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filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer
Emerging growth company

(Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting 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

As of October 24, 2017, RBC Bearings Incorporated had 24,245,194 shares of Common Stock outstanding.

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Part I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2017	April 1, 2017
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$42,885	\$38,923
Accounts receivable, net of allowance for doubtful accounts of \$1,465 at September 30, 2017 and \$1,213 at April 1, 2017	109,688	109,700
Inventory	297,259	289,594
Prepaid expenses and other current assets	8,027	9,743
Total current assets	457,859	447,960
Property, plant and equipment, net	186,703	183,625
Goodwill	268,123	268,042
Intangible assets, net of accumulated amortization of \$34,302 at September 30, 2017 and \$30,191 at April 1, 2017	187,988	196,801
Other assets	13,973	12,419
Total assets	\$1,114,646	\$1,108,847
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$38,544	\$34,392
Accrued expenses and other current liabilities	42,626	44,532
Current portion of long-term debt	16,727	14,214
Total current liabilities	97,897	93,138
Deferred income taxes	12,022	12,036
Long-term debt, less current portion	203,501	255,586
Other non-current liabilities	31,906	31,043
Total liabilities	345,326	391,803
Stockholders' equity:		

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Preferred stock, \$.01 par value; authorized shares: 10,000,000 at September 30, 2017 and April 1, 2017; none issued and outstanding	—	—
Common stock, \$.01 par value; authorized shares: 60,000,000 at September 30, 2017 and April 1, 2017; issued and outstanding shares: 24,948,512 at September 30, 2017 and 24,757,803 at April 1, 2017	249	248
Additional paid-in capital	325,517	312,474
Accumulated other comprehensive loss	(5,011)	(9,823)
Retained earnings	486,469	448,693
Treasury stock, at cost, 701,068 shares at September 30, 2017 and 667,931 shares at April 1, 2017	(37,904)	(34,548)
Total stockholders' equity	769,320	717,044
Total liabilities and stockholders' equity	\$1,114,646	\$1,108,847

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net sales	\$164,317	\$153,943	\$328,214	\$308,522
Cost of sales	102,506	97,212	204,494	194,540
Gross margin	61,811	56,731	123,720	113,982
Operating expenses:				
Selling, general and administrative	27,595	25,188	55,373	50,984
Other, net	8,938	1,989	11,269	4,223
Total operating expenses	36,533	27,177	66,642	55,207
Operating income	25,278	29,554	57,078	58,775
Interest expense, net	1,914	2,255	3,943	4,548
Other non-operating expense	64	149	436	267
Income before income taxes	23,300	27,150	52,699	53,960
Provision for income taxes	8,477	8,922	16,067	17,692
Net income	\$14,823	\$18,228	\$36,632	\$36,268
Net income per common share:				
Basic	\$0.62	\$0.78	\$1.53	\$1.55
Diluted	\$0.61	\$0.77	\$1.51	\$1.53
Weighted average common shares:				
Basic	23,946,360	23,470,650	23,875,749	23,395,614
Diluted	24,309,593	23,712,717	24,250,740	23,670,000

See accompanying notes.

RBC Bearings Incorporated

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net income	\$ 14,823	\$ 18,228	\$ 36,632	\$ 36,268
Pension and postretirement liability adjustments, net of taxes	196	233	392	467
Foreign currency translation adjustments	(25)	(376)	4,420	(1,805)
Total comprehensive income	\$ 14,994	\$ 18,085	\$ 41,444	\$ 34,930

See accompanying notes.

