RBC Bearings INC
Form 10-Q
February 04, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 26, 2015

OR

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

Commission File Number: 333-124824

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

Delaware	95-4372080
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Tribology Center	
Oxford, CT	06478
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer þ Accelerated filer o

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

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

As of January 22, 2016, RBC Bearings Incorporated had 24,128,067 shares of Common Stock outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

RBC Bearings Incorporated

Consolidated Balance Sheets

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

	December 26, 2015 (Unaudited)	March 28, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 44,403	$ 125,455
Accounts receivable, net of allowance for doubtful accounts of $1,842 at December 26, 2015 and $860 at March 28, 2015	90,332	76,651
Inventory	274,522	206,158
Deferred income taxes	10,808	12,492
Prepaid expenses and other current assets	8,394	4,628
Total current assets	428,459	425,384
Property, plant and equipment, net	184,031	141,649
Goodwill	267,440	43,439
Intangible assets, net of accumulated amortization of $19,794 at December 26, 2015 and $13,185 at March 28, 2015	208,733	12,028
Other assets	10,231	9,573
Total assets	$ 1,098,894	$ 632,073
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 34,764	$ 23,459
Accrued expenses and other current liabilities	29,199	17,326
Current portion of long-term debt	8,721	1,233
Total current liabilities	72,684	42,018
Deferred income taxes	23,214	10,126
Long-term debt, less current portion	376,253	7,965
Other non-current liabilities	31,371	22,531
Total liabilities	503,522	82,640
Stockholders' equity:		

Preferred stock, $.01 par value; authorized shares: 10,000,000 at December 26, 2015 and March 28, 2015; none issued and outstanding	—	—
Common stock, $.01 par value; authorized shares: 60,000,000 at December 26, 2015 and March 28, 2015; issued and outstanding shares: 24,125,717 at December 26, 2015 and 23,833,185 at March 28, 2015	241	238
Additional paid-in capital	275,862	262,091
Accumulated other comprehensive loss	(10,105)	(7,770)
Retained earnings	359,146	314,176
Treasury stock, at cost, 602,682 shares at December 26, 2015 and 439,864 shares at March 28, 2015	(29,772)	(19,302)
Total stockholders' equity	595,372	549,433
Total liabilities and stockholders' equity	$ 1,098,894	$ 632,073

See accompanying notes.

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RBC Bearings Incorporated

Consolidated Statements of Operations

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

(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net sales	$144,216	$106,322	$435,220	$331,861
Cost of sales	90,695	64,669	276,817	206,636
Gross margin	53,521	41,653	158,403	125,225
Operating expenses:				
Selling, general and administrative	23,850	19,266	72,519	56,779
Other, net	2,619	1,798	12,872	5,349
Total operating expenses	26,469	21,064	85,391	62,128
Operating income	27,052	20,589	73,012	63,097
Interest expense, net	2,238	288	6,222	820
Other non-operating (income) expense	(54)	146	(44)	(356)
Income before income taxes	24,868	20,155	66,834	62,633
Provision for income taxes	7,821	6,104	21,864	19,314
Net income	$17,047	$14,051	$44,970	$43,319
Net income per common share:				
Basic	$0.73	$0.61	$1.94	$1.88
Diluted	$0.73	$0.60	$1.91	$1.85
Weighted average common shares:				
Basic	23,220,707	23,090,635	23,197,969	23,057,864
Diluted	23,492,321	23,376,480	23,508,348	23,369,308
Dividends per share	$—	$—	$—	$2.00

See accompanying notes.

RBC Bearings Incorporated

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net income	$ 17,047	$ 14,051	$ 44,970	$ 43,319
Pension and postretirement liability adjustments, net of taxes	1,137	169	682	567
Unrealized gain on investments, net of taxes	—	13	—	(260)
Foreign currency translation adjustments	(1,342)	(3,307)	(3,017)	(9,278)
Total comprehensive income	$ 16,842	$ 10,926	$ 42,635	$ 34,348

See accompanying notes.

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RBC Bearings Incorporated

Consolidated Statements of Cash Flows

(dollars in thousands)

(Unaudited)

	Nine Months Ended	
	December 26, 2015	**December 27, 2014**
Cash flows from operating activities:		
Net income	$44,970	$ 43,319
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,549	10,446
Excess tax benefits from stock-based compensation	(2,509)	(3,370)
Deferred income taxes	1,880	851
Amortization of intangible assets	6,621	1,399
Amortization of deferred financing costs	977	244
Consolidation and restructuring charges	—	5,026
Stock-based compensation	7,193	6,231
Other non-cash charges	209	515
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	10,806	7,907
Inventory	(21,316)	(13,022)
Prepaid expenses and other current assets	(3,001)	(2,084)
Other non-current assets	(1,332)	(2,253)
Accounts payable	(3,495)	(1,016)
Accrued expenses and other current liabilities	518	7,452
Other non-current liabilities	7,730	760
Net cash provided by operating activities	61,800	62,405
Cash flows from investing activities:		
Purchase of property, plant and equipment	(14,635)	(15,870)
Proceeds from sale of short-term investments	—	2,380
Proceeds from sale of assets	64	600
Business acquisition	(500,000)	—
Net cash used in investing activities	(514,571)	(12,890)
Cash flows from financing activities:		
Proceeds from revolving credit facility	225,000	—
Repayments of revolving credit facility	(37,500)	—
Proceeds from term loans	200,000	—

Repayments of term loans	(5,361)	(379)
Finance fees paid in connection with credit facility	(7,122)	—
Exercise of stock options	4,072	3,433
Excess tax benefits from stock-based compensation	2,509	3,370
Repurchase of common stock	(10,470)	(7,049)
Dividends paid to shareholders	—	(46,014)
Other, net	—	(104)
Net cash provided by (used in) financing activities	371,128	(46,743)
Effect of exchange rate changes on cash	591	(4,739)
Cash and cash equivalents:		
Decrease during the period	(81,052)	(1,967)
Cash, at beginning of period	125,455	121,207
Cash, at end of period	$44,403	$ 119,240

See accompanying notes.

RBC Bearings Incorporated

Notes to Unaudited Interim Consolidated Financial Statements

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

The consolidated financial statements included herein have been prepared by RBC Bearings Incorporated, a Delaware corporation (collectively with its subsidiaries, the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The March 28, 2015 fiscal year end balance sheet data have been derived from the Company’s audited financial statements, but do not include all disclosures required by generally accepted accounting principles in the United States. The interim financial statements included with this report have been prepared on a consistent basis with the Company’s audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 28, 2015.

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

The results of operations for the nine month period ended December 26, 2015 are not necessarily indicative of the operating results for the entire fiscal year ending April 2, 2016. The three month periods ended December 26, 2015 and December 27, 2014 each include 13 weeks. The amounts shown are in thousands, unless otherwise indicated.

Critical Accounting Policies

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

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

inspections have been completed and customer acceptance has been obtained. In the nine months ended December 26, 2015, 2.1% of the Company's total net sales was recognized under Ship-In-Place transactions.

Adoption of Recent Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards update ("ASU") No. 2015-17 (Topic 740): "Balance Sheet Classification of Deferred Taxes". The FASB issued this ASU as part of its simplification initiative to reduce complexity in accounting standards. This ASU eliminates the current requirement that requires an organization to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations with a classified balance sheet are now required to classify all deferred tax assets and liabilities as noncurrent assets or noncurrent liabilities. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period. It is not expected that adoption of this ASU will have any material impact on the Company's consolidated financial statements.

In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-16, "Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments." This ASU allows an acquirer in a business combination to account for measurement-period adjustments during the period in which it determines the amount of the adjustment. An acquirer would also need to capture in the current period any effect on earnings it would have recorded in previous periods if the accounting had been completed at the acquisition date. This pronouncement is effective for fiscal and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company has adopted this update effective with their interim period beginning June 28, 2015.

