RBC Bearings INC
Form 10-K
May 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2018

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	(I.R.S. Employer
incorporation or organization)	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)

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

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

Class A Common Stock, Par Value $0.01 per Share
(Title of class)

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

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

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

Indicate by check mark 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's Class A Common Stock held by non-affiliates of the registrant on September 30, 2017 (based on the September 29, 2017 closing sales price of $125.15 of the registrant's Class A Common Stock, as reported by the Nasdaq National Market) was approximately $3,034,567,600.

Number of shares outstanding of the registrant's Class A Common Stock at May 18, 2018:

24,406,363 Shares of Class A Common Stock, par value $0.01 per share.

Documents Incorporated by Reference:

Portions of the registrant's proxy statement to be filed within 120 days of the close of the registrant's fiscal year in connection with the registrant's Annual Meeting of Shareholders to be held September 12, 2018 are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

RBC Bearings Incorporated

RBC Bearings Incorporated, together with its subsidiaries, is an international manufacturer and marketer of highly engineered precision bearings and products, which are integral to the manufacture and operation of most machines, aircraft and mechanical systems, to reduce wear to moving parts, facilitate proper power transmission, reduce damage and energy loss caused by friction and control pressure and flow. The terms “we”, “us”, “our”, “RBC” and the “Company” mea RBC Bearings Incorporated and its subsidiaries, unless the context indicates another meaning. While we manufacture products in all major categories, we focus primarily on highly technical or regulated bearing products and engineered products for specialized markets that require sophisticated design, testing and manufacturing capabilities. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. Over the past fifteen years, we have broadened our end markets, products, customer base and geographic reach. We currently have 45 facilities of which 35 are manufacturing facilities in six countries.

The Bearing and Engineered Products Industry

The bearing and engineered products industry is a fragmented multi-billion dollar market. Purchasers of bearings and engineered products include producers of commercial and military aircraft, submarine and vehicle equipment, oil and gas equipment, machinery manufacturers, industrial equipment and machinery manufacturers, construction machinery manufacturers, rail and train equipment manufacturers, mining and specialized equipment manufacturers.

Demand for bearings and precision components in the diversified industrial market are influenced by growth factors in industrial machinery and equipment shipments and construction, mining, energy and general industrial activity. In addition, usage of existing machinery will impact aftermarket demand for replacement products. In the aerospace market, new aircraft build rates along with carrier traffic growth worldwide determines demand for our solutions. Lastly, activity in the defense market is being influenced by modernization programs necessitating spending on new equipment, as well as continued utilization of deployed equipment supporting aftermarket demand for replacement bearings and engineered products.

Customers and Markets

We serve a broad range of end markets where we can add value with our specialty, precision bearing and engineered products, components, and applications. We classify our customers into two principal categories: industrial and aerospace. These principal end markets utilize a large number of both commercial and specialized bearings and engineered products. Although we provide a relatively small percentage of total bearing and engineered products supplied to each of our overall principal markets, we believe we have leading market positions in many of the specialized product markets in which we primarily compete and serve. Financial information regarding geographic areas is set forth in Part II, Item 8. “Financial Statements and Supplementary Data,” Note 17 “Reportable Segments.”

Industrial Market (38% of net sales for the fiscal year ended March 31, 2018)

We manufacture bearings and engineered products for a wide range of diversified industrial markets, including construction and mining, oil and natural resource extraction, heavy truck, marine, rail and train, packaging, semiconductor machinery and the general industrial markets. Our products target market applications in which our engineering and manufacturing capabilities provide us with a competitive advantage in the marketplace.

Our largest industrial customers include Caterpillar, Halliburton Energy Services, Newport News Shipbuilding, Komatsu America and various aftermarket distributors including Applied Industrial, BDI, Kaman Corporation, McMaster Carr and Motion Industries. We believe that the diversification of our sales among the various segments of the industrial markets reduces our exposure to downturns in any one individual market. We believe opportunities exist for growth and margin improvement in this market as a result of the introduction of new products, the expansion of aftermarket sales and continued manufacturing process improvements.

Aerospace Market (62% of net sales for the fiscal year ended March 31, 2018)

We supply bearings and engineered products for use in commercial, private and military aircraft and aircraft engines, guided weaponry, and vision and optical systems. We supply precision products for many of the commercial aircraft currently operating worldwide and are their primary supplier for many of their product lines. This includes military contractors for airplanes, helicopters, missile systems, engines and satellites. Commercial aerospace customers generally require precision products, often of special materials, made to unique designs and specifications. Many of our aerospace bearing and engineered component products are designed and certified during the original development of the aircraft being served, which often makes us the primary bearing supplier for the life of the aircraft.

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

Our largest aerospace customers include Airbus, Boeing, General Electric, Lockheed Martin, Safran, United Technologies, U.S. Department of Defense and various aftermarket distributors including National Precision Bearing, Jamaica Bearings, Wencor Group and Wesco Aircraft. We believe our strong relationships with OEMs help drive our aftermarket sales since a portion of OEM sales are ultimately intended for use as replacement parts. We believe that growth and margin expansion in this market will be driven primarily by expanding our international presence, new commercial aircraft introductions, new products, and the refurbishment and maintenance of existing commercial and military aircraft.

In fiscal 2018, 4.1% of our net sales were made directly, and we estimate that approximately an additional 19.9% of our net sales were made indirectly, to the U.S. government. These contracts or subcontracts may be subject to renegotiation of profit or termination of contracts at the election of the government. Based on experience, we believe that no material renegotiations or refunds will be required. See Part I, Item 1A. “Risk Factors – Future reductions or changes in U.S. government spending could negatively affect our business.”

Products

Bearings and engineered products are employed to fulfill several functions including reduction of friction, transfer of motion and carriage of loads, and control of pressure and flows. We design, manufacture and market a broad portfolio of bearings and engineered products. We operate through operating segments for which separate financial information is available, and for which operating results are evaluated regularly by our chief operating decision maker in determining resource allocation and assessing performance. Those operating segments with similar economic characteristics and that meet all other required criteria, including nature of the products and production processes, distribution patterns and classes of customers, are aggregated as reportable segments.

The following table provides a summary of our four reportable product segments: Plain Bearings; Roller Bearings; Ball Bearings; and Engineered Products.

Segment	Net Sales for the Fiscal Year Ended March 31, 2018	April 1, 2017	April 2, 2016	Representative Applications
Plain Bearings	$ 296,708 (44.0 %)	$ 277,700 (45.1 %)	$ 270,534 (45.3 %)	Aircraft engine controls and landing gear Missile launchers Mining, energy, and construction equipment
Roller Bearings	$ 132,021 (19.6 %)	$ 109,483 (17.8 %)	$ 112,039 (18.8 %)	Aircraft hydraulics Military and commercial truck chassis Packaging machinery and gear pumps
Ball Bearings	$ 67,806 (10.0 %)	$ 58,448 (9.5 %)	$ 53,650 (8.9 %)	Radar and night vision systems Airframe control and actuation Semiconductor equipment
Engineered Products	$ 178,414 (26.4 %)	$ 169,757 (27.6 %)	$ 161,249 (27.0 %)	Hydraulics, valves, fasteners and engines Industrial gears, components and collets

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

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

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

Engineered Products. Engineered Products consist primarily of highly engineered hydraulics and valves, fasteners, precision mechanical components and machine tool collets. Engineered hydraulics and valves are used in aircraft and submarine applications and aerospace and defense aftermarket services. Precision mechanical components are used in all general industrial applications, where some form of movement is required. Machine tool collets are cone-shaped metal sleeves, used for holding circular or rod like pieces in a lathe or other machine that provide effective part holding and accurate part location during machining operations.

Product Design and Development

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

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

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

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

Manufacturing and Operations

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

Capacity. Our plants currently run on a full first shift with second and third shifts at selected locations to meet the demands of our customers. We believe that current capacity levels and future annual estimated capital expenditures on equipment up to approximately 3.5% to 4.5% of net sales should permit us to effectively meet demand levels for the foreseeable future.

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

Sales, Marketing and Distribution

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

We have developed our sales force through the hiring of sales personnel with prior industry experience, complemented by an in-house training program. We intend to continue to hire and develop expert sales professionals and strategically locate them to implement our expansion strategy. Today, our direct sales force is located to service North America, Europe, Asia and Latin America and is responsible for selling all of our products. This selling model leverages our relationship with key customers and provides opportunities to market multiple product lines to both established and potential customers. We also sell our products through a well-established, global network of industrial and aerospace distributors. This channel primarily provides our products to smaller OEM customers and the end users of bearings and engineered products that require local inventory and service. We intend to continue to focus on building distributor sales volume.

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

We store product inventory in warehouses located in the Midwest, Southwest and on the East and West coasts of the U.S. as well as in France and Switzerland. The inventory is located in these locations based on analysis of customer demand to provide superior service and product availability.

Competition

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

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

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

Service. Product design, performance, reliability, availability, quality and technical and administrative support are elements that define the service standard for this business. Our customers are sophisticated and demanding, as our products are fundamental and enabling components to the construction or operation of their machinery. We maintain inventory levels of our most popular items for immediate sale and service. Our customers have high expectations regarding product availability and quality, and the primary emphasis of our service efforts is to ensure the widest possible range of available products and delivering them on a timely basis.

Price. We believe our products are priced competitively in the markets we serve. We continually evaluate our manufacturing and other operations to maximize efficiencies in order to reduce costs, eliminate unprofitable products from our portfolio and maximize our profit margins. We invest considerable effort to develop our price to value algorithms and we price to market levels where required by competitive pressures.

Suppliers and Raw Materials

We obtain raw materials, component parts and supplies from a variety of sources and generally from more than one supplier. Our principal raw material is steel. Our suppliers and sources of raw materials are based in the U.S., Europe and Asia. We purchase steel at market prices, which fluctuate as a result of supply and demand driven by economic conditions in the marketplace. For further discussion of the possible effects of changes in the cost of raw materials on our business, see Part I, Item 1A. "Risk Factors" in this Annual Report on Form 10-K.

Backlog

As of March 31, 2018, we had order backlog of $392.1 million compared to a backlog of $354.1 million in the prior fiscal year. The amount of backlog includes orders which we estimate will be fulfilled within the next 12 months; however, orders included in our backlog are subject to cancellation, delay or other modifications by our customers prior to fulfillment. We sell many of our products pursuant to contractual agreements, single source relationships or long-term purchase orders, each of which may permit early termination by the customer. However, due to the nature of many of the products supplied by us and the lack of availability of alternative suppliers to meet the demands of such customers' orders in a timely manner, we believe that it is not practical or prudent for most of our customers to shift their business to other suppliers.

Employees

We have 3,466 employees of which 1,998 are hourly and 1,468 salaried employees as of March 31, 2018. 1,058 are employed in our international operations. We believe that our employee relations are satisfactory.

Intellectual Property

We own U.S. and foreign patents and trademark registrations and U.S. copyright registrations, and have U.S. trademark and patent applications pending. We currently have 207 issued or pending U.S. and foreign patents. We file patent applications and maintain patents to protect certain technology, inventions and improvements that are important to the development of our business, and we file trademark applications and maintain trademark registrations to protect product names that have achieved brand-name recognition among our customers. We also rely upon trade secrets, know-how and continuing technological innovation to develop and maintain our competitive position. Many of our brands are well recognized by our customers and are considered valuable assets of our business. We currently have 163 issued or pending U.S. and foreign trademark registrations and applications. We do not believe, however, that any individual item of intellectual property is material to our business.

Regulation

Product Approvals. Essential to servicing the aerospace and defense markets is the ability to obtain product approvals. We have a substantial number of product approvals in the form of OEM approvals or Parts Manufacturer Approvals, or “PMAs,” from the FAA. We also have a number of active PMA applications in process. These approvals enable us to provide products used in virtually all domestic aircraft platforms presently in production or operation.

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

Environmental Matters

We are subject to federal, state and local environmental laws and regulations, including those governing discharges of pollutants into the air and water, the storage, handling and disposal of wastes and the health and safety of employees. We also may be liable under the Comprehensive Environmental Response, Compensation, and Liability Act or similar state laws for the costs of investigation and clean-up of contamination at facilities currently or formerly owned or operated by us, or at other facilities at which we have disposed of hazardous substances. In connection with such contamination, we may also be liable for natural resource damages, government penalties and claims by third parties for personal injury and property damage. Agencies responsible for enforcing these laws have authority to impose significant civil or criminal penalties for non-compliance. We believe we are currently in material compliance with all applicable requirements of environmental laws. We do not anticipate material capital expenditures for environmental compliance in fiscal year 2019.