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

	Six Months Ended September 30, 2017	October 1, 2016	
Cash flows from operating activities:			
Net income	\$ 36,632	\$ 36,268	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	9,500	9,109	
Excess tax benefits from stock-based compensation	—	(3,019))
Deferred income taxes	874	991	
Amortization of intangible assets	4,738	4,590	
Amortization of deferred financing costs	712	712	
Stock-based compensation	6,630	5,952	
Other non-cash charges	20	41	
Gain on acquisition	—	(293))
Impairment charges	5,577	—	
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	396	(1,090))
Inventory	(6,804)	(5,720))
Prepaid expenses and other current assets	1,674	(1,937))
Other non-current assets	(2,371)	(1,527))

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Accounts payable	4,054	(399)	
Accrued expenses and other current liabilities	(156)	(3,943)
Other non-current liabilities	2,486	(1,222)	
Net cash provided by operating activities	63,962	38,513		
Cash flows from investing activities:				
Purchase of property, plant and equipment	(12,667)	(9,621)
Proceeds from sale of assets	18	16		
Business acquisition	—	(651)	
Net cash used in investing activities	(12,649)	(10,256)
Cash flows from financing activities:				
Repayments of revolving credit facility	(44,000)	(29,000)
Repayments of term loans	(6,250)	(5,000)
Payments of notes payable	(239)	(239)
Exercise of stock options	6,414	4,778		
Excess tax benefits from stock-based compensation	—	3,019		
Repurchase of common stock	(3,356)	(3,530)
Net cash used in financing activities	(47,431)	(29,972)
Effect of exchange rate changes on cash	80	(31)	
Cash and cash equivalents:				
Increase (decrease) during the period	3,962	(1,746)	
Cash, at beginning of period	38,923	39,208		
Cash, at end of period	\$ 42,885	\$ 37,462		

See accompanying notes.

RBC Bearings Incorporated

Notes to Unaudited Interim Consolidated Financial Statements

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

The consolidated financial statements included herein have been prepared by RBC Bearings Incorporated, a Delaware corporation (collectively with its subsidiaries, the “Company”), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The April 1, 2017 fiscal year end balance sheet data have been derived from the Company’s audited financial statements, but do not include all disclosures required by generally accepted accounting principles in the United States. The interim financial statements included with this report have been prepared on a consistent basis with the Company’s audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended April 1, 2017.

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

The results of operations for the three month period ended September 30, 2017 are not necessarily indicative of the operating results for the entire fiscal year ending March 31, 2018. The three month periods ended September 30, 2017 and October 1, 2016 each include 13 weeks. The amounts shown are in thousands, unless otherwise indicated.

Critical Accounting Policies

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

We also recognize revenue on a Ship-In-Place basis for 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 the three months ended September 30, 2017, 2.1% of the Company's total net sales were recognized under Ship-In-Place transactions.

Adoption of Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting", in an effort to reduce diversity in practice as it relates to applying modification accounting for changes to the terms and conditions of share-based payment awards. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”, in an effort to improve the presentation of these costs within the income statement. Under current GAAP, all components of both net periodic pension cost and net periodic postretirement cost are included within selling, general and administrative costs on the income statement. This ASU would require entities to include only the service cost component within selling, general and administrative costs whereas all other components would be included within other non-operating expense. In addition, only the service cost component would be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset). The amendments in this Update should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. The objective of this standard update is to simplify the subsequent measurement of goodwill, eliminating Step 2 from the goodwill impairment test. Under this ASU, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity would recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, assuming the loss recognized does not exceed the total amount of goodwill for the reporting unit. The standard update is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, “Income Taxes (Topic 740)”, in an effort to improve the accounting for the income tax consequences of intra-equity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This ASU establishes the requirement that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This ASU is effective for public companies for the financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period, with any adjustments reflected as of the

beginning of the fiscal year of adoption. The Company has not determined the effect that the adoption of the pronouncement may have on its statements of cash flows.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" which amends ASC Topic 718, Compensation - Stock Compensation. This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The Company adopted this standard on April 2, 2017. As a result of the adoption, the Company began recording the tax effects associated with stock-based compensation through the income statement on a prospective basis which resulted in a tax benefit of \$2.7 million for the first six months of fiscal 2018. Prior to adoption, these amounts would have been recorded as an increase to additional paid-in capital. This change may create volatility in the Company's effective tax rate. The adoption of this standard also resulted in a cumulative effect change to opening retained earnings of \$1.1 million for previously unrecognized excess tax benefits.

In addition, the Company will 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.