In April 2015, the FASB issued ASU No. 2015-04, "Compensation - Retirement Benefits: Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets." This ASU permits an entity with a fiscal year-end that does not coincide with a month-end, to measure defined benefit plan assets and obligations using the month end that is closest to the entity's fiscal year-end and apply that consistently from year to year. The practical expedient requires if a contribution or significant event occurs between the month-end date used to measure the defined benefit plan assets and an entity's fiscal year end, the entity should adjust the measurement of the defined benefit plan assets and obligations to reflect the effects of those contributions and other significant events. This pronouncement is effective for fiscal and interim periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This pronouncement is effective for fiscal and interim periods beginning after December 15, 2015. Early adoption is allowed. Given the requirement for retrospective treatment, the Company adopted this pronouncement in the first quarter of fiscal 2016. Other than a different presentation within the balance sheet, the adoption of this ASU did not have a material impact on the Company's financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement-Extraordinary and Unusual Items." This update eliminates the concept of extraordinary items and removes the requirements to separately present extraordinary events. This ASU also requires additional disclosures for items that are both unusual in nature and infrequent in occurrence. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” to clarify existing guidance on revenue recognition. This guidance includes the required steps to achieve the core principle that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2016 with no early adoption permitted. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In April 2014, the FASB issued ASU No. 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” This update requires additional disclosures about discontinued operations and amends the requirements for reporting discontinued operations. Under this ASU only disposals constituting a major financial or operational impact or that represent a strategic shift should be reported as discontinued operations. This update also requires new disclosures for individually material disposals that do not qualify as discontinued operations. This guidance was adopted by the Company at the beginning of the second quarter of fiscal 2015. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

1. Accumulated Other Comprehensive Income (Loss)

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

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

	Currency Translation	**Pension and Postretirement Liability**	Total
Balance at March 28, 2015	$ (93)	$ (7,677)	$(7,770)
Other comprehensive income (loss) before reclassifications (net of taxes)	(3,017)	—	(3,017)
Amounts reclassified from accumulated other comprehensive income (loss)	—	682	682
Net current period other comprehensive income (loss)	(3,017)	682	(2,335)
Balance at December 26, 2015	$ (3,110)	$ (6,995)	$(10,105)

2. Net Income Per Common Share

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

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

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

	Three Months Ended	Nine Months Ended

	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net income	$17,047	$14,051	$44,970	$43,319
Denominator for basic net income per common share—weighted-average shares outstanding	23,220,707	23,090,635	23,197,969	23,057,864
Effect of dilution due to employee stock awards	271,614	285,845	310,379	311,444
Denominator for diluted net income per common share — weighted-average shares outstanding	23,492,321	23,376,480	23,508,348	23,369,308
Basic net income per common share	$0.73	$0.61	$1.94	$1.88
Diluted net income per common share	$0.73	$0.60	$1.91	$1.85

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At December 26, 2015, 444,250 employee stock options and 65,600 restricted shares have been excluded from the calculation of diluted earnings per share. At December 27, 2014, 419,250 employee stock options and no restricted shares have been excluded from the calculation of diluted earnings per share. The inclusion of these employee stock options and unvested restricted shares would be anti-dilutive.

3. Cash and Cash Equivalents

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

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

4. Inventory

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

	December 26, 2015	March 28, 2015
Raw materials	$ 33,698	$ 18,424
Work in process	73,052	50,243
Finished goods	167,772	137,491
	$ 274,522	$ 206,158

5. Goodwill and Intangible Assets

Goodwill

	Roller	Plain	Ball	Engineered Products	Total
March 28, 2015	$ 16,007	$ 20,641	$ 5,623	$ 1,168	$ 43,439
Acquisitions	—	56,879	—	167,199	224,078

Other	—	—	—	(77)	(77)
December 26, 2015	$16,007	$77,520	$5,623	$ 168,290	$267,440

Intangible Assets

	Weighted Average Useful Lives	December 26, 2015		March 28, 2015	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product approvals	24	$54,174	$ 3,912	$4,068	$ 2,372
Customer relationships and lists	24	113,312	7,581	9,017	4,349
Trade names	10	19,945	2,709	2,102	1,372
Distributor agreements	5	722	722	722	722
Patents and trademarks	15	8,040	3,477	7,670	3,039
Domain names	10	437	331	437	299
Other	5	1,197	1,062	1,197	1,032
		197,827	19,794	25,213	13,185
Non-amortizable repair station certifications	n/a	30,700	—	—	—
Total		$228,527	$ 19,794	$25,213	$ 13,185

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Amortization expense for definite-lived intangible assets for the three and nine month periods ended December 26, 2015 was $2,451 and $6,621, respectively. Amortization expense for definite lived intangible assets for the three and nine month periods ended December 27, 2014 was $435 and $1,399, respectively. Estimated amortization expense for the remaining three months of fiscal 2016, the five succeeding fiscal years and thereafter is as follows:

2016	$2,430
2017	9,658
2018	9,535
2019	9,312
2020	9,205
2021	9,154
2022 and thereafter	128,739

6. Debt

The balances payable under all borrowing facilities are as follows:

	December 26, 2015	March 28, 2015
Revolver and term loan facilities	$ 382,500	$ —
Debt issuance costs	(6,172)	—
Other	8,646	9,198
Total debt	384,974	9,198
Less: current portion	8,721	1,233
Long-term debt	$ 376,253	$ 7,965

New Credit Facility

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

Amounts outstanding under the Facilities generally bear interest at (a) a base rate determined by reference to the higher of (1) Wells Fargo’s prime lending rate, (2) the federal funds effective rate plus 1/2 of 1% and (3) the one-month LIBOR rate plus 1% or (b) LIBOR rate plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on the Company's consolidated ratio of total net debt to consolidated EBITDA from time to time. Currently, the Company's margin is 0.5% for base rate loans and 1.5% for LIBOR rate loans. As of December 26, 2015, there was $187,500 outstanding under the Revolver and $195,000 outstanding under the Term Loan, offset by $6,172 in debt issuance costs (original amount was $7,122).

The New Credit Agreement requires the Company to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA, not to exceed 3.50 to 1; and (2) a consolidated interest coverage ratio not to exceed 2.75 to 1. The New Credit Agreement allows the Company to, among other things, make distributions to shareholders, repurchase its stock, incur other debt or liens, or acquire or dispose of assets provided that the Company complies with certain requirements and limitations of the agreement. As of December 26, 2015, the Company was in compliance with all such covenants.

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

Approximately $3,290 of the Revolver is being utilized to provide letters of credit to secure RBCA's obligations relating to certain insurance programs, and $225,000 was utilized to finance the acquisition of Sargent. As of December 26, 2015, RBCA paid down $37,500 of the Revolver and has the ability to borrow up to an additional $159,210 under the Revolver. The Company also paid down $5,000 of the Term Loan

Prior Credit Facility

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

Amounts outstanding under the JP Morgan Credit Agreement generally bear interest at the prime rate or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based upon the Company's consolidated ratio of net debt to adjusted EBITDA, measured at the end of each quarter. As of December 27, 2014, the Company's margin is 0.5% for prime rate loans and 1.5% for LIBOR rate loans.

The JP Morgan Credit Agreement requires the Company to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA, not to exceed 3.25 to 1; and (2) a consolidated fixed charge coverage ratio not to exceed 1.5 to 1. The credit agreement allows the Company to, among other things, make distributions to shareholders, repurchase its stock, incur other debt or liens, or acquire or dispose of assets provided that the Company complies with certain requirements and limitations of the agreement. The JP Morgan Credit Agreement was terminated and replaced by the New Credit Agreement discussed above. $190 of debt issuance costs were written off on termination.

Other Notes Payable

On October 1, 2012, Schaublin purchased the land and building, which it occupied and had been leasing, for 14,067 CHF (approximately $14,910). Schaublin obtained a 20 year fixed rate mortgage of 9,300 CHF (approximately $9,857) at an interest rate of 2.9%. The balance of the purchase price of 4,767 CHF (approximately $5,053) was paid from cash on hand. The balance on this mortgage as of December 26, 2015 was 7,789 CHF, or $7,896.

7. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to state or foreign income tax examinations by tax authorities for years ending before March 31, 2007. The Company is no longer subject to U.S. federal corporate income tax examination by the Internal Revenue Service for fiscal years ending before March 29, 2014. A U.S. federal corporate income tax examination by the Internal Revenue Service for the fiscal year ended March 30, 2013 was deemed effectively settled in the Company’s first quarter of fiscal 2016.

The effective income tax rates for the three month periods ended December 26, 2015 and December 27, 2014, were 31.5% and 30.3%. In addition to discrete items, the effective income tax rates for these periods are different from the U.S. statutory rates due to a special manufacturing deduction in the U.S. and foreign income taxed at lower rates which decrease the rate, and state income taxes which increases the rate.

The effective income tax rate for the three month period ended December 26, 2015 of 31.5% includes immaterial discrete items of $154. The effective income tax rate without discrete items for the three month period ended December 26, 2015 would have been 32.1%. The effective income tax rate for the three month period ended December 27, 2014 of 30.3% includes discrete items of $698 which are comprised substantially of the reversal of unrecognized tax benefits associated with the expiration of the statutes of limitation and the conclusion of state income tax audits, the recognition of interest on unrecognized tax positions and the recognition of benefits for federal law changes. The effective income tax rate without discrete items for the three month period ended December 27, 2014 would have been 33.7%. The Company believes it is reasonably possible that some of its unrecognized tax positions may be effectively settled within the next twelve months due to the closing of audits and the statute of limitations expiring in varying jurisdictions. The decrease, pertaining primarily to credits and state tax, is estimated to be approximately $321.

8. Reportable Segments

The Company operates through operating segments for which separate financial information is available, and for which operating results are evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. Those operating segments with similar economic characteristics and that meet all other required criteria, including nature of the products and production processes, distribution patterns and classes of customers, are aggregated as reportable segments. With the acquisition and integration of Sargent into the Company’s operating and reportable segment structure, the Company has transitioned the Other segment to a new reportable segment titled Engineered Products. The Company has four reportable business segments; Plain Bearings, Roller Bearings, Ball Bearings and Engineered Products, which are described below.

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

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

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

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

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

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Net External Sales				
Plain	$64,171	$ 53,770	$197,455	$ 171,101
Roller	26,294	31,358	84,025	96,627
Ball	12,850	14,038	38,791	41,676
Engineered Products	40,901	7,156	114,949	22,457
	$144,216	$ 106,322	$435,220	$ 331,861
Gross Margin				
Plain	$22,690	$ 20,283	$75,401	$ 63,567
Roller	11,517	12,695	35,767	36,285
Ball	5,202	5,724	15,677	16,511
Engineered Products	14,112	2,951	31,558	8,862
	$53,521	$ 41,653	$158,403	$ 125,225
Selling, General & Administrative Expenses				
Plain	$4,765	$ 4,777	$16,154	$ 14,127
Roller	1,480	1,507	4,453	4,758
Ball	1,368	1,345	4,106	3,952
Engineered Products	5,311	1,072	13,433	2,933
Corporate	10,926	10,565	34,373	31,009
	$23,850	$ 19,266	$72,519	$ 56,779
Operating Income				
Plain	$13,737	$ 15,881	$54,826	$ 49,384
Roller	10,016	10,366	31,080	27,815
Ball	3,634	4,254	11,081	12,121
Engineered Products	10,585	1,920	15,448	5,954
Corporate	(10,920)	(11,832)	(39,423)	(32,177)
	$27,052	$ 20,589	$73,012	$ 63,097
Geographic External Sales				
Domestic	$126,070	$ 89,605	$379,571	$ 278,038
Foreign	18,146	16,717	55,649	53,823
	$144,216	$ 106,322	$435,220	$ 331,861
Intersegment Sales				
Plain	$759	$ 924	$2,875	$ 2,944
Roller	4,300	4,811	14,995	14,850
Ball	635	432	1,682	1,690
Engineered Products	7,335	7,380	22,469	22,408
	$13,029	$ 13,547	$42,021	$ 41,892

All intersegment sales are eliminated in consolidation.

9. Restructuring of Operations

In the second quarter of fiscal 2015, the Company consolidated the manufacturing capacity of its United Kingdom (U.K.) facility into its other manufacturing facilities in order to better align manufacturing abilities and product development. As a result the Company recorded a charge of $6,382 in the second quarter and $88 in the third quarter of fiscal 2015 associated with the consolidation of operations attributable to the Roller Bearings segment. The $6,382 charge includes $3,707 of inventory rationalization costs that were recorded in cost of sales in the income statement. All other costs were recorded under operating expenses in the other, net category of the income statement. The pre-tax charge of $6,382 was offset with an associated tax benefit of $3,131.

10. Acquisitions

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

The acquisition of Sargent was accounted for as a purchase in accordance with FASB Accounting Standards Codification ("ASC") Topic 805, *Business Combinations*. Assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. The fair values of identifiable intangible assets, which were primarily customer relationships, product approvals, trade names, and patents and trademarks, were based on valuations using the income approach. The excess of the purchase price over the estimated fair values of tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. The goodwill is attributable to expected synergies and expected growth opportunities. The preliminary price allocation resulted in goodwill of $224,078. The Company estimates a majority of goodwill will be deductible for United States income tax purposes. The allocation of purchase price is preliminary as the Company has not completed its analysis estimating the fair value of inventory, property, plant, and equipment, intangible assets, income tax liabilities and certain liabilities. The purchase price allocation was updated to reflect current estimated fair values at the acquisition date, with the excess of purchase price over the estimated fair value of the net assets acquired recorded as goodwill.

The preliminary purchase price allocation for Sargent was as follows:

	As of **April 24, 2015**
Current assets	$ 3,086
Trade receivables	23,892
Inventories	47,709
Property, plant and equipment	41,538
Intangible assets	203,700
Goodwill	224,078
Total assets acquired	544,003
Accounts payable	14,900
Liabilities assumed	29,103
Net assets acquired	$ 500,000

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

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

	Weighted Average Amortization Period (Years)	Gross Value
Amortizable intangible assets		
Customer relationships	25	$ 104,500
Product approvals	25	50,500
Trademarks and tradenames	10	18,000
		173,000
Non-amortizable intangible assets		
Repair station certifications	-	30,700
Intangible assets		$ 203,700

Included in the Company's results of operations for the three and nine months ended December 26, 2015 are revenues related to the Sargent acquisition of $43,862 and $123,371, respectively. Also, included for the three and nine months ended December 26, 2015 is net income of $3,769 and $9,001, respectively. Acquisition-related expenses were recorded in Other, net in the Consolidated Statements of Operations for both the three and nine months ended December 26, 2015 of $25 and $6,096, respectively.

The following supplemental pro forma financial information presents the financial results for the three and nine months ended December 26, 2015 and December 27, 2014, as if the acquisition of Sargent had occurred at the beginning of fiscal year 2015. The pro forma financial information includes, where applicable, adjustments for: (i) the estimated amortization of acquired intangible assets, (ii) estimated additional interest expense on acquisition related borrowings, (iii) the income tax effect on the pro forma adjustments using an estimated effective tax rate. The pro forma financial information excludes, where applicable, adjustments for: (i) the estimated impact of inventory purchase accounting adjustments and (ii) the estimated closing costs on the acquisition. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the acquisition been completed as of the date indicated or the results that may be obtained in the future:

	Three Months Ended		Nine Months Ended	
	December 26, 2015	December 27, 2014	December 26, 2015	December 27, 2014
Pro forma net sales	$144,216	$ 151,619	$443,594	$ 476,954
Pro forma net income	17,433	13,723	52,156	44,579

Basic earnings per share as reported	$0.73	$ 0.61	$1.94	$ 1.88
Pro forma basic earnings per share	0.75	0.59	2.25	1.93
Diluted earnings per share as reported	$0.73	$ 0.60	$1.91	$ 1.85
Pro forma diluted earnings per share	0.74	0.59	2.22	1.91

On October 7, 2013, the Company acquired the net assets of Turbine Components Inc. ("TCI") for approximately $3,925. Located in San Diego, California, TCI is an FAA certified aircraft gas turbine repair station and manufacturer of precision components for aerospace markets. TCI's net sales for the prior calendar year were approximately $4,000. The purchase price allocation is as follows: accounts receivable ($585), inventory ($125), fixed assets ($1,231), goodwill ($2,821), intangible assets ($441), other non-current assets ($127), other current liabilities ($641) and noncurrent liabilities ($766). The purchase price allocation, which resulted in goodwill of $2,821, is deductible for tax purposes. TCI is included in the Plain Bearings segment. In connection with the acquisition the Company agreed to a contract for additional contingent consideration that is dependent on the outcome of future events. The contingent consideration is based on a market valuation formula and will be payable five years from the acquisition date. The current fair value of the contingent consideration is determined to be $469. Pro forma net sales and net income inclusive of TCI are not materially different from the amounts reported in the accompanying consolidated statements of operations.