State agencies have been overseeing groundwater monitoring activities at our facility in Hartsville, South Carolina and a corrective action plan at our Clayton, Georgia facility. At Hartsville, we are monitoring low levels of contaminants in the groundwater caused by former operations. Plans are currently underway to conclude remediation and monitoring activities. In connection with the purchase of our Fairfield, Connecticut facility in 1996, we agreed to assume responsibility for completing clean-up efforts previously initiated by the prior owner. We submitted data to the state that we believe demonstrates that no further remedial action is necessary although the state may require additional clean-up or monitoring. In connection with the purchase of our Clayton, Georgia facility, we agreed to take assignment of the hazardous waste permit covering such facility and to assume certain responsibilities to implement a corrective action plan concerning the remediation of certain soil and groundwater contamination present at that facility. The corrective action plan is ongoing. Although there can be no assurance, we do not expect expenses associated with these activities to be material.

Available Information

We file our annual, quarterly and current reports, proxy statements, and other documents with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934. The public may read and copy any materials filed with the SEC at the SEC's Office of Investor Education and Advocacy at 100F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Office of Investor Education and Advocacy by calling the SEC at 1–800–SEC–0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The public can obtain any documents that are filed by us at http://www.sec.gov.

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

ITEM 1A. RISK FACTORS

Cautionary Statement As To Forward-Looking Information

This report includes "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including any projections of earnings, cash flows, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; future growth rates in the markets we serve; increases in foreign sales; supply and cost of raw materials, any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words "may," "estimate," "intend," "continue," "believe," "expect," "anticipate," negative of such terms or other comparable terminology.

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

- Weaknesses and cyclicality in any of the industries in which our customers operate;
- Changes in marketing, product pricing and sales strategies or developments of new products by us or our competitors;
- Future reductions in U.S. governmental spending or changes in governmental programs, particularly military equipment procurement programs;
- Our ability to obtain and retain product approvals;
- Supply and costs of raw materials, particularly steel, and energy resources and our ability to pass through these costs on a timely basis;
- Our ability to acquire and integrate complementary businesses;
- Unanticipated liabilities of acquired businesses;
- Unexpected equipment failures, catastrophic events or capacity constraints;
- The costs of defending, or the results of, new litigation;
- Our ability to attract and retain our management team and other highly-skilled personnel;
- Increases in interest rates;
- Work stoppages and other labor problems for us and our customers or suppliers;
- Limitations on our ability to expand our business;
- Regulatory changes or developments in the U.S. and foreign countries;
- Developments or disputes concerning patents or other proprietary rights;
- Changes in accounting standards, policies, guidance, interpretation or principles;
- Risks associated with utilizing information technology systems;
- Risks associated with operating internationally, including currency translation risks;
- The operating and stock performance of comparable companies;

- Investors’ perceptions of us and our industry;
- General economic, geopolitical, industry and market conditions;
- Changes in tax requirements (including tax rate changes and new tax laws);
- Health care reform;
- Unforeseen developments in contingencies, such as litigation, could adversely affect our operating results and financial condition; and
- Other risks and uncertainties including but not limited to those described from time to time in our current and quarterly reports filed with US Securities and Exchange Commission.

Additional factors that could cause actual results to differ materially from our forward-looking statements are set forth in this Annual Report on Form 10-K, including under Part I, Item 1. “Business,” Part I, Item 1A. “Risk Factors,” Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 8. “Financial Statements and Supplementary Data.”

We are not under any duty to update any forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the Securities and Exchange Commission. All forward-looking statements contained in this report and any subsequently filed reports are expressly qualified in their entirety by these cautionary statements.

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

Risk Factors Related to Our Company

The bearing and engineered products industries are highly competitive, and competition could reduce our profitability or limit our ability to grow.

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

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

Our top ten customers generated 36% and 37% of our net sales during fiscal 2018 and fiscal 2017, respectively. Accordingly, the loss of one or more of those customers or a substantial decrease in such customers' purchases from us could result in a material reduction in our revenues and profitability.

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

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

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

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

In fiscal 2018, 4.1% of our net sales were made directly, and we estimate that, including our diversified industrial market, approximately an additional 19.9% of our net sales were made indirectly, to the U.S. government to support military or other government projects. Our failure to obtain new government contracts, the cancellation of government contracts or reductions in federal budget appropriations regarding our products could result in materially reduced revenue. In addition, the funding of defense programs also competes with non-defense spending of the U.S. government. Our business is sensitive to changes in national and international priorities and the U.S. government budget. A shift in government defense spending to other programs in which we are not involved or a reduction in U.S. government defense spending generally could materially reduce our revenues, cash flows from operations and profitability. If we, or our prime contractors for which we are a subcontractor, fail to win any particular bid, or we are unable to replace lost business as a result of a cancellation, expiration or completion of a contract, our revenues or cash flows could be reduced.

The U.S. government continues to focus on developing and implementing spending, tax, and other initiatives to stimulate the economy, create jobs, and reduce the deficit. One of these initiatives, the Budget Control Act of 2011 ("BCA"), imposed greater constraints around government spending. In an attempt to balance decisions regarding defense, homeland security, and other federal spending priorities, the BCA immediately imposed spending caps that contain significant reductions to the Department of Defense ("DOD") base budgets over a ten-year period ending in 2021. The BCA also provided for an automatic sequestration process, that impose additional cuts to the annual proposed DOD budgets continuing through 2021.

Although we cannot predict whether the automatic sequestration process will continue to proceed as set forth in the BCA or will be further modified by new or additional legislation, we believe our portfolio of programs and product offerings are well positioned and will not be materially impacted by such proposed DOD budget cuts. However, one or more of our programs could be reduced, extended, or terminated as a result of the U.S. Government's continuing assessment of priorities, which could significantly impact our operations.

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

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (“DRC”) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use materials containing conflict minerals in their products mined from the DRC and adjoining countries. These new requirements necessitated due diligence efforts in calendar 2013, with initial disclosure requirements beginning in May 2014. There will be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of materials containing conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of these verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in certain of our products. As there may be only a limited number of suppliers offering “conflict free” materials, we cannot ensure that we will be able to obtain necessary materials containing conflict free minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face negative reactions from customers if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all materials containing conflict minerals used in our products through the procedures we implement.

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

Essential to servicing the aerospace market is the ability to obtain product approvals. We have a substantial number of product approvals, which enable us to provide products used in virtually all domestic aircraft platforms presently in production or operation. Product approvals are typically issued by the FAA to designated OEMs who are Production Approval Holders of FAA approved aircraft. These Production Approval Holders provide quality control oversight and generally limit the number of suppliers directly servicing the commercial aerospace aftermarket. Regulations enacted by the FAA provide for an independent process (the PMA process), which enables suppliers who currently sell their products to the Production Approval Holders, to sell products to the aftermarket. Our foreign sales may be subject to similar approvals or U.S. export control restrictions. We cannot assure you that we will not lose approvals for our products in the future. The loss or suspension of product approvals could result in lost sales and materially reduce our revenues and profitability. The repair and overhaul of aircraft parts and accessories throughout the world is highly regulated by government agencies, including the FAA. Our repair and overhaul operations are subject to certification pursuant to regulations established by the FAA and other country government agencies which regulations vary from country to country, although compliance with FAA requirements generally satisfies regulatory requirements in other countries. New and more stringent government regulations, if adopted and enacted, could have an adverse effect on our business, financial condition and results of operations.

The retirement of commercial aircraft could reduce our revenues.

Our repair and overhaul operations repair, overhaul and sell jet engine and aircraft components. If aircraft or engines for which we offer replacement parts or supply repair and overhaul services are retired and there are fewer aircraft that require these parts or services, our revenues may decline.

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

As of March 31, 2018, approximately 8.5% of our hourly employees were represented by labor unions in the U.S. While we believe our relations with our employees are satisfactory, the inability to satisfactorily negotiate and enter into new collective bargaining agreements upon expiration, or a lengthy strike or other work stoppage at any of our facilities, particularly at some of our larger facilities, could materially reduce our ability to operate our business. In addition, any attempt by our employees not currently represented by a union to join a union could result in additional expenses, including with respect to wages, benefits and pension obligations. We currently have three collective bargaining agreements covering employees within our Plymouth, Indiana, Fairfield, Connecticut and West Trenton, New Jersey locations.

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

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

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

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

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

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

Our ability to realize anticipated benefits and synergies from the acquisitions may be affected by a number of factors, including: the use of more cash or other financial resources, and additional management time, attention and distraction, on integration and implementation activities than we expect, including restructuring and other exit costs; increases in other expenses related to an acquisition, which may offset any potential cost savings and other synergies from the acquisition; our ability to avoid labor disruptions or disputes in connection with any integration; the timing and impact of purchase accounting adjustments; difficulties in employee or management integration; and unanticipated liabilities associated with acquired businesses.

Any potential cost-saving opportunities may take at least several quarters following an acquisition to implement, and any results of these actions may not be realized for at least several quarters following implementation.

Businesses that we have acquired or that we may acquire in the future may have liabilities which are not known to us.

In certain cases, we have assumed liabilities of other acquired businesses and may assume liabilities of businesses that we acquire in the future. There may be liabilities or risks that we fail, or are unable, to discover, or that we underestimate, in the course of performing our due diligence investigations of acquired businesses. Additionally, businesses that we have acquired or may acquire in the future may have made previous acquisitions, and we could be subject to certain liabilities and risks relating to these prior acquisitions as well. We cannot assure you that our rights to indemnification contained in definitive acquisition agreements that we have entered or may enter into will be sufficient in amount, scope or duration to fully offset the risk of unforeseen business uncertainties or related possible liabilities. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business, financial condition or results of operations. As we begin to operate acquired businesses, we may learn additional information about them that adversely affects us, such as unknown or contingent liabilities, issues relating to compliance with applicable laws or issues related to ongoing supply chain or customer relationships or order demand.

Goodwill and indefinite-lived intangibles comprise a significant portion of our total assets, and if we determine that goodwill and indefinite-lived intangibles have become impaired in the future, our results of operations and financial condition in such years may be materially and adversely affected.

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. Indefinite-lived intangibles represent long-standing brands acquired in business combinations and assumed to have indefinite lives. We review goodwill and indefinite-lived intangibles at least annually for impairment and any excess in carrying value over the estimated fair value is charged to the results of operations. Our estimates of fair value are based on assumptions about the future operating cash flows, growth rates, discount rates applied to these cash flows and current market estimates of value. A reduction in net income resulting from the write down or impairment of goodwill or indefinite-lived intangibles would affect financial results and could have a material and adverse impact upon the market price of our common stock. If we are required to record a significant charge to earnings in our consolidated financial statements because an impairment of goodwill or indefinite-lived intangibles is determined, our results of operations and financial condition could be materially and adversely affected.

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

Our business is managed by a number of key executive officers, including Dr. Michael J. Hartnett. Our future success will depend on, among other things, our ability to keep the services of these executives and to hire other highly qualified employees at all levels.

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

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

We have established operations in certain countries outside the U.S., including Mexico, France, Switzerland, Poland, China and Germany. Of our 45 facilities, 11 are located outside the U.S., including 9 manufacturing facilities.

In fiscal 2018, 12% of our net sales were generated by our international operations. We expect that this proportion is likely to increase as we seek to increase our penetration of foreign markets, including through acquisitions, particularly within the aerospace and defense markets. Our foreign operations are subject to the risks inherent in such activities such as: currency devaluations, logistical and communication challenges, costs of complying with a variety of foreign laws and regulations, greater difficulties in protecting and maintaining our rights to intellectual property, difficulty in staffing and managing geographically diverse operations, acts of terrorism or war or other acts that may cause social disruption which are difficult to quantify or predict and general economic conditions in these foreign markets. Our international operations may be negatively impacted by changes in government policies, such as changes in laws and regulations (or the interpretation thereof), restrictions on imports and exports, sources of supply, duties or tariffs, the introduction of measures to control inflation and changes in the rate or method of taxation. To date we have not experienced significant difficulties with the foregoing risks associated with our international operations.

We are subject to changes in legislative, regulatory and legal developments involving income and other taxes.

