amended Credit Agreement. Deferred financing fees of \$903 associated with the KeyBank Credit Agreement were recorded in fiscal 2007.

Approximately \$21,410 of the KeyBank Credit Agreement 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 March 31, 2007, RBCA had the ability to borrow up to an additional \$86,590 under the KeyBank Credit Agreement.

On December 8, 2003, Schaublin entered into a bank credit facility (the Swiss Credit Facility) with Credit Suisse providing for 10,000 Swiss francs, or approximately \$8,212, of term loan (the Swiss Term Loan) and up to 2,000 Swiss francs, or approximately \$1,642, of revolving credit loans and letters of credit (the Swiss Revolving Credit Facility). RBCA pledged 99.4% of the present and future share capital of Schaublin S.A. (1,366 shares) against this facility. On November 8, 2004, Schaublin amended the Swiss Credit Facility to increase the Swiss Revolving Credit Facility to 4,000 Swiss francs, or approximately \$3,285. Borrowings under the Swiss Credit Facility bear interest at a floating rate of LIBOR plus 2.25%. As of March 31, 2007, there were no borrowings outstanding under the Swiss Credit Facility.

During fiscal 1995, the Company entered into a loan agreement with the South Carolina Jobs Economic Development Authority (SC JEDA) which provides for borrowings up to \$10,700 under two industrial development revenue bonds (Series 1994 A and B) and, during fiscal 1999, the Company entered into an additional loan agreement with the SC JEDA which provides for borrowings up to \$3,000 under an industrial development revenue bond (Series 1998). The interest rate is variable and based on the 90-day U.S. Treasury Bill rate. Additionally, during fiscal 2000, the Company entered into a loan agreement with the California Infrastructure and Economic Development Bank which provides for borrowings up to \$4,800 under an industrial development revenue bond (Series 1999) (collectively, Bonds). The interest rate on the Bonds is variable and based on the Bond Market Association 7-day Municipal Swap Index. The proceeds from the Bonds are restricted for working capital requirements and capital expenditure purposes. On March 1, 2002, the Company retired the unused portion of the Series 1998 bonds of \$1,845. As of March 31, 2007, all of the proceeds have been expended with the exception of \$12 which has been invested by the trustee in marketable securities. The Series 1994 A and B bonds and the Series 1998 bonds are secured by an irrevocable direct-pay letter of credit issued by one of the Company's lenders. The letter of credit is equal to the aggregate principal amount of the bonds plus not less than forty-five days interest thereon, calculated at 12% per annum (\$12,534 at March 31, 2007). The Series 1999 bonds are likewise secured by an irrevocable direct-pay letter of credit issued by one of the Company's lenders. The Company's obligation to its lenders is secured pursuant to the provisions of the Credit Facility and is equal to the aggregate principal amount of the bonds plus not less than fifty days interest thereon, calculated at 12% per annum (\$4,879 at March 31, 2007).

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The balances payable under all borrowing facilities are as follows:

	March 31, 2007	April 1, 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 (6.06% at March 31, 2007)	\$ 42,000	\$
<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 (weighted average interest rate was 7.24% for the fiscal year ended April 1, 2006), 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 ranging from approximately \$400, commencing March 31, 2004, to approximately \$1,000 from September 30, 2005, with final payment due March 31, 2009; bears interest at variable rates, plus an applicable margin (weighted average interest rate was 4.82% and 4.21% for the fiscal years ended March 31, 2007 and April 1, 2006, respectively), payable quarterly		3,842
<b>Note Payable (amounts outstanding bear interest at 6.5%, due in September 2007)</b>	750	
<b>Industrial Development Revenue Bonds</b>		
Series 1994 A, bears interest at a variable rate (weighted average interest rate was 5.76% and 4.19% for the fiscal years ended March 31, 2007 and April 1, 2006, respectively), payable monthly through September 2017	7,700	7,700
Series 1994 B, bears interest at a variable rate (weighted average interest rate was 5.76% and 4.19% for the fiscal years ended March 31, 2007 and April 1, 2006, respectively), payable monthly through December 2017	3,000	3,000
Series 1998, bears interest at variable rates (weighted average interest rate was 4.39% and 3.10% for the fiscal years ended March 31, 2007 and April 1, 2006, respectively), payable monthly through December 2021.	1,155	1,155
Series 1999, bearing interest at variable rates (weighted average interest rate was 4.05% and 3.57% for the fiscal years ended March 31, 2007 and April 1, 2006, respectively), payable monthly through April 2024	4,800	4,800
<b>Total Debt</b>	59,405	165,747
<b>Less: Current Portion</b>	750	3,217
<b>Long-Term Debt</b>	\$ 58,655	\$ 162,530

The current portion of long-term debt as of March 31, 2007 includes \$750 note payable related to the All Power acquisition. 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 IRBs.

Maturities of debt during each of the following five fiscal years and thereafter are as follows:

2008	\$ 750
2009	810
2010	540
2011	660
2012	42,660
2013 and thereafter	13,985

## 11. Obligations Under Capital Leases

Machinery and equipment additions under capital leases amounted to \$440, \$246 and \$270 in fiscal 2007, 2006 and 2005, respectively. The average imputed rate of interest on capital leases at each year end was 3.9%, 4.7% and 5.9% in fiscal 2007, 2006 and 2005, respectively.

Included in property, plant and equipment are the following assets held under capital leases:

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	March 31, 2007	April 1, 2006
Machinery and equipment	\$ 4,077	\$ 5,397
Accumulated depreciation	(3,288 )	(4,866 )
	\$ 789	\$ 531

Future minimum lease payments under capital leases at March 31, 2007 are as follows:

2008	\$ 186
2009	174
2010	171
2011	114
2012	19
Total minimum lease payments	664
Less: amount representing interest	39
Present value of net minimum lease payments	625
Less: current maturities	169
Non-current capital lease obligations	\$ 456

## 12. Other Non-Current Liabilities

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

	March 31, 2007	April 1, 2006
Additional minimum pension liability	\$	\$ 3,759
Non-current pension liability	1,113	
Other postretirement benefits	2,467	