The adoption of the ASU also resulted in the Company removing the excess tax benefits from the assumed proceeds available to repurchase shares when calculating diluted earnings per share on a prospective basis. The revised calculation increased the diluted weighted average common shares outstanding by approximately 0.1 million shares in the period of adoption. The Company also made an accounting policy election to continue to estimate forfeitures as it did prior to adoption.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." The core principal of ASU 2016-02 is that an entity should recognize on its balance sheet assets and liabilities arising from a lease. In accordance with that principle, ASU 2016-02 requires that a lessee recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying leased asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on the lease classification as a finance or operating lease. This new accounting guidance is effective for public companies for fiscal years beginning after December 15, 2018 under a modified retrospective approach and early adoption is permitted. The Company is currently evaluating the impact this adoption will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." This update requires the company to measure inventory using the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU applies to companies measuring inventory using methods other than the last-in, first-out (LIFO) and retail inventory methods, including but not limited to the first-in, first-out (FIFO) or average costing methods. The Company adopted this ASU on a prospective basis on April 2, 2017 and it did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The objective of this standard update is to remove inconsistent practices with regards to revenue recognition between U.S. GAAP and IFRS. The standard intends to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The provisions of ASU No. 2014-09 will be effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016.

The guidance permits use of either a retrospective or cumulative effect transition method. Based upon the FASB's decision to approve a one-year delay in implementation, the new standard is now effective for the Company in fiscal 2019, with early adoption permitted, but not earlier than fiscal 2018. The Company has concluded it will utilize the modified retrospective method upon adopting this standard.

The Company is currently assessing the impact of the new standard on its business by reviewing its current accounting policies and practices to identify potential differences that would result from applying the requirements of the new

standard to its revenue contracts. The assessment phase of the project has identified potential accounting and disclosure differences that may arise from the application of the new standard. The Company is in the process of reviewing individual contracts and performing a deeper analysis of the impacts of the new standard. The Company has made significant progress on its contract reviews and expects to finalize its evaluation of these and other potential differences that may result from applying the new standard to its contracts with customers in fiscal 2018. The Company will provide updates on its progress in future filings.

1. Accumulated Other Comprehensive Income (Loss)

The components of comprehensive income (loss) that relate to the Company are net income, foreign currency translation adjustments and pension plan and postretirement benefits.

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

	Currency Translation	Pension and Postretirement Liability	Total
Balance at April 1, 2017	\$ (3,942)	\$ (5,881)	\$(9,823)
Other comprehensive income before reclassifications	4,420	—	4,420
Amounts reclassified from accumulated other comprehensive income	—	392	392
Net current period other comprehensive income	4,420	392	4,812
Balance at September 30, 2017	\$ 478	\$ (5,489)	\$(5,011)

2. Net Income Per Common Share

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

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

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

	Three Months Ended September 30, 2017		Six Months Ended September 30, 2017	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net income	\$ 14,823	\$ 18,228	\$ 36,632	\$ 36,268
Denominator for basic net income per common share—weighted-average shares outstanding	23,946,360	23,470,650	23,875,749	23,395,614
Effect of dilution due to employee stock awards	363,233	242,067	374,991	274,386
Denominator for diluted net income per common share — weighted-average shares outstanding	24,309,593	23,712,717	24,250,740	23,670,000

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Basic net income per common share	\$0.62	\$0.78	\$1.53	\$1.55
Diluted net income per common share	\$0.61	\$0.77	\$1.51	\$1.53

At September 30, 2017, 171,500 employee stock options have been excluded from the calculation of diluted earnings per share. At October 1, 2016, 400,750 employee stock options have been excluded from the calculation of diluted earnings per share. The inclusion of these employee stock options would be anti-dilutive.