We are subject to U.S. federal, state, and international income, payroll, property, sales and use, fuel, and other types of taxes. Changes in tax rates, enactment of new tax laws, revisions of tax regulations, and claims or litigation with taxing authorities could result in substantially higher taxes and, therefore, could have a significant adverse effect on our results or operations, financial conditions and liquidity. U.S. income tax and foreign withholding taxes have not been provided on undistributed earnings for certain non-U.S. subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. Future legislation may substantially reduce (or have the effect of substantially reducing) our ability to defer U.S. taxes on profit permanently reinvested outside the United States. Additionally, they could have a negative impact on our ability to compete in the global marketplace.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA" or "the Act"). The Act includes a number of changes in existing tax laws impacting businesses including, among other things, a permanent reduction in the U.S. corporate income tax rate from a top marginal rate of 35.0% to a flat rate 21.0%, limitation of the tax deduction for interest expense (except for certain small businesses), elimination of U.S. tax on foreign earnings (subject to certain exceptions) and a one-time taxation of foreign earnings at reduced rates, regardless of whether or not they are repatriated. Notwithstanding the reduction in the U.S. corporate tax rate, the overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. It is uncertain if and to what extent various states will conform to the newly enacted federal tax law. Financial results for fiscal 2018 reflect provisional estimates based on our initial analysis and current interpretation of the legislation.

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

Our Swiss operation utilizes the Swiss Franc as the functional currency, our French and German operations utilize the Euro as the functional currency, our Polish operation utilizes the Polish Zloty as the functional currency and our Canadian operation utilizes the Canadian Dollar as the functional currency. Foreign currency transaction gains and losses are included in earnings. Foreign currency transaction exposure arises primarily from the transfer of foreign currency from one subsidiary to another within the group and to foreign currency denominated trade receivables. Unrealized currency translation gains and losses are recognized upon translation of the foreign subsidiaries' balance sheets to U.S. dollars. Because our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on our earnings. We periodically enter into derivative financial instruments such as forward exchange contracts to reduce the effect of fluctuations in exchange rates on certain third-party sales transactions denominated in non-functional currencies. Currency fluctuations may affect our financial performance in the future and we cannot predict the impact of future exchange rate fluctuations on our results of operations. See Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Exchange Rates."

We may be required to make significant future contributions to our pension plan.

As of March 31, 2018, we maintained one noncontributory defined benefit pension plan. The plan was overfunded by $0.3 million as of March 31, 2018 and was underfunded by $1.9 million as of April 1, 2017, which are the amounts by which the accumulated benefit obligations are less or more than the sum of the fair market value of the plan's assets. We are required to make cash contributions to our pension plan to the extent necessary to comply with minimum funding requirements imposed by employee benefit laws and tax laws. The amount of any such required contributions is determined based on annual actuarial valuation of the plan as performed by the plan's actuaries. The amount of future contributions will depend upon asset returns, then-current discount rates and a number of other factors, and, as a result, the amount we may elect or be required to contribute to our pension plan in the future may increase significantly. Additionally, there is a risk that if the Pension Benefit Guaranty Corporation concludes that its risk with respect to our pension plan may increase unreasonably if the plan continues to operate, if we are unable to satisfy the minimum funding requirement for the plan or if the plan becomes unable to pay benefits, then the Pension Benefit Guaranty Corporation could terminate the plan and take control of its assets. In such event, we may be required to make an immediate payment to the Pension Benefit Guaranty Corporation of all or a substantial portion of the underfunding as calculated by the Pension Benefit Guaranty Corporation based upon its own assumptions. The underfunding calculated by the Pension Benefit Guaranty Corporation could be substantially greater than the underfunding we have calculated because, for example, the Pension Benefit Guaranty Corporation may use a significantly lower discount rate. If such payment is not made, then the Pension Benefit Guaranty Corporation could place liens on a material portion of our assets and the assets of any members of our controlled group. Such action could result in a material increase in our pension related expenses and a corresponding reduction in our cash flow and net income. For additional information concerning our pension plan and plan liabilities, see Part II, Item 8. "Financial Statements and Supplementary Data," Note 11 "Pension Plans."

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

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

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

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

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

Our ability to compete effectively is dependent upon our ability to protect and preserve the intellectual property and other proprietary rights and materials owned, licensed or otherwise used by us. We have numerous U.S. and foreign patents, trademark registrations and U.S. copyright registrations. We also have U.S. and foreign trademark and patent applications pending. We cannot assure you that our pending trademark and patent applications will result in trademark registrations and issued patents, and our failure to secure rights under these applications may limit our ability to protect the intellectual property rights that these applications were intended to cover. Although we have attempted to protect our intellectual property and other proprietary rights both in the United States and in foreign countries through a combination of patent, trademark, copyright and trade secret protection and non-disclosure agreements, these steps may be insufficient to prevent unauthorized use of our intellectual property and other proprietary rights, particularly in foreign countries where the protection available for such intellectual property and other proprietary rights may be limited. We cannot assure you that any of our intellectual property rights will not be infringed upon or that our trade secrets will not be misappropriated or otherwise become known to or independently developed by competitors. We may not have adequate remedies available for any such infringement or other unauthorized use. We cannot assure you that any infringement claims asserted by us will not result in our intellectual property being challenged or invalidated, that our intellectual property will be held to be of adequate scope to protect our business or that we will be able to deter current and former employees, contractors or other parties from breaching confidentiality obligations and misappropriating trade secrets. In addition, we may become subject to claims which could require us to pay damages or limit our ability to use certain intellectual property and other proprietary rights found to be in violation of a third party's rights, and, in the event such litigation is successful, we may be unable to use such intellectual property and other proprietary rights at all or on reasonable terms. Regardless of its outcome, any litigation, whether commenced by us or third parties, could be protracted and costly and could result in increased litigation related expenses, the loss of intellectual property rights or payment of money or other damages, which may result in lost sales and reduced cash flow and decrease our net income. See Part I, Item 1 "Business—Intellectual Property."

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

As of March 31, 2018, we had an order backlog of $392.1 million, which we estimate will be fulfilled within the next 12 months. However, orders included in our backlog are subject to cancellation, delay or other modifications by our customers prior to fulfillment. For these reasons, we cannot assure you that orders included in our backlog will ultimately result in the actual receipt of revenues from such orders.

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

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

Health care reform could adversely affect our operating results.

In 2010, the U.S. government enacted comprehensive health care reform legislation. Due to the breadth and complexity of this legislation, as well as its phased-in nature of implementation and lack of interpretive guidance, it is difficult for us to predict the overall effects it will have on our business over the coming years. To date, we have not experienced significant costs related to the health care reform legislation; however, it is possible that our operating results could be adversely affected in the future by increased costs, expanded liability exposure and requirements that change the ways we provide healthcare and other benefits to our employees.

Unforeseen developments in contingencies, such as litigation, could adversely affect our financial condition.

We and certain of our subsidiaries are, and from time to time may become, parties to a number of legal proceedings incidental to their businesses involving alleged injuries arising out of the use of their products, exposure to hazardous substances, or patent infringement, employment matters, and commercial disputes. The defense of these lawsuits may require significant expenses and divert management's attention, and we may be required to pay damages that could adversely affect our financial condition. In addition, any insurance or indemnification rights that we may have may be insufficient or unavailable to protect us against potential loss exposures.

Changes in accounting standards or changes in the interpretations of existing standards could affect our financial results.

We prepare our financial statements in conformity with accounting principles generally accepted in the U.S. These accounting principles are subject to interpretation by the Financial Accounting Standards Board ("FASB") and the Securities and Exchange Commission (the "SEC"). From time to time, we are required to adopt new or revised accounting standards and related interpretations issued by the FASB and the SEC. Any change in these accounting principles or interpretations could have a significant effect on our reported financial results, may retroactively affect previously reported results, could cause unexpected financial reporting fluctuations, and may require us to make costly changes to our operational processes and accounting systems. In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which supersedes most existing generally accepted accounting principles ("GAAP") regarding revenue recognition. We will adopt this ASU on April 1, 2018 using the modified retrospective approach. As a result of applying this approach, we will be recording a cumulative effect adjustment to the beginning balance of retained earnings in the first quarter of fiscal 2018. The impact will be immaterial. Further information regarding our adoption of this new accounting standard is included in Part II, Item 8 "Financial Statements and Supplementary Data", Note 2 "Summary of Significant Accounting Policies".

Risks associated with utilizing information technology systems could adversely affect our operations.

We rely upon our information technology systems to process, transmit and store electronic information to manage and operate our business. Further, in the ordinary course of business, we store sensitive data, including intellectual property, our proprietary business information and that of our customers and business partners and personally identifiable information of our employees, on our networks. The secure maintenance and transmission of this information is critical to our business operations.

As a U.S. government contractor, we may face certain security threats, including malicious software malware, phishing and other cybersecurity intrusions to our information technology infrastructure, attempts to gain unauthorized access to proprietary, classified or confidential information, and threats to the physical security of our information technology systems. In addition to security threats, we may also be subject to other systems failures, including network, software or hardware failures. The unavailability of our information or communications systems, the failure of these systems to perform as anticipated or any significant breach of data security could cause loss of data, disrupt our operations, require significant management attention and resources, subject us to litigation, penalties, regulatory actions or contract termination, and negatively impact our reputation among our customers and the public, which could have a negative impact on our financial and competitive position, results of operations and liquidity.

Although we have implemented certain preventative measures which may help mitigate the damage from such occurrences, the damage and disruption to our business resulting from any of these events may be significant. We continue to evaluate the need to upgrade and/or replace our systems and network infrastructure to protect our computing environment, to improve the effectiveness of our systems and strengthen our cybersecurity requirements, however, our systems implementations may not result in the protection or improvements at the levels anticipated. As a U.S. government contractor, we are also subject to regulatory compliance requirements under the DFARS and other federal regulations that require our IT systems to comply with the security and privacy controls in National Institute of Standards and Technology Special Publication 800-171 (NIST 800-171).

Risk Factors Related to our Common Stock

Provisions in our charter documents may prevent or hinder efforts to acquire a controlling interest in us.

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

Our certificate of incorporation authorizes the issuance of preferred stock with such designations, rights and preferences as may be determined from time to time by our Board of Directors (the "Board") without stockholder approval. Holders of the common stock may not have preemptive rights to subscribe for a pro rata portion of any capital stock which may be issued by us. In the event of issuance, such preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of us or could impede our stockholders' ability to approve a transaction they consider in their best interests. Although we have no present intention to issue any new shares of preferred stock, we may do so in the future.

We may not pay cash dividends in the foreseeable future.

Except for a $2.00 per common share special dividend paid on June 13, 2014, we have not paid any cash dividends on our common stock and may not pay cash dividends in the future. Instead, we plan to apply earnings and excess cash, if any, to the expansion and development of the business. Thus, the return on your investment, if any, could depend solely on an increase, if any, in the market value of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our principal executive office is located at One Tribology Center, Oxford, Connecticut 06478. We also use these facilities for manufacturing and product testing and development.