On August 16, 2013, the Company acquired Climax Metal Products Company (“CMP”) located in Mentor, Ohio for $13,646. The purchase price included $10,672 in cash and $2,974 of debt. CMP is a manufacturer of precision shaft collars, rigid couplings, keyless locking devices and bearings for the industrial markets. CMP’s net sales for the prior calendar year were approximately $14,100. The purchase price allocation is as follows: accounts receivable ($1,206), inventory ($4,509), other current assets ($73), fixed assets ($2,466), goodwill ($5,623), intangible assets ($3,904), other non-current assets ($10), other current liabilities ($2,171) and noncurrent liabilities ($1,974). The purchase price allocation, which resulted in goodwill of $5,623, is not deductible for tax purposes. CMP is included in the Ball Bearings segment. Pro forma net sales and net income inclusive of CMP are not materially different from the amounts reported in the accompanying consolidated statements of operations.

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

Cautionary Statement As To Forward-Looking Information

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

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

reduce our sales due to production curtailments or shutdowns; (k) we may not be able to continue to make the acquisitions necessary for us to realize our growth strategy; (l) the costs and difficulties of integrating acquired businesses could impede our future growth; (m) we depend heavily on our senior management and other key personnel, the loss of whom could materially affect our financial performance and prospects; (n) our international operations are subject to risks inherent in such activities; (o) currency translation risks may have a material impact on our results of operations; (p) we may be required to make significant future contributions to our pension plan; (q) we may incur material losses for product liability and recall related claims; (r) environmental regulations impose substantial costs and limitations on our operations, and environmental compliance may be more costly than we expect; (s) our intellectual property and other proprietary rights are valuable, and any inability to protect them could adversely affect our business and results of operations; in addition, we may be subject to infringement claims by third parties; (t) cancellation of orders in our backlog of orders could negatively impact our revenues; (u) if we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud; (v) provisions in our charter documents may prevent or hinder efforts to acquire a controlling interest in us; (w) health care reform could adversely affect our operating results; and (x) we may not pay cash dividends in the foreseeable future. Additional information regarding these and other risks and uncertainties is contained in our periodic filings with the SEC, including, without limitation, the risks identified under the heading “Risk Factors” set forth in the Annual Report on Form 10-K for the year ended March 28, 2015. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not intend, and undertake no obligation, to update or alter any forward-looking statement. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Quarterly Report.

Overview

We are a well known international manufacturer and maker of highly engineered precision bearings and components. Our precision solutions are integral to the manufacture and operation of most machines and mechanical systems, reduce wear to moving parts, facilitate proper power transmission and reduce damage and energy loss caused by friction. While we manufacture products in all major categories, we focus primarily on the higher end of the bearing and engineered component markets where we believe our value added manufacturing and engineering capabilities enable us to differentiate ourselves from our competitors and enhance profitability. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. With 37 facilities, of which 33 are manufacturing facilities in five countries, we have been able to significantly broaden our end markets, products, customer base and geographic reach. We currently operate under four reportable business segments: Plain Bearings; Roller Bearings; Ball Bearings; and Engineered Products. The following further describes these reportable segments:

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

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

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

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

Purchasers of bearings and engineered products include industrial equipment and machinery manufacturers, producers of commercial and military aerospace equipment such as missiles and radar systems, agricultural machinery manufacturers, construction, energy, mining, marine and specialized equipment manufacturers and automotive and commercial truck manufacturers. The markets for our products are cyclical, and we have endeavored to mitigate this cyclicality 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.

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

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

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

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

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

The following items highlight the most recent significant events:

- In the first quarter of fiscal 2016, subsequent to the close of the fiscal 2015 year, we acquired Sargent for $500 million financed through a combination of cash on hand and senior debt. Headquartered in Tucson, Arizona, Sargent is a leader in precision-engineered products, solutions and repairs for aircraft airframes and engines, rotorcraft, submarines and land vehicles. Sargent manufactures, sells and services hydraulic valves and actuators, specialty bearings, specialty fasteners, seal rings & alignment joints and precision components under leading brands including Kahr Bearing, Airtomic, Sonic Industries, Sargent Controls and Sargent Aerospace & Defense. Annual sales are approximately $195 million and the company has over 750 employees in six facilities in three countries.

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

- In the second quarter of fiscal 2015, we reached a decision to consolidate the manufacturing capacity of the United Kingdom (U.K.) facility into our other manufacturing facilities. This decision was based on our intent to better align manufacturing abilities and product development.

- In the third quarter of fiscal 2014, we acquired the net assets of Turbine Components Inc. (“TCI”) for approximately $3,925. Located in San Diego, California, TCI is an FAA certified aircraft gas turbine repair station and manufacturer of precision components for aerospace markets.

Outlook

Our net sales for the three month period ended December 26, 2015 increased 35.6% compared to the same period last fiscal year. Our aerospace markets increased 67.0% and the diversified industrial markets decreased 0.7%.

Our net sales for the nine month period ended December 26, 2015 increased 31.1% compared to the same period last fiscal year. Our aerospace markets increased 56.0% and the diversified industrial markets increased 0.6%.

Our backlog, as of December 26, 2015, was $351.3 million compared to $217.5 million as of December 27, 2014.

Management believes that operating cash flows and available credit under the credit facilities will provide adequate resources to fund internal and external growth initiatives for the foreseeable future. As of December 26, 2015, we had cash and cash equivalents of $44.4 million of which approximately $29.0 million was cash held by our foreign operations. We expect that our undistributed foreign earnings will be re-invested indefinitely for working capital, internal growth and acquisitions for and by our foreign entities.

Results of Operations

	Three Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change
Organic net sales	$ 100.3	$ 106.3	$ (6.0)	(5.6)%
Sales by recent acquisitions	43.9	—	43.9	
Total net sales	$ 144.2	$ 106.3	$ 37.9	35.6 %
Net income	$ 17.0	$ 14.1	$ 2.9	21.3 %
Net income per common share: diluted	$ 0.73	$ 0.60		
Weighted average common shares: diluted	23,492,321	23,376,480		

Our net sales for the three month period ended December 26, 2015 increased 35.6% compared to the same period last fiscal year. Our aerospace markets increased 67.0% and the diversified industrial markets decreased 0.7%.

Organic net sales decreased 5.6% compared to last year. Excluding a negative foreign exchange impact, organic net sales decreased 4.9%. Our aerospace markets increased 3.5% and the diversified industrial markets decreased 14.7%. The increase in aerospace sales was mainly due to the commercial aerospace aftermarket offset by lower defense activity. The decrease in industrial sales was mostly driven by energy and mining.

Net income for the third quarter of fiscal 2016 was $17.0 million compared to $14.1 million for the same period last year. Excluding the after tax impact of $0.4 million in costs associated with the acquisition offset by $0.1 of discrete tax benefit, net income would have been $17.3 million. Excluding the after tax impact of costs associated with consolidation and restructuring, acquisition activity costs and the discrete tax benefits, net income for the third quarter of fiscal 2015 would have been $14.4 million.