We own facilities in the following locations:

Tucson, Arizona	Delemont, Switzerland
Anjou, Quebec, Canada	Clayton, Georgia
Rancho Dominguez, California	Bremen, Indiana
Santa Ana, California	Plymouth, Indiana
Fairfield, Connecticut	Mielec, Poland
Middlebury, Connecticut	Bishopville, South Carolina
Oxford, Connecticut	Hartsville, South Carolina
Torrington, Connecticut	Westminster, South Carolina
Ball Ground, Georgia	Houston, Texas

We have leases in effect with respect to the following facilities:

Location of Leased Facility	**Lease Expiration Date**	**Location of Leased Facility**	**Lease Expiration Date**
Baldwin Park, California	May 31, 2023	Franklin, Indiana	May 31, 2019
Garden Grove, California	May 31, 2022	Reynosa, Mexico	March 31, 2023
Fountain Valley, California	November 30, 2019	Tecate, Mexico	January 31, 2019
Torrance, California	December 31, 2020	West Trenton, New Jersey	February 28, 2018
San Diego, California	October 1, 2018	Mentor, Ohio	January 31, 2023
Santa Fe Springs, California	November 30, 2018	Oklahoma City, Oklahoma	September 30, 2021
Shanghai, China	August 31, 2020	Bishopville, South Carolina	January 31, 2020
Miami, Florida	February 16, 2019	Grand Prairie, Texas	February 28, 2021
Les Ulis, France	July 1, 2020	Langenselbold, Germany	March 31, 2019
Hoffman Estates, Illinois	November 30, 2018	Lynnwood, Washington	December 31, 2021
Norton Shores, Michigan	April 24, 2019		

In addition to the facilities above, we have several small field offices located in various locations to support field sales operations.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers are elected by the Board normally for a term of one year and/on until the election of their successors. All executive officers have been employed by the Company at their current positions during the past five-year period except as noted below. Our executive officers of the company as of May 18, 2018 are as follows:

Name	**Age**		**Current Position and Previous Positions During Last Five Years**
Michael J. Hartnett	72	1992	Chairman, President and Chief Executive Officer
Daniel A. Bergeron	58	2003	Director, Vice President, Chief Operating Officer, Chief Financial Officer and Assistant Secretary
Patrick S. Bannon	53	2017	Elected Vice President and General Manager in November 2017. Prior thereto served as the Company's General Manager of its Aircraft Products, Mexico and AeroStructures operations and has been with the Company in various positions for 26 years.
Richard J. Edwards	62	1996	Vice President and General Manager
Thomas J. Williams	66	2006	Corporate General Counsel and Secretary
Ernest D. Hawkins	52	2017	Elected Vice President Finance and Chief Accounting Officer in June 2017. Prior thereto served as the Corporate Controller of the Company's Sargent Aerospace & Defense Division. He joined RBC Bearings in 2015 as part of the Sargent Aerospace & Defense acquisition. He was employed by Sargent's previous parent company, Dover Corporation, since 2002.
Robert M. Sullivan	34	2017	Elected Corporate Controller in February 2017. Prior thereto served as the Company's Assistant Corporate Controller from March 2016 to February 2017. Prior thereto, served as Financial Planning and Analysis Specialist at Sikorsky Aircraft Corporation from October 2013 to March 2016. Prior to joining Sikorsky, spent approximately six years with Ernst & Young LLP as an Audit Manager.

PART II

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

Price range of our Common Stock

Our common stock is quoted on the Nasdaq National Market under the symbol "ROLL." As of May 18, 2018, there were 3 holders of record of our common stock.

The following table shows the high and low sales prices of our common stock as reported by the Nasdaq National Market during the periods indicated:

	Fiscal 2018		Fiscal 2017	
	High	Low	High	Low
First Quarter	$108.39	$91.00	$79.75	$68.41
Second Quarter	127.67	100.23	87.82	70.57
Third Quarter	139.95	113.40	95.02	67.99
Fourth Quarter	134.82	114.01	99.92	87.61

The last reported sale price of our common stock on the Nasdaq National Market on May 18, 2018 was $123.26 per share.

Dividend Policy

On May 16, 2014, our Board declared a special cash dividend to shareholders of $2.00 per common share or a total of approximately $46.0 million. The special dividend was payable 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 reoccurring 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 circumstances warrant.

Issuer Purchases of Equity Securities

On February 7, 2013, our Board 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. This repurchase authorization terminates and replaces the existing $10.0 million stock repurchase program announced by us on June 15, 2007.

Total share repurchases for the three months ended March 31, 2018, all of which were made under this program, 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)
12/31/2017 – 01/27/2018	190	$ 125.62	190	$ 20,878
01/28/2018 – 02/24/2018	37	126.00	37	20,873
02/25/2018 – 03/31/2018	259	118.39	259	20,842
Total	486	$ 121.89	486	

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During the fourth quarter of fiscal 2018, we did not issue any common stock that was not registered under the Securities Act.

Equity Compensation Plans

Information regarding equity compensation plans required to be disclosed pursuant to this Item is included in Part II, Item 8. "Financial Statements and Supplementary Data," Note 14 "Stockholders' Equity-Stock Option Plans" of this Annual Report on Form 10-K.

Performance Graph

The following graph shows the total return to our stockholders compared to the Russell 2000 Small Cap Index and the Nasdaq Composite Index over the period from March 30, 2013 to March 31, 2018. Because of the diversity of our markets and products, we do not believe that a combination of peer issuers can be selected on an industry or line-of-business basis to provide a meaningful basis for comparing shareholder return. Accordingly, the Russell 2000 Small Cap Index is comprised of issuers with generally similar market capitalizations to that of the Company, and as permitted by regulation, is included in the graph. Each line on the graph assumes that $100 was invested in our common stock on March 30, 2013 or in the respective indices at the closing price on March 30, 2013. The graph then presents the value of these investments, assuming reinvestment of dividends, through the close of trading on March 31, 2018.

	March 30, 2013	**March 29, 2014**	**March 28, 2015**	**April 2, 2016**	**April 1, 2017**	**March 31, 2018**
RBC Bearings Incorporated	$100.00	$124.55	$154.51	$150.57	$198.49	$253.91
Nasdaq Composite Index	100.00	128.83	153.42	156.04	189.99	229.43
Russell 2000 Small Cap Index	100.00	122.64	133.80	122.36	153.94	172.09

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

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated historical financial and other data as of the dates and for the periods indicated. The selected financial data as of and for the years ended March 31, 2018, April 1, 2017, April 2, 2016, March 28, 2015 and March 29, 2014 have been derived from our historical consolidated financial statements audited by Ernst & Young LLP, independent registered public accounting firm. Historical results are not necessarily indicative of the results expected in the future. You should read the data presented below together with, and qualified by reference to, Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included in Part II, Item 8. "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

	Fiscal Year Ended				
	March 31, 2018	**April 1, 2017**	**April 2, 2016**	**March 28, 2015**	**March 29, 2014**
	(in thousands, except share and per share amounts)				
Statement of Operations Data:					
Net sales[(1)]	$674,949	$615,388	$597,472	$445,278	$418,886
Cost of sales	416,838	385,792	378,694	275,138	254,089
Gross margin	258,111	229,596	218,778	170,140	164,797
Selling, general and administrative	113,124	102,922	98,721	75,908	71,969
Other, net	16,846	12,981	16,216	5,802	4,178
Operating income	128,141	113,693	103,841	88,430	88,650
Interest expense, net	7,507	8,706	8,722	1,055	1,019
Other non-operating expense (income)	783	103	334	2,820	(122)
Income before income taxes	119,851	104,884	94,785	84,555	87,753
Provision for income taxes	32,710	34,261	30,891	26,307	27,545
Net income	$87,141	$70,623	$63,894	$58,248	$60,208
Net income per common share:					
Basic	$3.64	$3.00	$2.75	$2.52	$2.63
Diluted	$3.58	$2.97	$2.72	$2.49	$2.59
Weighted average common shares:					
Basic	23,948,565	23,521,615	23,208,686	23,073,940	22,874,842
Diluted	24,363,789	23,784,636	23,508,418	23,385,061	23,244,241
Dividends per share	—	—	—	$2.00	—
Other Financial Data:					
Capital expenditures	$27,976	$20,894	$20,864	$20,897	$28,920

As of				
March 31, 2018	April 1, 2017	April 2, 2016	March 28, 2015	March 29, 2014

	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$54,163	$38,923	$39,208	$125,455	$121,207
Working capital	378,447	354,822	340,640	383,366	374,725
Total assets	1,142,751	1,108,847	1,098,510	632,073	620,993
Total debt	173,355	269,800	363,696	9,198	10,447
Total stockholders' equity	834,552	717,044	620,947	549,433	538,452

(1) Net sales were $674.9 million in fiscal 2018 compared to $615.4 million in fiscal 2017, an increase of $59.5 million. The growth is driven primarily by increased demand in our industrial and aerospace markets.

Net sales were $615.4 million in fiscal 2017 compared to $597.5 million in fiscal 2016, an increase of $17.9 million. Net sales in fiscal 2016 included three less weeks from Sargent Aerospace and Defense ("Sargent") which was acquired in April 2015.

Net sales were $597.5 million in fiscal 2016 compared to $445.3 million in fiscal 2015, an increase of $152.2 million. Net sales in fiscal 2016 included net sales of $172.6 million for Sargent Aerospace and Defense ("Sargent") which was acquired in April 2015.

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Net sales were $445.3 million in fiscal 2015 compared to $418.9 million in fiscal 2014, an increase of $26.4 million. Net sales in fiscal 2015 included net sales of $19.5 million for Climax Metal Products (“CMP”) and Turbine Components Inc. (“TCI”), which were acquired in August 2013 and October 2013, respectively

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial and business analysis below provides information which we believe is relevant to an assessment and understanding of our consolidated financial position, results of operations and cash flows. This financial and business analysis should be read in conjunction with the consolidated financial statements and related notes. All references to “Notes” in this Item 7 refer to the “Notes to Consolidated Financial Statements” included in Item 8 of the Annual Report on Form 10-K.

The following discussion and certain other sections of this Annual Report on Form 10-K contain statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate and our beliefs and assumptions. Any statements contained herein (including without limitation statements to the effect that we or our management “believes,” “expects,” “anticipates,” “plans” and similar expressions) that are not statements of historical fact should be considered forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. There are a number of important factors that could cause actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth, or incorporated by reference, above under the heading “Cautionary Statement as to Forward-Looking Information.” We do not intend to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

Overview

We are a well-known international manufacturer 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 bearing categories, we focus primarily on the higher end of the bearing market where we believe our value added manufacturing and engineering capabilities enable us to differentiate ourselves from our competitors and enhance profitability. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. With 43 facilities, of which 36 are manufacturing facilities in six countries, we have been able to significantly broaden our end markets, products, customer base and geographic reach. We have a fiscal year consisting of 52 or 53 weeks, ending on the Saturday closest to March 31. Based on this policy fiscal year 2018 and fiscal year 2017 had 52 weeks; fiscal 2016 contained 53 weeks. 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 and specialized equipment manufacturers, marine products, automotive and commercial truck manufacturers. The markets for our products are cyclical, and we have endeavored to mitigate this cyclicality by entering into sole-source relationships and long-term purchase agreements, through diversification across multiple market segments within the aerospace and industrial segments, by increasing sales to the aftermarket and by focusing on developing highly customized solutions.

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

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

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

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

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

We have demonstrated expertise in acquiring and integrating bearing and precision engineered component manufacturers that have complementary products or distribution channels and provide significant potential for margin enhancement. We have consistently increased the profitability of acquired businesses through a process of methods and systems improvement coupled with the introduction of complementary and proprietary new products. Since October 1992 we have completed 25 acquisitions, which have broadened our end markets, products, customer base and geographic reach.

The following items highlight the most recent significant events:

In the second quarter of fiscal 2018, the Company reached a decision to restructure its manufacturing operation in Montreal, Canada. After completing its obligations, the Company expects to close its RBC Canada location and consolidate certain residual assets into other locations by the end of this fiscal year. As a result, the Company recorded an after-tax charge of $5.6 million associated with the restructuring in the second quarter of fiscal 2018 attributable to the Engineered Products segment. The $5.6 million charge includes a $1.3 million impairment of fixed assets and a $5.2 million impairment of intangible assets offset by a $0.9 million tax benefit. The impairment charges were recognized within the "Other, net" line item within the consolidated statement of operations. The Company determined that the market approach was the most appropriate method to estimate the fair value of the fixed assets using comparable sales data and actual quotes from potential buyers in the market place. The fixed assets are comprised of land, a building, machinery and equipment. The Company assessed the fair value of the intangible assets in accordance with ASC 360-10, which are comprised of customer relationships, product approvals, tradenames and trademarks. These fair value measurements were classified as Level 3 in the valuation hierarchy. In the third and fourth quarters of fiscal 2018, the Company incurred restructuring charges of $1.1 million and $0.1 million comprised primarily of employee termination costs and building maintenance costs. These costs were recorded within the "Other, net" line item within the consolidated statement of operations and are all attributable to the Engineered Products segment. The cumulative restructuring charges as of the end of the fourth quarter of fiscal 2018, net of taxes, were $6.8 million. The total impact of this restructuring is expected to be between $6.8 million and $7.3 million in after-tax charges, all attributable to the Engineered Products segment, and is expected to conclude in the first quarter of fiscal 2019.

In the third quarter of fiscal 2017, the Company reached a decision to integrate and restructure its industrial manufacturing operation in South Carolina. The Company exited a few smaller product offerings and consolidated two manufacturing facilities into one. These restructuring efforts will better align our manufacturing capacity and market focus. As a result, the Company recorded a charge of $7.1 million associated with the restructuring in the third quarter of fiscal 2017 attributable to the Roller Bearings segment. The $7.1 million charge includes $3.2 million of inventory rationalization costs, $0.3 million in impairment of intangibles, $2.4 million loss on fixed assets disposals, and $1.2 million exit obligation associated with a building operating lease, of which, $0.8 million remains. The reduction of the exit obligation since the third quarter of fiscal 2017 was primarily related to lease payments made. The inventory rationalization costs were recorded in Cost of Sales in the income statement. All other costs were recorded under operating expenses in the "Other, net" category of the income statement. The pre-tax charge of $7.1 million was offset with a tax benefit of approximately $2.2 million. The Company determined that the market approach was the most appropriate method to estimate the fair value for the inventory, intangible assets, equipment and building operating lease using comparable sales data and actual quotes from potential buyers in the market place.

In the first quarter of fiscal 2016, subsequent to the close of the fiscal 2015 year, we acquired Sargent for $500.0 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 $195.0 million and the company has over 750 employees in six facilities in three countries.

Outlook

We ended fiscal 2018 with a backlog of $392.1 million compared to $354.1 million for the same period last fiscal year. Our net sales increased 9.7% year over year due to a 3.7% growth in the aerospace markets and 21.1% in the industrial markets. Excluding RBC Canada, net sales grew 10.0% organically year over year. We expect to see continued growth in the industrial markets resulting from the overall economic improvement of the semi-conductor, energy, mining and general industrial markets. We also anticipate continued growth in aerospace tied to the aircraft build rates, new aircraft introductions and positive movement in defense spending under the new administration.

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 March 31, 2018, we had cash and cash equivalents of $54.2 million of which approximately $45.7 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.

Sources of Revenue

Revenue is generated primarily from sales of products to the industrial market and the aerospace markets. Sales are often made pursuant to sole-source relationships, long-term agreements and purchase orders with our customers. 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 three 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 fiscal 2018, 2.9% of our total net sales were recognized under Ship-In-Place transactions compared to 2.6% in fiscal 2017.

Sales to the industrial market accounted for 38% and 34% of our net sales for the fiscal years 2018 and 2017, respectively. Sales to the aerospace and defense markets accounted for 62% and 66% of our net sales for the same periods.

Aftermarket sales of replacement parts for existing equipment platforms and aftermarket services represented approximately 37% of our net sales for fiscal 2018. We continue to develop our OEM relationships which have established us as a leading supplier on many important industrial, aerospace and defense platforms. Over the past several years, we have experienced increased demand from the replacement parts market, particularly within the diversified industrial sectors; one of our business strategies has been to increase the proportion of sales derived from this sector and from aerospace and defense. We believe these activities increase the stability of our revenue base, strengthen our brand identity and provide multiple paths for revenue growth.

Approximately 12% of our net sales were generated by our international facilities for fiscal 2018 and 2017, respectively. We expect that this proportion will increase as we seek to increase our penetration of foreign markets. Our top ten customers generated 36% and 37% of our net sales in fiscal 2018 and fiscal 2017, respectively. Out of the 36% of net sales generated by our top ten customers during the fiscal year ended March 31, 2018, 21% of net sales were generated by our top four customers compared to 22% for the comparable period last fiscal year.

Cost of Revenues

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

Approximately 10% to 17% of our costs, depending on product mix, are attributable to raw materials and purchased components, a majority of which are related to steel and related products. During fiscal 2018, steel prices remained flat with slight variances up and down throughout the fiscal year. When we do experience raw material inflation, we offset these cost increases by changing our buying patterns, expanding our vendor network and passing through price increases when possible. The overall impact on raw material costs for this fiscal year was not material as a percent change on a year over year basis.

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

Fiscal 2018 Compared to Fiscal 2017

Results of Operations

	FY18	FY17	$ Change	% Change
Net sales	$674.9	$615.4	$ 59.5	9.7 %
Net income	$87.1	$70.6	$ 16.5	23.4 %
Net income per common share: Diluted	$3.58	$2.97		
Weighted average common shares: Diluted	24,363,789	23,784,636		

Net sales increased $59.5 million, or 9.7%, for fiscal 2018 over fiscal 2017. This was mainly the result of a 21.1% increase in net sales to the industrial markets of $44.6 million combined with a 3.7% increase in aerospace net sales of $14.9 million. Organic sales increased 10.0% year over year, with an increase of 21.1% in the industrial markets and 4.1% in the aerospace markets. The increase in industrial sales was mostly attributable to an increase in marine, mining, semicon, energy, and general industrial activity. The increase in aerospace was primarily driven by aerospace OEM, both defense and commercial.

Net income increased by $16.5 million to $87.1 million for fiscal 2018 compared to fiscal 2017. The net income of $87.1 million in fiscal 2018 was affected by restructuring and integration costs of $7.0 million, a $4.9 million tax benefit related to the adoption of ASU 2016-09, the impact of the new tax legislation signed during the third quarter and $0.4 million in foreign exchange loss offset by $0.4 million of discrete tax benefits. Net income for fiscal 2017 was affected by $0.3 million in costs associated with the Sargent acquisition and $4.9 million in costs related to restructuring offset by $0.2 million of discrete tax benefit and $0.2 million of foreign exchange gain.

Gross Margin

	FY18	FY17	$ Change	% Change
Gross Margin	$258.1	$229.6	$28.5	12.4 %
Gross Margin %	38.2 %	37.3 %		

Gross margin increased $28.5 million, or 12.4%, for fiscal 2018 compared to the same period last fiscal year. The increase in gross margin was mainly driven by higher sales and cost efficiencies achieved during the current period. Gross margins in fiscal 2018 were impacted by lower production runs and startup costs on new commercial aerospace programs. Gross margin for fiscal 2017 was affected by $3.2 million of restructuring charges and $0.4 million of purchase accounting adjustments associated with the Sargent acquisition.

Selling, General and Administrative

	FY18	FY17	$ Change	% Change
SG&A	$113.1	$102.9	$ 10.2	9.9 %
% of net sales	16.8 %	16.7 %		

SG&A increased as a percentage of net sales to 16.8% in fiscal 2018 from 16.7% in fiscal 2017. SG&A expenses increased by $10.2 million to $113.1 million for fiscal 2018 compared to fiscal 2017. This increase is primarily due to $1.3 million of additional stock compensation expense, $7.2 million of personnel related expenses, and $1.7 million of other miscellaneous expenses.

Other, Net

	FY18	FY17	$ Change	% Change
Other, net	$16.8	$13.0	$ 3.8	29.8 %
% of net sales	2.5 %	2.1 %		

Other operating expenses for fiscal 2018 totaled $16.8 million compared to $13.0 million for fiscal 2017. For fiscal 2018, other operating expenses were comprised of $9.3 million in amortization of intangibles, $8.0 million of restructuring costs offset by $0.5 million of other income. For fiscal 2017, other operating expenses were comprised of $9.3 million in amortization of intangibles, $4.1 million of restructuring costs, and $0.2 million of miscellaneous costs offset by other income of $0.6 million.

Interest Expense, Net

	FY18	FY17	$ Change	% Change
Interest expense	$ 7.5	$ 8.7	$ (1.2)	(13.8)%
% of net sales	1.1 %	1.4 %		

Interest expense, net, generally consists of interest charged on our debt and amortization of debt issuance costs offset by interest income (see "Liquidity and Capital Resources – Liquidity", below). Interest expense, net was $7.5 million for fiscal 2018 compared to $8.7 million for fiscal 2017. This included amortization of debt issuance costs of $1.4 million for both fiscal 2018 and 2017.

Other Non-Operating Expense

	FY18	FY17	$ Change	% Change
Other non-operating expense	$ 0.8	$ 0.1	$ 0.7	660.2 %
% of net sales	0.1 %	0.0 %		

Other non-operating expense for fiscal 2018 totaled $0.8 million, consisting primarily of $0.6 million of foreign currency expense and $0.2 million of other miscellaneous costs. Other non-operating expense for fiscal 2017 was comprised of $0.2 million of foreign currency gains offset by $0.3 million of other miscellaneous costs.

Income Taxes

	FY18	FY17
Income tax expense	$ 32.7	$ 34.3
Effective tax rate with discrete items	27.3 %	32.7 %
Effective tax rate without discrete items	32.4 %	32.9 %

Income tax expense for fiscal 2018 was $32.7 million compared to $34.3 million for fiscal 2017. Our effective income tax rate for fiscal 2018 was 27.3% compared to 32.7% for fiscal 2017. The effective income tax rate for fiscal 2018 was favorably impacted by the passage of the Tax Cuts and Jobs Act of 2017 ("TCJA" or "the Act") resulting in a net tax benefit of $0.1 million. The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a one-time repatriation tax on undistributed foreign earnings. The Act permanently reduces the U.S. corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under the TCJA, the Company revalued its ending net deferred tax liabilities at March 31, 2018 and recognized a provisional $9.3 million tax benefit in the Company's consolidated statement of operations for the year ended March 31, 2018. The Act also provided for a one-time deemed mandatory repatriation of post-1986 undistributed foreign subsidiary earnings and profits ("E&P") through December 31, 2017. The Company had an estimated $116.5 million of undistributed foreign E&P subject to the one-time mandatory repatriation and recognized a provisional $9.2 million of income tax expense in the Company's consolidated statement of operations for the year ended March 31, 2018.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Act. SAB 118 provides a measurement period, not to exceed one year from the enactment of the Act. In accordance with SAB 118, the Company is required to reflect the income tax effects of those aspects of the Act for which the accounting is complete. To the extent there are areas that are incomplete, but are capable of reasonable estimates, a provisional amount is required to be recorded by the Company. If a reasonable estimate is unable to be calculated, the Company is required to disclose why. The Company has recognized provisional tax impacts related to the one-time mandatory repatriation of foreign earnings and the revaluation of the deferred tax assets and liabilities and included these amounts in its consolidated financial statements for the year ended March 31, 2018.

In fiscal 2018, in addition to the TCJA, the effective income tax rates are different from the U.S. statutory rate due to a special manufacturing deduction and research credit in the U.S. which decrease the rate, and differences in foreign income taxes and state income taxes which increase the rate. The effective income tax rate for fiscal 2018 of 27.3% includes discrete items of $4.2 million benefit which are comprised substantially of a $3.9 million benefit associated with the adoption of ASU No. 2016-09 *Compensation – Stock Compensation (Topic 178) Improvements to Employee Share-Based Payment Accounting* and unrecognized tax benefits associated with the expiration of statutes of limitations. The effective income tax rate for fiscal 2018 without these discrete items would have been 32.4%. The effective income tax rate for fiscal 2017 of 32.7% includes discrete items of $0.2 million which are comprised substantially of unrecognized tax benefits associated with federal and state income tax audits closing and the expiration of statutes of limitations along with other permanent adjustments from filing of the fiscal 2016 tax return. The effective income tax rate for fiscal 2017 without these discrete items would have been 32.9%.

Segment Information

We have four reportable product segments: Plain Bearings, Roller Bearings, Ball Bearings and Engineered Products. We use net sales and gross margin as the primary measurement to assess the financial performance of each reportable segment.

Plain Bearing Segment:

	FY18	FY17	$ Change	% Change
Net sales	$296.7	$277.7	$ 19.0	6.8 %
Gross margin	$115.6	$110.2	$ 5.4	4.9 %
Gross margin %	39.0 %	39.7 %		
SG&A	$26.0	$23.6	$ 2.4	10.2 %
% of segment net sales	8.8 %	8.5 %		

Net sales increased $19.0 million, or 6.8%, for fiscal 2018 compared to fiscal 2017. The net sales increase of $19.0 million for this segment was mostly attributable to a net sales increase to the industrial sector of 15.1% driven primarily by general industrial OEM. Aerospace sales increased by 4.3% primarily driven by the commercial aerospace OEM.

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Gross margin was $115.6 million, or 39.0% of sales, in fiscal 2018 compared to $110.2 million, or 39.7% of sales, for the same period in fiscal 2017. Gross margin in fiscal 2018 was affected by lower production runs and startup costs on commercial aerospace programs.

Roller Bearing Segment:

	FY18	FY17	$ Change	% Change
Net sales	$132.0	$109.5	$ 22.5	20.6 %
Gross margin	$55.0	$41.7	$ 13.3	32.0 %
Gross margin %	41.7 %	38.1 %		
SG&A	$6.3	$6.1	$ 0.2	3.1 %
% of segment net sales	4.8 %	5.6 %		

Net sales increased $22.5 million, or 20.6%, compared to fiscal 2017. This was attributable to a 38.5% increase in net sales to the industrial sector mainly driven by the mining, general industrial and energy markets. Aerospace sales increased 6.6% primarily driven by the defense OEM markets.