	Nine Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change
Organic net sales	$311.8	$331.9	$(20.1)	(6.0)%
Sales by recent acquisitions	123.4	—	123.4	
Total net sales	$435.2	$331.9	$103.3	31.1%
Net income	$45.0	$43.3	$1.7	3.8%
Net income per common share: diluted	$1.91	$1.85		
Weighted average common shares: diluted	23,508,348	23,369,308		

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Our net sales for the nine month period ended December 26, 2015 increased 31.1% compared to the same period last fiscal year. Our aerospace markets increased 56.0% and the diversified industrial markets increased 0.6%.

Organic net sales decreased 6.0% compared to last year. Excluding a negative foreign exchange impact, organic net sales decreased 5.4%. Our aerospace markets decreased 1.6% and the diversified industrial markets decreased 10.0%. The decrease in aerospace sales was mainly due to the aerospace OEM markets. The decrease in industrial sales was mostly driven by energy and mining.

Net income for the nine months ended December 26, 2015 was $45.0 million compared to $43.3 million for the same period last year. Excluding the after tax impact of $3.4 million in costs associated with the acquisition, $4.8 million in inventory purchase accounting associated with the Sargent acquisition, $0.7 million of costs associated with integration and restructuring and $0.1 million loss on extinguishment of debt, and offset by $0.2 million of favorable foreign exchange translation and $0.2 million of discrete tax benefit, net income would have been $53.6 million. Excluding the after tax impact of costs associated with the consolidation and restructuring of facilities, net income would have been $46.9 million for the nine month period ended December 27, 2014.

Gross Margin

	Three Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% **Change**
Gross Margin	$53.5	$ 41.7	$ 11.8	28.5 %
Gross Margin %	37.1%	39.2 %		

Gross margin increased $11.8 million or 28.5% in the third quarter of fiscal 2016 compared to the third quarter of fiscal 2015. Excluding the unfavorable impact of $0.6 million of inventory purchase accounting associated with the Sargent acquisition, gross margin would have been $54.1 million for the third quarter of fiscal 2016. Organic gross margin as a percent of sales was 38.4% compared to 39.2% last year, mostly due to the unfavorable impact of product mix.

Nine Months Ended			
December 26, 2015	December 27, 2014	$ Change	% **Change**

Gross Margin	$158.4	$ 125.2	$ 33.2	26.5 %
Gross Margin %	36.4 %	37.7 %		

Gross margin increased $33.2 million or 26.5% for the first nine months of fiscal 2016 compared to the same period last year. Excluding the unfavorable impact of $7.2 million of inventory purchase accounting associated with the Sargent acquisition, gross margin would have been $165.6 million. Organic gross margin as a percent of sales was 38.9% compared to 37.7% last year. Excluding the impact of the consolidation and restructuring of the U.K. facility of $3.7 million, gross margin would have been 38.9% last year.

Selling, General and Administrative

	Three Months Ended			
	December 26, 2015	December 27, 2014	$ Change	**% Change**
SG&A	$23.9	$ 19.3	$ 4.6	23.8 %
% of net sales	16.5%	18.1 %		

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SG&A decreased as a percentage of net sales to 16.5% in the third quarter of fiscal 2016 from 18.1% in the third quarter of fiscal 2015. SG&A expenses increased by $4.6 million to $23.9 million for the third quarter of fiscal 2016 compared to the same period last year. Excluding the impact of the Sargent acquisition of $4.3 million, the increase was primarily due to higher personnel expenses of $0.2 million and an increase in incentive stock compensation of $0.4 million offset by $0.3 million in expense reductions.

	Nine Months Ended			
	December 26, 2015	**December 27, 2014**	$ Change	**% Change**
SG&A	$72.5	$ 56.8	$ 15.7	27.7 %
% of net sales	16.7 %	17.1 %		

SG&A decreased as a percentage of net sales to 16.7% for the first nine months of fiscal 2016 from 17.1% for the same period last year. SG&A expenses increased by $15.7 million to $72.5 million for the first nine months of fiscal 2016 compared to the same period last year. Excluding the impact of the Sargent acquisition of $12.6 million, the increase was primarily due to higher personnel expenses of $1.7 million, an increase in incentive stock compensation of $1.0 million and professional expenses of $0.4 million.

Other, Net

	Three Months Ended			
	December 26, 2015	**December 27, 2014**	$ Change	**% Change**
Other, net	$2.6	$ 1.8	$ 0.8	45.7 %
% of net sales	1.8 %	1.7 %		

Other operating expenses for the third quarter of fiscal 2016 totaled $2.6 million compared to $1.8 million for the same period last year. For the third quarter of fiscal 2016 other operating expenses were comprised of $2.5 million in amortization of intangibles and $0.1 million of other costs. Other operating expenses last year consisted primarily of due diligence expenses on investigating a large transformational acquisition target. The Company was not successful in winning the final bid in the auction process.

	Nine Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change
Other, net	$12.9	$ 5.3	$ 7.6	140.6 %
% of net sales	3.0 %	1.6 %		

Other operating expenses for the first nine months of fiscal 2016 totaled $12.9 million compared to $5.3 million for the same period last year. For the first nine months of fiscal 2016 other operating expenses were comprised of $6.6 million in amortization of intangibles, $5.1 million of acquisition related costs, $1.0 million in integration and restructuring costs and $0.2 million in other costs. For the same period last year, other operating expenses were comprised of $2.8 million related to the consolidation of operations, $1.4 million of amortization of intangibles and $1.5 associated with acquisition activity offset by $0.4 million of other income.

Interest Expense, Net

	Three Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change
Interest expense, net	$2.2	$ 0.3	$ 1.9	677.1 %
% of net sales	1.6%	0.3 %		

Interest expense, net, generally consists of interest charged on our credit facilities and amortization of deferred financing fees, offset by interest income (see "Liquidity and Capital Resources – Liquidity", below). Interest expense, net was $2.2 million for the third quarter of fiscal 2016 compared to $0.3 million for the same period last year. The Company had total debt of $385.0 million at December 26, 2015 compared to $9.1 million at December 27, 2014.

	Nine Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change
Interest expense, net	$6.2	$ 0.8	$ 5.4	658.8 %
% of net sales	1.4%	0.2 %		

Interest expense, net, generally consists of interest charged on our credit facilities and amortization of deferred financing fees, offset by interest income (see "Liquidity and Capital Resources – Liquidity", below). Interest expense, net was $6.2 million for the first nine months of fiscal 2016 compared to $0.8 million for the same period last year.

Income Taxes

	Three Months Ended	
	December 26, 2015	December 27, 2014
Income tax expense (benefit)	$ 7.8	$ 6.1
Effective tax rate with discrete items	31.5 %	30.3 %
Effective tax rate without discrete items	32.1 %	33.7 %

Income tax expense for the three month period ended December 26, 2015 was $7.8 million compared to $6.1 million for the three month period ended December 27, 2014. Our effective income tax rate for the three month period ended December 26, 2015 was 31.5% compared to 30.3% for the three month period ended December 27, 2014. The effective income tax rate for the three month period ended December 26, 2015 of 31.5% includes immaterial discrete expense of $0.2 million which is substantially comprised of the recognition of benefits for federal law changes. The effective income tax rate without discrete items for the three month period ended December 26, 2015 would have been 32.1%. The effective income tax rate for the three month period ended December 27, 2014 of 30.3% includes discrete benefits of $0.7 million which are comprised substantially of the reversal of unrecognized tax benefits associated with the expiration of statutes of limitation and the conclusion of state income tax audits as well as the recognition of interest on unrecognized tax positions and the recognition of benefits for federal law changes. The effective income tax rate without these discrete items would have been 33.7%.