The Roller Bearings segment achieved a gross margin of $55.0 million, or 41.7% of sales, in fiscal 2018 compared to $41.7 million, or 38.1% of sales, in fiscal 2017. The increase in gross margin was due to the impact of increased industrial volume as well as cost efficiencies achieved during the year.

Ball Bearing Segment:

	FY18	FY17	$ Change	% Change
Net sales	$67.8	$58.4	$ 9.4	16.0 %
Gross margin	$28.0	$22.8	$ 5.2	22.8 %
Gross margin %	41.2%	39.0%		
SG&A	$6.8	$5.7	$ 1.1	19.7 %

% of segment net sales	10.0%	9.7 %

Net sales increased $9.4 million, or 16.0%, for fiscal 2018 compared to fiscal 2017. This was attributable to net sales increases to the industrial sector of 19.9% driven by the semiconductor, general industrial, and energy markets. Aerospace sales increased 6.5% driven by the aerospace OEM market.

Gross margin for the year was $28.0 million, or 41.2% of sales, compared to $22.8 million, or 39.0% of sales, during fiscal 2017. This increase as a percentage of sales was primarily due to increased volumes and a favorable product mix.

Engineered Products Segment:

	FY18	FY17	$ Change	% Change
Net sales	$178.4	$169.8	$ 8.6	5.1 %
Gross margin	$59.5	$54.9	$ 4.6	8.4 %
Gross margin %	33.4 %	32.4 %		
SG&A	$21.1	$19.1	$ 2.0	10.5 %
% of segment net sales	11.8 %	11.2 %		

Net sales increased $8.6 million or 5.1%, in fiscal 2018 compared to the same period last fiscal year. Our industrial sales increased 14.2% due primarily to marine and European markets during the year. Aerospace sales increased by 0.6% million primarily due to the defense OEM markets. Organically, sales grew by approximately 6.2% in fiscal 2018 compared to the same period last fiscal year.

Gross margin for the year was $59.5 million, or 33.4% of sales compared to $54.9 million or 32.4% of sales during fiscal 2017. Gross margin in fiscal 2018 was affected by lower production runs and startup costs on new commercial aerospace programs however overall margin increased as a result of favorable product mix and other cost efficiencies achieved during the period.

Corporate:

	FY18	FY17	$ Change	% Change
SG&A	$53.0	$48.5	$ 4.5	9.2 %
% of total net sales	7.8 %	7.9 %		

Corporate SG&A increased $4.5 million or 9.2% for fiscal 2018 compared to fiscal 2017. This was primarily due to increases in stock compensation expense of $1.3 million and personnel-related expenses of $3.2 million

Fiscal 2017 Compared to Fiscal 2016

Results of Operations

	FY17	FY16	$ Change	% Change
Net sales	$615.4	$597.5	$ 17.9	3.0 %
Net income	$70.6	$63.9	$ 6.7	10.5 %
Net income per common share: Diluted	$2.97	$2.72		
Weighted average common shares: Diluted	23,784,636	23,508,418		

Net sales increased $17.9 million, or 3.0%, for fiscal 2017 over fiscal 2016. This increase was mainly the result of a 2.9% increase in net sales to the aerospace markets of $11.5 million combined with a 3.1% increase in industrial net sales of $6.4 million. The increase in aerospace net sales was driven by commercial aircraft build rates while the increase in industrial net sales was due to improving conditions in the mining, semiconductor and general industrial markets.

Net income increased by $6.7 million to $70.6 million for fiscal 2017 compared to fiscal 2016. Net income for fiscal 2017 was affected by the after tax impact of $0.3 million in costs associated with the Sargent acquisition and $4.9 million of costs associated with restructuring offset by $0.2 million of discrete tax benefit and $0.2 million of foreign exchange gain. Net income for fiscal 2016 was affected by the after tax impact of $3.4 million in costs and $4.8 million in inventory purchase accounting associated with the Sargent acquisition, $0.7 million of costs associated with integration and restructuring, litigation reserves of $1.1 million and a $0.1 million loss on extinguishment of debt offset by $0.2 million of discrete tax benefit.

Gross Margin

	FY17	FY16	$ Change	% Change
Gross Margin	$229.6	$218.8	$ 10.8	4.9 %
Gross Margin %	37.3 %	36.6 %		

Gross margin increased $10.8 million, or 4.9%, for fiscal 2017 compared to the same period last fiscal year. Gross margin for fiscal 2017 was affected by $3.2 million of restructuring charges and $0.4 million of purchase accounting adjustments associated with the Sargent acquisition. Gross margin for fiscal 2016 was impacted by $7.2 million of purchase accounting adjustments associated with the Sargent acquisition.

Selling, General and Administrative

	FY17	FY16	$ Change	% Change
SG&A	$102.9	$98.7	$ 4.2	4.3 %
% of net sales	16.7 %	16.5 %		

SG&A increased as a percentage of net sales to 16.7% in fiscal 2017 from 16.5% in fiscal 2016. SG&A expenses increased by $4.2 million to $102.9 million for fiscal 2017 compared to fiscal 2016. This increase is primarily due to $1.9 million of additional stock compensation expense, $1.8 million of personnel related expenses, and $0.5 million of other miscellaneous expenses.

Other, Net

	FY17	FY16	$ Change	% Change
Other, net	$13.0	$16.2	$ (3.2)	(19.9)%
% of net sales	2.1 %	2.7 %		

Other operating expenses for fiscal 2017 totaled $13.0 million compared to $16.2 million for fiscal 2016. For fiscal 2017, other operating expenses were comprised of $9.3 million in amortization of intangibles, $4.1 million of restructuring costs, and $0.2 million of miscellaneous costs offset by other income of $0.6 million. For fiscal 2016, other operating expenses were comprised of $9.0 million in amortization of intangibles, $5.1 million of acquisition related costs, $1.7 million in litigation reserves and $1.0 million in integration and restructuring costs offset by other income of $0.6 million.

Interest Expense, Net

	FY17	FY16	$ Change	% Change
Interest expense	$ 8.7	$ 8.7	$ (0.0)	(0.2)%
% of net sales	1.4 %	1.5 %		

Interest expense, net, generally consists of interest charged on our debt and amortization of debt issuance costs offset by interest income (see “Liquidity and Capital Resources – Liquidity”, below). Interest expense, net was $8.7 million for fiscal 2017 compared to $8.7 million for fiscal 2016. This included amortization of debt issuance costs of $1.4 million for fiscal 2017 compared to $1.3 million for fiscal 2016.

Other Non-Operating Expense

	FY17	FY16	$ Change	% Change
Other non-operating expense	$ 0.1	$ 0.3	$ (0.2)	(69.2)%
% of net sales	0.0 %	0.1 %		

Other non-operating expense for fiscal 2017 totaled $0.1 million, consisting primarily of $0.2 million of foreign currency gains offset by $0.3 million of other miscellaneous costs.

Income Taxes

	FY17	FY16
Income tax expense	$34.3	$30.9
Effective tax rate with discrete items	32.7%	32.6%
Effective tax rate without discrete items	32.9%	32.8%

Income tax expense for fiscal 2017 was $34.3 million compared to $30.9 million for fiscal 2016. Our effective income tax rate for fiscal 2017 was 32.7% compared to 32.6% for fiscal 2016. In addition to discrete items, the effective income tax rates are different from the U.S. statutory rate due to a special manufacturing deduction and research credit in the U.S. and foreign income taxed at lower rates which decrease the rate, and state income taxes which increase the rate. The effective income tax rate for fiscal 2017 of 32.7% includes discrete items of $0.2 million which are comprised substantially of unrecognized tax benefits associated with federal and state income tax audits closing and the expiration of statutes of limitations along with other permanent adjustments from the filing of the fiscal 2016 tax return. The effective income tax rate for fiscal 2017 without these discrete items would have been 32.9%. The effective income tax rate for fiscal 2016 of 32.6% includes discrete items of $0.2 million which are comprised substantially of unrecognized tax benefits associated with federal and state income tax audits closing, the expiration of statutes of limitations and an item associated with federal legislation reinstating the U.S. research credit. The effective income tax rate for fiscal 2016 without these discrete items would have been 32.8%.

Segment Information

We have four reportable product segments: Plain Bearings, Roller Bearings, Ball Bearings and Engineered Products. We use net sales and gross margin as the primary measurement to assess the financial performance of each reportable segment.

Plain Bearing Segment:

	FY17	FY16	$ Change	% Change
Net sales	$277.7	$270.5	$ 7.2	2.6 %
Gross margin	$110.2	$103.5	$ 6.7	6.5 %
Gross margin %	39.7 %	38.3 %		
SG&A	$23.6	$21.0	$ 2.6	12.3 %
% of segment net sales	8.5 %	7.8 %		

Net sales increased $7.2 million, or 2.6%, for fiscal 2017 compared to fiscal 2016. The net sales increase of $7.2 million for this segment was mostly attributable to a net sales increase to the aerospace sector of $11.2 million primarily driven by the commercial aerospace build rates. This was offset by a net sales decrease of $4.0 million to the industrial sector, driven mainly by energy and general industrial OEM partly offset by distribution.

Gross margin was $110.2 million, or 39.7% of sales, in fiscal 2017 compared to $103.5 million, or 38.3% of sales, an increase of $6.7 million. The increase in gross margin was primarily due to production efficiencies achieved in conjunction with higher sales volumes. Further, the fiscal 2016 gross margin was impacted by approximately $1.2 million of purchase price adjustments associated with the Sargent acquisition.

Roller Bearing Segment:

	FY17	FY16	$ Change	% Change

Net sales	$109.5	$112.0	$ (2.5)	(2.3)%
Gross margin	$41.7	$47.5	$ (5.8)	(12.2)%
Gross margin %	38.1 %	42.4 %		
SG&A	$6.1	$6.0	$ 0.1	2.7 %
% of segment net sales	5.6 %	5.3 %		

Net sales decreased $2.5 million, or 2.3%, compared to fiscal 2016. This was attributable to net sales decreases to the industrial sector of $6.6 million mainly driven by the energy markets and distribution offset by mining. Aerospace sales increased $4.1 million primarily driven by the commercial OEM markets.

The Roller Bearings segment achieved a gross margin of $41.7 million, or 38.1% of sales, in fiscal 2017 compared to $47.5 million, or 42.4% of sales, in fiscal 2016. The decrease in gross margin was primarily due to the impact of decreased industrial volume during the year and $3.2 million in integration and restructuring charges incurred during the year.

Ball Bearing Segment:

	FY17	FY16	$ Change	% Change
Net sales	$58.4	$53.7	$ 4.7	8.9 %
Gross margin	$22.8	$21.4	$ 1.4	6.7 %
Gross margin %	39.0%	39.8%		
SG&A	$5.7	$5.5	$ 0.2	2.6 %
% of segment net sales	9.7 %	10.3%		

Net sales increased $4.7 million, or 8.9%, for fiscal 2017 compared to fiscal 2016. This was attributable to net sales increases to the industrial sector of $6.6 million due to industrial OEM and distribution associated with the semiconductor and general industrial markets partly offset by decreases to the aerospace and defense market of $1.9 million.

Gross margin for the year was $22.8 million, or 39.0% of sales, compared to $21.4 million, or 39.8% of sales, during fiscal 2016. This decrease as a percentage of sales was primarily due to unfavorable product mix.

Engineered Products Segment:

	FY17	FY16	$ Change	% Change
Net sales	$169.8	$161.2	$ 8.6	5.3 %
Gross margin	$54.9	$46.5	$ 8.4	18.2 %
Gross margin %	32.4 %	28.9 %		
SG&A	$19.1	$19.6	$ (0.5)	(2.9)%
% of segment net sales	11.2 %	12.2 %		

Net sales increased $8.6 million, or 5.3%, in fiscal 2017 compared to the same period last fiscal year. Our industrial sales increased $10.4 million, or 22.9% due primarily to the marine and European collet markets during the year. This was partly offset by a decrease of $1.8 million, or 1.7% in aerospace sales which is mainly due to the defense markets.

Gross margin for the year was $54.9 million, or 32.4% of sales compared to $46.5 million or 28.9% of sales during fiscal 2016. The fiscal 2016 gross margin was impacted by approximately $6.0 million of purchase price adjustments associated with the Sargent acquisition.