	Nine Months Ended			
	December 26, 2015		December 27, 2014	
Income tax expense (benefit)	$ 21.9		$ 19.3	
Effective tax rate with discrete items	32.7	%	30.8	%
Effective tax rate without discrete items	33.0	%	33.5	%

Income tax expense for the nine month period ended December 26, 2015 was $21.9 million compared to $19.3 million for the nine month period ended December 27, 2014. Our effective income tax rate for the nine month period ended December 26, 2015 was 32.7% compared to 30.8% for the nine month period ended December 27, 2014. The effective income tax rate for the nine month period ended December 26, 2015 of 32.7% includes immaterial discrete benefit of $0.2 million, comprised substantially of benefits from federal law changes, the reversals of unrecognized tax positions associated with the expiration of statutes of limitations and the recognition of interest on unrecognized tax positions. The effective income tax rate without discrete items for the nine month period ended December 26, 2015 would have been 33.0%. The effective income tax rate for the nine month period ended December 27, 2014 of 30.8% includes discrete benefits in the amount of $3.8 million which are substantially comprised of items associated with the consolidation and restructuring of the Company's U.K. manufacturing facility, along with the reversal of unrecognized tax benefits associated with the expiration of the statutes of limitation, the conclusion of state income tax audits, the recognition of interest on unrecognized tax positions, and the recognition of benefits for federal law changes. The effective income tax rate without these discrete items and without other associated consolidated and restructuring expenses pertaining to the Company's U.K. manufacturing facility would have been 33.5%.

Segment Information

We have four reportable product segments: Plain Bearings, Roller Bearings, Ball Bearings and Engineered Products. In fiscal 2016 we integrated the Sargent businesses into our Plain Bearings and Engineered Products segments (see Notes 8 and 10 of Notes to Unaudited Interim Consolidated Financial Statements). We use gross margin as the primary measurement to assess the financial performance of each reportable segment. The presentation of segment net sales includes a reconciliation to adjust for the effects of any acquisitions made in fiscal 2016 and fiscal 2015.

Plain Bearing Segment:

	Three Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change

Organic net sales	$53.6	$ 53.8	$ (0.2)	(0.3)%
Sales by recent acquisitions	10.6	—	10.6	
Total net sales	$64.2	$ 53.8	$ 10.4	19.3 %
Gross margin	$22.7	$ 20.3	$ 2.4	11.9 %
Gross margin %	35.4%	37.7 %		
SG&A	$4.8	$ 4.8	$ 0.0	(0.3)%
% of segment net sales	7.4 %	8.9 %		

Net sales increased $10.4 million or 19.3% for the three months ended December 26, 2015 compared to the same period last year. Our aerospace markets increased 34.5% and the diversified industrial markets decreased 11.5%. Organic net sales decreased 0.3% compared to last year. Our aerospace markets increased 6.1% and the diversified industrial market decreased 13.4%. The increase in aerospace sales was mainly due to the commercial aerospace aftermarket. The decrease in industrial sales was mostly driven by energy and mining.

Gross margin increased $2.4 million for the three months ended December 26, 2015 compared to the same period last year. Excluding the $3.8 million impact from the Sargent acquisition, the gross margin decrease of $1.4 million was mostly attributable to unfavorable product mix of $0.9 million, foreign exchange loss of $0.2 million and other costs of $0.3 million.

	Nine Months Ended December 26, 2015	December 27, 2014	$ Change	% Change
Organic net sales	$166.3	$ 171.1	$ (4.8)	(2.8)%
Sales by recent acquisitions	31.2	—	31.2	
Total net sales	$197.5	$ 171.1	$ 26.4	15.4 %
Gross margin	$75.4	63.5	11.9	18.6 %
Gross margin %	38.2 %	37.2 %		
SG&A	$16.2	$ 14.1	$ 2.1	14.3 %
% of segment net sales	8.2 %	8.3 %		

Net sales increased $26.4 million or 15.4% for the nine months ended December 26, 2015 compared to the same period last year. Our aerospace markets increased 25.1% and the diversified industrial markets decreased 5.8%. Organic net sales decreased 2.8% compared to last year. Our aerospace markets were basically flat and the diversified industrial markets decreased 8.9%. The decrease in industrial sales was mostly driven by energy and mining.

Excluding the $13.4 million impact from the Sargent acquisition (which included a $1.2 million negative purchase accounting adjustment), the gross margin decrease of $1.5 million was mostly attributable to the unfavorable impacts of product mix and pricing. As a percent of sales, gross margin was basically flat year over year.

Roller Bearing Segment:

	Three Months Ended December 26, 2015	December 27, 2014	$ Change	% Change
Organic net sales	$26.3	$ 31.3	$ (5.0)	(16.1)%
Sales by recent acquisitions	—	—	—	

Total net sales	$26.3	$ 31.3	$ (5.0)	(16.1)%
Gross margin	$11.5	$ 12.7	$ (1.2)	(9.3)%
Gross margin %	43.8%	40.5 %		
SG&A	$1.5	$ 1.5	$ 0.0	(1.8)%
% of segment net sales	5.6 %	4.8 %		

Net sales decreased $5.0 million or 16.1% for the three months ended December 26, 2015 compared to the same period last year. Our diversified industrial markets decreased 29.3% while our aerospace markets were flat. The decrease in industrial sales was primarily due to weakening demand mainly in energy and mining.

The Roller Bearings segment achieved a gross margin of $11.5 million, or 43.8%, in the three month period ended December 26, 2015 compared to $12.7 million, or 40.5%, in the comparable period in fiscal 2015. This increase in gross margin percentage was primarily due to the impact of cost efficiencies.

	Nine Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change
Organic net sales	$84.0	$ 96.6	$ (12.6)	(13.0)%
Sales by recent acquisitions	—	—	—	
Total net sales	$84.0	$ 96.6	$ (12.6)	(13.0)%
Gross margin	$35.8	$ 36.3	$ (0.5)	(1.4)%
Gross margin %	42.6%	37.6 %		
SG&A	$4.5	$ 4.8	$ (0.3)	(6.4)%
% of segment net sales	5.3 %	4.9 %		

Net sales decreased $12.6 million or 13.0% over the first nine months of fiscal 2016. Our aerospace markets decreased 7.9% and the diversified industrial markets decreased 17.7%. The decrease in the aerospace markets was driven by a weak defense OEM market. The decrease in industrial sales was primarily driven by weak oil and gas markets as well as the mining sector.

The Roller Bearings segment achieved a gross margin of $35.8 million, or 42.6%, for the first nine months of fiscal 2016 compared to $36.3 million, or 37.6%, for the comparable period in fiscal 2015. Excluding the impact of the consolidation and restructuring of the U.K. facility of $3.7 million, gross margin would have been $40.0 million, or 41.4% for the first nine months of fiscal 2015. This increase in gross margin as a percent of sales was primarily due to cost efficiencies partially offset by unfavorable product mix.

Ball Bearing Segment:

	Three Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change
Organic net sales	$12.8	$ 14.0	$ (1.2)	(8.5)%

Sales by recent acquisitions	—	—	—	
Total net sales	$12.8	$ 14.0	$ (1.2)	(8.5)%
Gross margin	$5.2	$ 5.7	$ (0.5)	(9.1)%
Gross margin %	40.5%	40.8 %		
SG&A	$1.4	$ 1.3	$ 0.1	1.7 %
% of segment net sales	10.6%	9.6 %		

Net sales decreased $1.2 million or 8.5% for the third quarter of fiscal 2016 compared to the same period last year. Our aerospace markets decreased 21.8% while our diversified industrial markets were relatively flat. The 21.8% decrease in aerospace sales was primarily driven by the commercial aerospace OEM market.

Gross margin as a percent of sales decreased to 40.5% for the third quarter of fiscal 2016 compared to 40.8% for the same period last year. The decrease was primarily due to unfavorable product mix.

	Nine Months Ended December 26, 2015	December 27, 2014	$ Change	% Change
Organic net sales	$38.8	$ 41.7	$ (2.9)	(6.9)%
Sales by recent acquisitions	—	—	—	
Total net sales	$38.8	$ 41.7	$ (2.9)	(6.9)%
Gross margin	$15.7	$ 16.5	$ (0.8)	(5.1)%
Gross margin %	40.4 %	39.6 %		
SG&A	$4.1	$ 4.0	$ 0.1	3.9 %
% of segment net sales	10.6 %	9.5 %		

Net sales decreased $2.9 million or 6.9% for the first nine months of fiscal 2016 compared to the same period last year. Our aerospace markets decreased 12.1% while our diversified industrial market decreased 3.9%. The decrease in the aerospace markets was primarily driven by the commercial aerospace OEM market. The decrease in industrial sales was primarily due to energy and mining.