Corporate:

	FY17	FY16	$ Change	% Change
SG&A	$48.5	$46.6	$ 1.9	4.0 %
% of total net sales	7.9 %	7.8 %		

Corporate SG&A increased $1.9 million or 4.0% for fiscal 2017 compared to fiscal 2016. This was primarily due to increases in stock compensation expense of $1.9 million.

Liquidity and Capital Resources

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

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

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

Liquidity

As of March 31, 2018, we had cash and cash equivalents of $54.2 million of which approximately $45.7 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.

Credit Facility

In connection with the Sargent Aerospace & Defense (“Sargent”) acquisition on April 24, 2015, the Company entered into a credit agreement (the “Credit Agreement”) and related Guarantee, Pledge Agreement and Security Agreement with Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent, Swingline Lender and Letter of Credit Issuer and the other lenders party thereto and terminated the JP Morgan Credit Agreement. The Credit

Agreement provides RBCA, as Borrower, with (a) a $200.0 million Term Loan and (b) a $350.0 million Revolver and together with the Term Loan (the "Facilities"). The Facilities expire on April 24, 2020.

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 0.00% for base rate loans and 1.00% for LIBOR rate loans. As of March 31, 2018, there was $0.5 million outstanding under the Revolver and $168.8 million outstanding under the Term Loan, offset by $3.0 million in debt issuance costs (original amount was $7.1 million).

The Credit Agreement requires the Company to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA, not to exceed 3.50 to 1; and (2) a consolidated interest coverage ratio not to be less than 2.75 to 1. The Credit Agreement allows the Company to, among other things, make distributions to shareholders, repurchase its stock, incur other debt or liens, or acquire or dispose of assets provided that the Company complies with certain requirements and limitations of the agreement. As of March 31, 2018, the Company was in compliance with all such covenants.

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

Approximately $4.0 million of the Revolver is being utilized to provide letters of credit to secure RBCA's obligations relating to certain insurance programs. As of March 31, 2018, RBCA has the ability to borrow up to an additional $345.5 million under the Revolver.

Other Notes Payable

On October 1, 2012, one of our foreign divisions, 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 March 31, 2018 was 6.7 million CHF, or $7.1 million.

Cash Flows

Fiscal 2018 Compared to Fiscal 2017

The following table summarizes our cash flow activities:

	FY18	FY17	**$ Change**
Net cash provided by (used in):			
Operating activities	$ 130.3	$ 101.3	$ 29.0
Investing activities	(27.9)	(21.4)	(6.5)
Financing activities	(89.9)	(78.8)	(11.1)
Effect of exchange rate changes on cash	2.8	(1.4)	4.2
(Decrease)/increase in cash and cash equivalents	$ 15.3	$ (0.3)	$ 15.6

During fiscal 2018 we generated cash of $130.3 million from operating activities compared to $101.3 million for fiscal 2017. The increase of $29.0 million for fiscal 2018 was mainly the result of an increase in net income of $16.5 million, addition of non-cash charges of $1.2 million and a favorable net change in operating assets and liabilities of $11.3 million.

The following chart summarizes the favorable (unfavorable) change in operating assets and liabilities of $11.3 million for fiscal 2018 versus fiscal 2017 and ($2.3) million for fiscal 2017 versus fiscal 2016.

	FY18	FY17
Cash provided by (used in):		
Accounts receivable	$1.4	$(6.7)
Inventory	(5.4)	16.4
Prepaid expenses and other current assets	3.9	(1.2)
Other non-current assets	(1.0)	(0.5)
Accounts payable	11.9	1.4
Accrued expenses and other current liabilities	(7.8)	(8.8)
Other non-current liabilities	8.3	(2.9)
Total change in operating assets and liabilities:	$11.3	$(2.3)

During fiscal 2018, we used $27.9 million for investing activities as compared to $21.4 for fiscal 2017.

During fiscal 2018, we used $89.9 million for financing activities compared to $78.8 million for fiscal 2017. During fiscal 2018, we paid $84.0 million on the revolving credit facility and $13.8 million on the term loan. The year over year increase in cash used of $11.1 million is due in part to increased payments made on the Term Loan of $3.8 million. In addition, the adoption of Accounting Standards Update ("ASU") No. 2016-09, "*Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*" on April 2, 2017 resulted in the Company electing to prospectively classify all tax-related cash flows resulting from share-based payments, including the excess tax benefits related to the settlement of stock-based awards, as cash flows from operating activities in the statement of cash flows. Prior to the adoption of this standard, these were shown as cash inflows from financing activities and cash outflows from operating activities.

Fiscal 2017 Compared to Fiscal 2016

The following table summarizes our cash flow activities:

	FY17	FY16	**$ Change**
Net cash provided by (used in):			
Operating activities	$101.3	$83.4	$17.9
Investing activities	(21.4)	(520.1)	498.7
Financing activities	(78.8)	349.8	(428.6)
Effect of exchange rate changes on cash	(1.4)	0.7	(2.1)
(Decrease)/increase in cash and cash equivalents	$(0.3)	$(86.2)	$85.9

During fiscal 2017 we generated cash of $101.3 million from operating activities compared to $83.4 million for fiscal 2016. The increase of $17.9 million for fiscal 2017 was mainly the result of an increase in net income of $6.7 million and addition of non-cash charges of $13.5 million, offset by an unfavorable net change in operating assets and liabilities of $2.3 million.

The following chart summarizes the (unfavorable) favorable change in operating assets and liabilities of ($2.3) million for fiscal 2017 versus fiscal 2016 and ($1.6) million for fiscal 2016 versus fiscal 2015.

	FY17	FY16
Cash provided by (used in):		
Accounts receivable	$(6.7)	$1.4
Inventory	16.4	(12.0)
Prepaid expenses and other current assets	(1.2)	(5.3)
Other non-current assets	(0.5)	0.9
Accounts payable	1.4	(2.2)
Accrued expenses and other current liabilities	(8.8)	10.9
Other non-current liabilities	(2.9)	4.7
Total change in operating assets and liabilities:	$(2.3)	$(1.6)

During fiscal 2017, we used $21.4 million for investing activities as compared to $520.1 for fiscal 2016. The decrease of cash used in investing activities of $498.7 million is primarily attributable to the $500.0 million used to finance the acquisition of Sargent during fiscal 2016.

During fiscal 2017, we used $78.8 million from financing activities compared to generating $349.8 million for fiscal 2016. This decrease in cash generated was primarily attributable to the $225.0 million revolving credit facility and $200.0 million proceeds from the term loan associated with the acquisition of Sargent in the first quarter of fiscal 2016. During fiscal 2017, we paid $84.5 million on the revolving credit facility and $10.0 million on the term loan.

Capital Expenditures

Our capital expenditures in fiscal 2018 were $28.0 million. We expect to make capital expenditures of approximately $30.0 to $35.0 million during fiscal 2019 in connection with our existing business. We have funded our fiscal 2018 capital expenditures, and expect to fund fiscal 2019 capital expenditures, principally through existing cash and internally generated funds. We may also make substantial additional capital expenditures in connection with acquisitions.

Contractual Obligations

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Because these estimates are necessarily subjective, our actual payments in future periods are likely to vary from those presented in the table. The following table summarizes certain of our contractual obligations and principal and interest payments under our debt instruments and leases as of March 31, 2018:

	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	$176,323	$19,238	$151,476	$976	$4,633
Operating leases	23,723	6,384	8,581	5,233	3,525
Interest on debt[(2)]	11,189	4,879	5,356	300	654
Pension and postretirement benefits	18,768	1,875	3,837	3,839	9,217
Transition tax on unremitted foreign E&P[(3)]	9,166	733	1,467	1,467	5,499
Total contractual cash obligations	$239,169	$33,109	$170,717	$11,815	$23,528

(1) We cannot make a reasonably reliable estimate of when the unrecognized tax benefits of $11.7 million, which includes interest and penalties, and is offset by deferred tax assets, will be paid to the respective taxing authorities. These obligations are therefore excluded from the above table.

(2) These amounts represent expected cash payments of interest on our variable rate long-term debt under our Facilities at the prevailing interest rates at March 31, 2018.

(3) As discussed further in Note 13, “Income Taxes”, within Part II, Item 8, “Financial Statements and Supplementary Data”, the Tax Cuts and Jobs Acts (“TCJA” or “the Act”), which was enacted in December 2017, includes a transition tax on unremitted foreign earnings and profits (“E&P”). We will elect to pay the estimated amount above over an eight-year period.

Quarterly Results of Operations

Quarter Ended							
Mar. 31, 2018	Dec. 30, 2017	**Sep. 30, 2017**	**July 1, 2017**	**Apr. 1, 2017**	Dec. 31, 2016	**Oct. 1, 2016**	**July 2, 2016**

	(Unaudited)							
	(in thousands, except per share data)							
Net sales	$179,877	$166,858	$164,317	$163,897	$160,210	$146,656	$153,943	$154,579
Gross margin	69,726	64,665	61,811	61,909	63,229	52,385	56,731	57,251
Operating income	37,940	33,123	25,278	31,800	34,389	20,529	29,554	29,221
Net income	$26,677	$23,832	$14,823	$21,809	$21,585	$12,770	$18,228	$18,040
Net income per common share:								
Basic(1)(2)	$1.11	$0.99	$0.62	$0.92	$0.91	$0.54	$0.78	$0.77
Diluted(1)(2)	$1.09	$0.97	$0.61	$0.90	$0.90	$0.54	$0.77	$0.76

(1) See Part II, Item 8. “Financial Statements and Supplementary Data,” Note 2 “Summary of Significant Accounting Policies-Net Income Per Common Share.”

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

Critical Accounting Estimates

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

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 three 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 fiscal 2018, 2.9% of our total net sales were recognized under Ship-In-Place transactions compared to 2.6% in fiscal 2017.

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

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

Goodwill and Indefinite-Lived Intangible Assets. Goodwill (representing the excess of the amount paid to acquire a company over the estimated fair value of the net assets acquired) and Indefinite Lived Intangible Assets are not amortized but instead are tested for impairment annually, or when events or circumstances indicate that the value may have declined. Separate tests are performed for goodwill and indefinite lived intangible assets. We apply a qualitative test of impairment on the indefinite lived intangible assets. This is done by assessing the existence of events or circumstances which would make it more likely than not that impairment is present. No such factors were identified during our current year analysis. The determination of any goodwill impairment is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the goodwill's implied fair value. The Company applies the income approach (discounted cash flow method) in testing goodwill for impairment. The key assumptions used in the discounted cash flow method used to estimate fair value include discount rates, revenue growth rates, terminal growth rates and cash flow projections. Discount rates, growth rates and cash flow projections are the most sensitive and susceptible to change as they require significant management judgment. Discount rates are determined by using a weighted average cost of capital ("WACC"). The WACC considers market and industry data as well as Company-specific risk factors for each reporting unit in determining the appropriate discount rate to be used. The discount rate utilized for each reporting unit for our fiscal 2018 test was 11.0% and is indicative of the return an investor would expect to receive for investing in such a business. Terminal growth rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and long-term growth rates. The terminal growth rate used for our fiscal 2018 test was 2.5%. The Company has determined that, to date, no impairment of goodwill exists and fair value of the reporting units exceeded the carrying value in total by approximately 74.1%. The fair value of the reporting units exceeds the carrying value by a minimum of 24.8% at each of the four reporting units. A decrease of 1.0% in our terminal growth rate would not result in impairment of goodwill for any of our reporting units. An increase of 1.0% in our discount rate would not result in impairment of goodwill for any of our reporting units. The Company performs the annual impairment testing during the fourth quarter of each fiscal year. Although no changes are expected, if the actual results of the Company are less favorable than the assumptions the Company makes regarding estimated cash flows, the Company may be required to record an impairment charge in the future.

Income Taxes. As part of the process of preparing the consolidated financial statements, we are required to estimate the income taxes in each jurisdiction in which we operate. This process involves estimating the actual current tax liabilities together with assessing temporary differences resulting from the differing treatment of items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included in the Consolidated Balance Sheet. We must then assess the likelihood that the deferred tax assets will be recovered, and to the extent that we believe that recovery is not more than likely, we are required to establish a valuation allowance. If a valuation allowance is established or increased during any period, we are required to include this amount as an expense within the tax provision in the Consolidated Statements of Operations. Significant judgment is required in determining our provision for income taxes, deferred tax assets and liabilities, accrual for uncertain tax positions and any valuation allowance recognized against net deferred tax assets.