Gross margin decreased $0.8 million or 5.1% for the first nine months of fiscal 2016 compared to the same period last year. Gross margin as a percent of sales increased to 40.4% from 39.6% last year primarily due to pricing and product mix.

Engineered Products Segment:

	Three Months Ended December 26, 2015	December 27, 2014	$ Change	% Change
Organic net sales	$7.6	$ 7.2	$ 0.4	6.2 %
Sales by recent acquisitions	33.3	—	33.3	
Total net sales	$40.9	$ 7.2	$ 33.7	471.6 %

Gross margin	$14.1	$ 3.0	$ 11.1	378.2 %
Gross margin %	34.5%	41.2 %		
SG&A	$5.3	$ 1.1	$ 4.2	395.4 %
% of segment net sales	13.0%	15.0 %		

Net sales increased $33.7 million or 471.6% for the first nine months of fiscal 2016 compared to the same period last year. Our aerospace markets increased 2,234.2% while our diversified industrial markets increased 112.9%. Organic net sales decreased 6.2% compared to last year. Our aerospace markets increased 50.4% and the diversified industrial markets decreased 2.8%. The increase in aerospace sales was mainly due to the commercial aerospace distribution market. The decrease in industrial sales was mostly driven by energy and mining.

Excluding the $11.1 million impact from the Sargent acquisition (which included a $0.6 million negative purchase accounting adjustment), gross margin was flat year over year. As a percent of sales, organic gross margin decreased to 38.9% from 41.2% mainly due to unfavorable product mix.

	Nine Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change
Organic net sales	$22.8	$ 22.5	$ 0.3	1.5 %
Sales by recent acquisitions	92.2	—	92.2	
Total net sales	$115.0	$ 22.5	$ 92.5	411.9 %
Gross margin	$31.6	$ 8.9	$ 22.7	256.1 %
Gross margin %	27.5 %	39.5 %		
SG&A	$13.4	$ 2.9	$ 10.5	358.0 %
% of segment net sales	11.7 %	13.1 %		

Net sales increased $92.5 million or 411.9% for the first nine months of fiscal 2016 compared to the same period last year. This included a $0.4 million negative foreign exchange impact. Our aerospace markets increased 1,835.5% while our diversified industrial markets increased 77.3%. Organic net sales increased 1.5% compared to last year. Our aerospace markets increased 30.7% and the diversified industrial markets decreased 5.4%. The increase in aerospace sales was mainly due to the commercial aerospace distribution market. The decrease in industrial sales was mostly driven by energy and mining.

Excluding the $23.5 million impact from the Sargent acquisition (which included a $6.0 million negative purchase accounting adjustment), the gross margin decrease of $0.8 million was mostly attributable to unfavorable product mix.

Corporate:

	Three Months Ended			
	December 26, 2015	December 27, 2014	$ Change	% Change
SG&A	$10.9	$ 10.6	$ 0.3	3.4 %
% of total net sales	7.6 %	9.9 %		

Nine Months Ended			
December 26, 2015	December 27, 2014	$ Change	% Change

SG&A	$34.4	$ 31.0	$ 3.4	10.8 %
% of total net sales	7.9 %	9.3 %		

Corporate SG&A increased for both the third quarter and first nine months of fiscal 2016 compared to the same periods last year. This was primarily due to an increase in stock compensation and headcount – related expenses.

Liquidity and Capital Resources

Our business is capital intensive. Our capital requirements include manufacturing equipment and materials. In addition, we have historically fueled our growth in part through acquisitions. We have historically met our working capital, capital expenditure requirements and acquisition funding needs through our net cash flows provided by operations, various debt arrangements and sale of equity to investors. We believe that operating cash flows and available credit under the credit facilities will provide adequate resources to fund internal and external growth initiatives for the foreseeable future.

Liquidity

New Credit Facility

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

Amounts outstanding under the Facilities generally bear interest at (a) a base rate determined by reference to the higher of (1) Wells Fargo’s prime lending rate, (2) the federal funds effective rate plus 1/2 of 1% and (3) the one-month LIBOR rate plus 1% or (b) LIBOR rate plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on the Company's consolidated ratio of total net debt to consolidated EBITDA from time to time. Currently, our margin is 0.5% for base rate loans and 1.5% for LIBOR rate loans. As of December 26, 2015, there was $187.5 million outstanding under the Revolver and $195.0 million outstanding under the Term Loan, offset by $6.2 million in debt issuance costs (original amount was $7.1 million).

The New Credit Agreement requires us to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA, not to exceed 3.50 to 1; and (2) a consolidated interest coverage ratio not to exceed 2.75 to 1. The New Credit Agreement allows us to, among other things, make distributions to shareholders, repurchase our stock, incur other debt or liens, or acquire or dispose of assets provided that we comply with certain requirements and limitations of the agreement. As of December 26, 2015, we were in compliance with all such covenants.

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

Approximately $3.3 million of the Revolver is being utilized to provide letters of credit to secure RBCA’s obligations relating to certain insurance programs, and $225.0 million was utilized to finance the acquisition of Sargent. As of December 26, 2015, RBCA paid down $37.5 million of the Revolver and has the ability to borrow up to an additional $159.2 million under the Revolver. We also paid down $5 million of the Term Loan.

Prior Credit Facility

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

Amounts outstanding under the JP Morgan Credit Agreement generally bear interest at the prime rate or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based upon our consolidated ratio of net debt to adjusted EBITDA, measured at the end of each quarter. As of December 27, 2014, our margin is 0.5% for prime rate loans and 1.5% for LIBOR rate loans.

The JP Morgan Credit Agreement requires us to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA, not to exceed 3.25 to 1; and (2) a consolidated fixed charge coverage ratio not to exceed 1.5 to 1. The credit agreement allows us to, among other things, make distributions to shareholders, repurchase our stock, incur other debt or liens, or acquire or dispose of assets provided that we comply with certain requirements and limitations of the agreement. The JP Morgan Credit Agreement was terminated and replaced by the New Credit Agreement discussed above.

Other Notes Payable

On October 1, 2012, Schaublin purchased the land and building, which it occupied and had been leasing, for 14.1 million CHF (approximately $14.9 million). Schaublin obtained a 20 year fixed rate mortgage of 9.3 million CHF (approximately $9.9 million) at an interest rate of 2.9%. The balance of the purchase price of 4.8 million CHF (approximately $5.1 million) was paid from cash on hand. The balance on this mortgage as of December 26, 2015 was 7.8 million CHF, or $7.9 million.

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

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

On May 16, 2014, our Board declared a special dividend to shareholders of $2.00 per common share or a total of approximately $46.0 million. The special dividend was paid on June 13, 2014, to shareholders of record on May 30, 2014. The ex-dividend date was May 28, 2014. The Board opted for a special dividend payment, rather than a regular recurring dividend to allow greater flexibility given our pipeline of attractive growth opportunities. The Board, will however, consider the use of additional special cash dividends in the future as circumstance warrant.

As of December 26, 2015, we had cash and cash equivalents of $44.4 million of which approximately $29.0 million was cash held by our foreign operations. We expect that our undistributed foreign earnings will be re-invested

indefinitely for working capital, internal growth and acquisitions for and by our foreign entities.

Cash Flows

Nine Month Period Ended December 26, 2015 Compared to the Nine Month Period Ended December 27, 2014

The following table summarizes our cash flow activities:

	FY16	FY15	$ Change
Net cash provided by (used in):			
Operating activities	$61.8	$62.4	$(0.6)
Investing activities	(514.6)	(12.9)	(501.7)
Financing activities	371.1	(46.7)	417.8
Effect of exchange rate changes on cash	0.6	(4.7)	5.3
Decrease in cash and cash equivalents	$(81.1)	$(1.9)	$(79.2)

During fiscal 2016 we generated cash of $61.8 million from operating activities compared to generating cash of $62.4 million for fiscal 2015. The decrease of $0.6 million for fiscal 2016 was mainly a result of the addition of non-cash charges of $5.6 million and an increase in net income of $1.7 million offset by the unfavorable impacts of a net change in operating assets and liabilities of $7.9 million. The favorable impact of the non-cash charges of $5.6 was primarily due to increased amortization of intangibles of $5.2 million and impairment charges of $5.0 million in the second quarter of fiscal 2015 related to the consolidation of the U.K. facility. The unfavorable change in operating assets and liabilities was primarily the result of an increase in the amount of cash being used for working capital items.

The following chart summarizes the favorable (unfavorable) change in operating assets and liabilities of ($7.9) million for fiscal 2016 versus fiscal 2015 and $21.1 million for fiscal 2015 versus fiscal 2014.

	FY16	FY15
Cash provided by (used in):		
Accounts receivable	$2.9	$5.7
Inventory	(8.3)	4.5
Prepaid expenses and other current assets	(1.0)	4.6
Other non-current assets	0.9	0.1
Accounts payable	(2.5)	(0.5)
Accrued expenses and other current liabilities	(6.9)	8.0
Other non-current liabilities	7.0	(1.3)
Total change in operating assets and liabilities:	$(7.9)	$21.1

During fiscal 2016, we used $514.6 million for investing activities as compared to $12.9 for fiscal 2015. The increase of cash used in investing activities of $501.7 million is primarily attributable to the $500.0 million used to finance the acquisition of Sargent.

During fiscal 2016, we generated $371.1 million from financing activities compared to using $46.7 million for fiscal 2015. This increase in cash generated was primarily attributable to the $225.0 million revolving credit facility and $200.0 million proceeds from the term loan associated with the acquisition of Sargent in the first quarter of fiscal 2016.

Capital Expenditures

Our capital expenditures were $14.6 million for the nine month period ended December 26, 2015. In addition, we expect to make additional capital expenditures of $6.0 to $8.0 million during fiscal 2016 in connection with our existing business. We expect to fund fiscal 2016 capital expenditures principally through existing cash, internally generated funds and debt. We may also make substantial additional capital expenditures in connection with acquisitions.

Obligations and Commitments

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Because these estimates are necessarily subjective, our actual payments in future periods are likely to vary from those presented in the table. The following table summarizes certain of our contractual obligations and principal and interest payments under our debt instruments and leases as of December 26, 2015:

	Payments Due By Period				
Contractual Obligations[1]	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
	(in thousands)				
Total debt	$384,974	$ 9,797	$28,094	$341,544	$ 5,539
Operating leases	12,696	4,666	5,503	2,181	346
Interest on fixed rate debt	1,948	224	408	354	962
Interest on variable rate debt[2]	27,607	6,558	12,510	8,539	—
Pension and postretirement benefits	19,467	1,819	3,846	3,983	9,819
Total contractual cash obligations	$446,692	$ 23,064	$50,361	$356,601	$ 16,666

(1) We cannot make a reasonably reliable estimate of when (or if) the unrecognized tax liability of $7.0 million, which includes interest and penalties, will be paid to the respective taxing authorities. These obligations are therefore excluded from the above table.

(2) These amounts represent expected cash payments of interest on our variable rate long-term debt under our Facilities at the prevailing interest rates at December 26, 2015.

Other Matters

Critical Accounting Policies and Estimates

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

Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We believe the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements in our fiscal 2015 Annual Report, incorporated by reference in our fiscal 2015 Form 10-K, describe the significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in our critical accounting estimates during the first nine months of fiscal 2016.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Foreign Currency Exchange Rates. As a result of our operations in Europe, we are exposed to risk associated with fluctuating currency exchange rates between the U.S. dollar, the Euro, the Swiss Franc, the Polish Zloty and the Canadian Dollar. Our Swiss operations utilize the Swiss Franc as the functional currency, our French operations utilize the Euro as the functional currency, our Polish operations utilize the Polish Zloty as the functional currency and our Canadian operations utilize the Canadian Dollar as the functional currency. Foreign currency transaction gains and losses are included in earnings. Approximately 11% and 14% of our net sales were impacted by foreign currency fluctuations in the first nine months of fiscal 2016 and fiscal 2015, respectively. We expect that this proportion is likely to increase as we seek to increase our penetration of foreign markets, particularly within the aerospace and defense markets. Foreign currency transaction exposure arises primarily from the transfer of foreign currency from one subsidiary to another within the group, and to foreign currency denominated trade receivables. Unrealized currency translation gains and losses are recognized upon translation of the foreign subsidiaries' balance sheets to U.S. dollars. Because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our earnings. We periodically enter into derivative financial instruments in the form of forward exchange contracts to reduce the effect of fluctuations in exchange rates on certain third-party sales transactions denominated in non-functional currencies. Based on the accounting guidance related to derivatives and hedging activities, we record derivative financial instruments at fair value. For derivative financial instruments designated and qualifying as cash flow hedges, the effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income ("AOCI"), and is reclassified into earnings when the hedged transaction affects earnings. As of December 26, 2015, we had no derivatives.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

ITEM 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 26, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 26, 2015, our disclosure controls and procedures were (1) designed to ensure that information relating to our Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported to our Chief Executive Officer and Chief Financial Officer within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, and (2) effective, in that they provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the nine month period ended December 26, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

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

Our wholly owned subsidiary, RBC Aircraft Products, Inc. is a plaintiff in a lawsuit against Precise Machining & Manufacturing LLC currently pending in the United States District Court, District of Connecticut's Case Number 3:10 CV 878 (SRU). A jury award against Precise Machining & Manufacturing LLC and in favor of RBC Aircraft Products, Inc. in the amount of $2,986,089 was entered on April 9, 2013. Precise Machining & Manufacturing LLC subsequently filed a motion for judgment in its favor as a matter of law and a motion for a new trial. On May 5, 2014 the presiding judge surprisingly overturned the jury verdict and granted a motion for a new trial. RBC Aircraft Products, Inc. subsequently filed a motion for Certification of Judgment, which was unopposed by Precise Machining & Manufacturing LLC, which was granted on July 28, 2014 and allows RBC Aircraft Products, Inc. to immediately appeal the judges' decision to overturn the jury verdict to the Second Circuit Court of Appeals. On November 10, 2015, the Second Circuit Court of Appeals issued a decision vacating the judges' decision to overturn the jury verdict and remanded the case back to the United States District Court, District of Connecticut for retrial.

We expect to prevail in the retrial; however, as litigation is inherently unpredictable, there can be no assurance in this regard. Any monetary recovery from this lawsuit will be recognized only if and when it is received by the Company.

ITEM 1A. Risk Factors

There have been no material changes to our risk factors and uncertainties during the nine month period ended December 26, 2015. For a discussion of the Risk Factors, refer to Part I, Item 2, "Cautionary Statement As To Forward-Looking Information," contained in this report and Part I, Item 1A, "Risk Factors," contained in the Company's Annual Report on Form 10-K for the period ended March 28, 2015.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

Not applicable.

Issuer Purchases of Equity Securities

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

Total share repurchases for the three months ended December 26, 2015 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)
09/27/2015 – 10/24/2015	9,680	$ 60.98	9,680	$ 32,792
10/25/2015 – 11/21/2015	—	—	—	32,792
11/22/2015 – 12/26/2015	33,146	65.82	33,146	$ 30,610

Total	42,826	$ 64.73	42,826

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

Not applicable.

ITEM 6. Exhibits

Exhibit Number	Exhibit Description
31.01	Certification of Chief Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a).
31.02	Certification of Chief Financial Officer Pursuant to Securities Exchange Act Rule 13a-14(a).
32.01	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 and Securities Exchange Act Rule 13a-14(b).*
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101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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

SIGNATURES

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

RBC Bearings Incorporated
(Registrant)

By: /s/ Michael J. Hartnett
Name: Michael J. Hartnett
Title: Chief Executive Officer
Date: February 4, 2016

By: /s/ Daniel A. Bergeron
Name: Daniel A. Bergeron
Title: Chief Financial Officer
Date: February 4, 2016

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