Pension Plan and Postretirement Health Care. We have a noncontributory defined benefit pension plan covering union employees in our Heim division plant in Fairfield, Connecticut, our Bremen subsidiary plant in Plymouth, Indiana and former union employees of our Tyson subsidiary in Glasgow, Kentucky and Nice subsidiary in Kulpsville, Pennsylvania.

Our pension plan funding policy is to make the minimum annual contribution required by the Employee Retirement Income Security Act of 1974. Plan obligations and annual pension expense are determined by independent actuaries using a number of assumptions provided by us including assumptions about employee demographics, retirement age, compensation levels, pay rates, turnover, expected long-term rate of return on plan assets, discount rate and the amount and timing of claims. Each plan assumption reflects our best estimate of the plan's future experience. The most sensitive assumption in the determination of plan obligations for pensions is the discount rate. The discount rate that we use for determining future pension obligations is based on a review of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. The discount rate determined on this basis was 3.70% at March 31, 2018 and April 1, 2017, respectively. In developing the overall expected long-term rate of return on plan assets assumption, a building block approach was used in which rates of return in excess of inflation were considered separately for equity securities and debt securities. The excess returns were weighted by the representative target allocation and added along with an appropriate rate of inflation to develop the overall expected long-term rate of return on plan assets assumption. The expected long-term rate of return on the assets of our pension plan was 7.00% in fiscal 2018 and fiscal 2017.

Lowering the discount rate assumption used to determine net periodic pension cost by 1.00% (from 3.70% to 2.70%) would have increased our pension expense for fiscal 2018 by approximately $0.3 million. Increasing the discount rate assumption used to determine net periodic pension cost by 1.00% (from 3.70% to 4.70%) would have decreased our pension expense for fiscal 2018 by approximately $0.3 million.

Lowering the expected long-term rate of return on the assets of our pension plan by 1.00% (from 7.00% to 6.00%) would have increased our pension expense for fiscal 2018 by approximately $0.2 million. Increasing the expected long-term rate of return on the assets of our pension plan by 1.00% (from 7.00% to 8.00%) would have reduced our pension expense for fiscal 2018 by approximately $0.2 million.

Lowering the discount rate assumption used to determine the funded status as of March 31, 2018 by 1.00% (from 3.70% to 2.70%) would have increased the projected benefit obligation of our pension plan by approximately $2.7 million. Increasing the discount rate assumption used to determine the funded status as of March 31, 2018 by 1.00% (from 3.70% to 4.70%) would have reduced the projected benefit obligation of our pension plan by approximately $2.2 million.

Our investment program objective is to achieve a rate of return on plan assets which will fund the plan liabilities and provide for required benefits while avoiding undue exposure to risk to the plan and increases in funding requirements. Our long-term target allocation of plan assets is 70% equity and 30% fixed income investments.

Stock-Based Compensation. We recognize compensation cost relating to all share-based payment transactions in the financial statements based upon the grant-date fair value of the instruments issued over the requisite service period.

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

	Fiscal Year Ended		
	March 31, 2018	April 1, 2017	April 2, 2016
Dividend yield	0.00 %	0.00 %	0.00 %
Expected weighted-average life (yrs.)	5.0	5.0	5.0
Risk-free interest rate	2.02 %	1.17 %	1.70 %
Expected volatility	24.17%	28.45%	31.25%

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

Impact of Inflation, Changes in Prices of Raw Materials and Interest Rate Fluctuations

To date, inflation in the economy as a whole has not significantly affected our operations. However, we purchase steel at market prices, which fluctuate as a result of supply and demand in the marketplace. To date, we have generally been able to pass through these price increases through price increases on our products, the assessment of steel surcharges on our customers or entry into long-term agreements with our customers which often contain escalator provisions tied to our invoiced price of steel. However, even if we are able to pass these steel surcharges or price increases to our customers, there may be a time lag of up to 3 months or more between the time a price increase goes into effect and our ability to implement surcharges or price increases, particularly for orders already in our backlog. As a result, our gross margin percentage may decline, and we may not be able to implement other price increases for our products. We offset these cost increases by changing our buying patterns, expanding our vendor network and passing through price increases. The overall impact on costs for the year was immaterial.

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

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

Off-Balance Sheet Arrangements

At March 31, 2018, we have no off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rates. We have exposure to risk associated with interest rates on our short-term and long-term debt obligations entered into as part of our Sargent Aerospace & Defense acquisition on April 24, 2015. We 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 $200.0 million Term Loan and (b) a $350.0 million Revolver and together with the Term Loan (the “Facilities”).

Amounts outstanding under our current credit agreement 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 0.00% for base rate loans and 1.00% for LIBOR rate loans.

Foreign Currency Exchange Rates. As a result of our operations in Europe, we are exposed to risk associated with fluctuating currency exchange rates between the U.S. dollar, the Euro, the Swiss Franc, the Polish Zloty and the Canadian Dollar. Our Swiss operations utilize the Swiss Franc as the functional currency, our French and German operations utilize the Euro as the functional currency, our Polish operations utilize the Polish Zloty as the functional currency. Our Canadian operations utilized the Canadian Dollar as the functional currency, though they are no longer in operation as of March 31, 2018. Foreign currency transaction gains and losses are included in earnings. Approximately 10% of our net sales were impacted by foreign currency fluctuations in fiscal 2018 compared to approximately 11% of our net sales in fiscal 2017. 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 March 31, 2018, we had no derivatives.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of RBC Bearings Incorporated

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of RBC Bearings Incorporated (the Company) as of March 31, 2018 and April 1, 2017, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2018 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2018 and April 1, 2017 and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated May 30, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

[/s/ Ernst & Young LLP]

We have served as the Company’s auditor since 2002.

Stamford, Connecticut

May 30, 2018

RBC Bearings Incorporated

Consolidated Balance Sheets

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

	March 31, 2018	**April 1, 2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$54,163	$38,923
Accounts receivable, net of allowance for doubtful accounts of $1,326 in 2018 and $1,213 in 2017	116,890	109,700
Inventory	306,124	289,594
Prepaid expenses and other current assets	6,473	9,743
Total current assets	483,650	447,960
Property, plant and equipment, net	192,513	183,625
Goodwill	268,124	268,042
Intangible assets, net of accumulated amortization of $38,880 in 2018 and $30,191 in 2017	183,764	196,801
Other assets	14,700	12,419
Total assets	$1,142,751	$1,108,847

See accompanying notes.

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RBC Bearings Incorporated

Consolidated Balance Sheets (continued)

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

	March 31, 2018	**April 1, 2017**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$45,188	$34,392
Accrued expenses and other current liabilities	40,777	44,532
Current portion of long-term debt	19,238	14,214
Total current liabilities	105,203	93,138
Long-term debt, less current portion	154,117	255,586
Deferred income taxes	11,749	12,036
Other non-current liabilities	37,130	31,043
Total liabilities	308,199	391,803
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, $.01 par value; authorized shares: 10,000,000 in 2018 and 2017; none issued or outstanding	—	—
Common stock, $.01 par value; authorized shares: 60,000,000 in 2018 and 2017; issued shares: 25,123,694 in 2018 and 24,757,803 in 2017; outstanding shares: 24,105,029 in 2018 and 23,771,481 in 2017	251	248
Additional paid-in capital	339,148	312,474
Accumulated other comprehensive income	(2,285)	(9,823)
Retained earnings	536,978	448,693
Treasury stock, at cost, 713,687 shares in 2018 and 667,931 shares in 2017	(39,540)	(34,548)
Total stockholders' equity	834,552	717,044
Total liabilities and stockholders' equity	$1,142,751	$1,108,847

See accompanying notes.

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RBC Bearings Incorporated

Consolidated Statements of Operations

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

	Fiscal Year Ended		
	March 31,	**April 1,**	**April 2,**
	2018	**2017**	**2016**
Net sales	$674,949	$615,388	$597,472
Cost of sales	416,838	385,792	378,694
Gross margin	258,111	229,596	218,778
Operating expenses:			
Selling, general and administrative	113,124	102,922	98,721
Other, net	16,846	12,981	16,216
Total operating expenses	129,970	115,903	114,937
Operating income	128,141	113,693	103,841
Interest expense, net	7,507	8,706	8,722
Other non-operating expense	783	103	334
Income before income taxes	119,851	104,884	94,785
Provision for income taxes	32,710	34,261	30,891
Net income	$87,141	$70,623	$63,894
Net income per common share:			
Basic	$3.64	$3.00	$2.75
Diluted	$3.58	$2.97	$2.72
Weighted average common shares:			
Basic	23,948,565	23,521,615	23,208,686
Diluted	24,363,789	23,784,636	23,508,418

See accompanying notes.

RBC Bearings Incorporated

Consolidated Statements of Comprehensive Income

(dollars in thousands)

	Fiscal Year Ended		
	March 31,	**April 1,**	**April 2,**
	2018	**2017**	**2016**
Net income	$87,141	$70,623	$63,894
Pension and postretirement liability adjustments, net of taxes of $415	1,383	1,331	465
Foreign currency translation adjustments	6,155	(4,164)	315
Total comprehensive income	$94,679	$67,790	$64,674

See accompanying notes.

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RBC Bearings Incorporated

Consolidated Statements of Stockholders' Equity

(dollars in thousands)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained Earnings (Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Income/(Loss)	Deficit)	Shares	Amount	Equity
Balance at March 28, 2015	23,833,185	$ 238	$ 262,091	$ (7,770)	$ 314,176	(439,864)	$ (19,302)	$ 549,433
Net income	—	—	—	—	63,894	—	—	63,894
Stock-based compensation	—	—	10,200	—	—	—	—	10,200
Repurchase of common stock	—	—	—	—	—	(163,171)	(10,492)	(10,492)
Exercise of equity awards	171,319	3	4,580	—	—	—	—	4,583
Change in net prior service cost and actuarial losses, net of taxes of $276	—	—	—	465	—	—	—	465
Issuance of restricted stock	142,263	—	—	—	—	—	—	—
Income tax benefit on exercise of non-qualified common stock options	—	—	2,549	—	—	—	—	2,549
Currency translation adjustments	—	—	—	315	—	—	—	315
Balance at April 2, 2016	24,146,767	241	279,420	(6,990)	378,070	(603,035)	(29,794)	620,947
Net income	—	—	—	—	70,623	—	—	70,623
Stock-based compensation	—	—	12,111	—	—	—	—	12,111
Repurchase of common stock	—	—	—	—	—	(64,896)	(4,754)	(4,754)
	456,826	7	16,163	—	—	—	—	16,170

Exercise of equity awards								
Change in net prior service cost and actuarial losses, net of taxes of $782	—	—	—	1,331	—	—	—	1,331
Issuance of restricted stock	154,210	—	—	—	—	—	—	—
Income tax benefit on exercise of non-qualified common stock options	—	—	4,780	—	—	—	—	4,780
Currency translation adjustments	—	—	—	(4,164)	—	—	—	(4,164)
Balance at April 1, 2017	24,757,803	248	312,474	(9,823)	448,693	(667,931)	(34,548)	717,044
Net income	—	—	—	—	87,141	—	—	87,141
Stock-based compensation	—	—	13,403	—	—	—	—	13,403
Repurchase of common stock	—	—	—	—	—	(45,756)	(4,992)	(4,992)
Exercise of equity awards	255,732	3	13,271	—	—	—	—	13,274
Change in net prior service cost and actuarial losses, net of taxes of $415	—	—	—	1,383	—	—	—	1,383
Issuance of restricted stock	110,159	—	—	—	—	—	—	—
Impact from adoption of ASU 2016-09	—	—	—	—	1,144	—	—	1,144
Currency translation adjustments	—	—	—	6,155	—	—	—	6,155
Balance at March 31, 2018	25,123,694	$ 251	$ 339,148	$ (2,285)	$ 536,978	(713,687)	$ (39,540)	$ 834,552

See accompanying notes.

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RBC Bearings Incorporated

Consolidated Statements of Cash Flows

(dollars in thousands)

	Fiscal Year Ended		
	March 31, 2018	**April 1, 2017**	**April 2, 2016**
Cash flows from operating activities:			
Net income	$87,141	$70,623	$63,894
Adjustments to reconcile net income to net cash provided by operating activities:			