3. Cash and Cash Equivalents

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

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

4. Inventory

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

	September 30, 2017	April 1, 2017
Raw materials	\$ 36,597	\$35,364
Work in process	83,242	79,048
Finished goods	177,420	175,182
	\$ 297,259	\$289,594

5. Goodwill and Intangible Assets

Goodwill

	Roller	Plain	Ball	Engineered Products	Total
April 1, 2017	\$16,007	\$79,597	\$5,623	\$ 166,815	\$268,042
Translation adjustments	—	—	—	81	81
September 30, 2017	\$16,007	\$79,597	\$5,623	\$ 166,896	\$268,123

Intangible Assets

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		September 30, 2017		April 1, 2017	
	Weighted Average Useful Lives	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product approvals	24	\$50,878	\$ 7,294	\$53,869	\$ 6,465
Customer relationships and lists	24	106,583	14,355	107,864	12,308
Trade names	10	18,734	5,834	19,923	5,137
Distributor agreements	5	722	722	722	722
Patents and trademarks	16	9,379	4,481	8,803	4,130
Domain names	10	437	408	437	386
Other	6	1,357	1,208	1,174	1,043
		188,090	34,302	192,792	30,191
Non-amortizable repair station certifications	n/a	34,200	—	34,200	—
Total		\$222,290	\$ 34,302	\$226,992	\$ 30,191

Amortization expense for definite-lived intangible assets for the six month periods ended September 30, 2017 and October 1, 2016 was \$4,738 and \$4,590, respectively. Estimated amortization expense for the remaining six months of fiscal 2018, the five succeeding fiscal years and thereafter is as follows:

2018	\$4,523
2019	8,855
2020	8,747
2021	8,696
2022	8,579
2023	8,494
2024 and thereafter	105,894

6. Debt

The balances payable under all borrowing facilities are as follows:

	September 30, 2017	April 1, 2017
Revolver and term loan facilities	\$ 216,750	\$ 267,000
Debt issuance costs	(3,680)	(4,392)
Other	7,158	7,192
Total debt	220,228	269,800
Less: current portion	16,727	14,214
Long-term debt	\$ 203,501	\$ 255,586

The current portion of long-term debt as of both September 30, 2017 and April 1, 2017 includes the current portion of the Schaublin mortgage and the current portion of the Term Loan Facilities.

Credit Facility

In connection with the Sargent Aerospace & Defense (“Sargent”) acquisition on April 24, 2015, the Company entered into a new 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 \$200,000 Term Loan and (b) a \$350,000 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 September 30, 2017, there was \$40,500 outstanding under the Revolver and \$176,250 outstanding under the Term Loan, offset by \$3,680 in debt issuance costs (original amount was \$7,122).

The Credit Agreement requires the Company to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA, not to exceed 3.50 to 1; and (2) a consolidated interest coverage ratio not to 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 September 30, 2017, the Company was in compliance with all such covenants.

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

Approximately \$3,840 of the Revolver is being utilized to provide letters of credit to secure RBCA's obligations relating to certain insurance programs. As of September 30, 2017, RBCA has the ability to borrow up to an additional \$305,660 under the Revolver.

Other Notes Payable

On October 1, 2012, Schaublin purchased the land and building, which it occupied and had been leasing, for 14,067 CHF (approximately \$14,910). Schaublin obtained a 20 year fixed rate mortgage of 9,300 CHF (approximately \$9,857) at an interest rate of 2.9%. The balance of the purchase price of 4,767 CHF (approximately \$5,053) was paid from cash on hand. The balance on this mortgage as of September 30, 2017 was 6,975 CHF, or \$7,158.

7. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to state or foreign income tax examinations by tax authorities for years ending before April 2, 2005. The Company is no longer subject to U.S. federal tax examination by the Internal Revenue Service for years ending before March 29, 2014. A U.S. federal tax examination by the Internal Revenue Service for the year ended March 30, 2013 was effectively settled in fiscal 2016.

The effective income tax rates for the three month periods ended September 30, 2017 and October 1, 2016, were 36.4% and 32.9%. In addition to discrete items, the effective income tax rates for these periods are different from the U.S. statutory rates due to a special U.S. manufacturing deduction, the U.S. credit for increasing research activities, and foreign income taxed at lower rates which decrease the rate, and state income taxes which increase the rate.

The effective income tax rate for the three month period ended September 30, 2017 of 36.4% was impacted by approximately \$917 of benefit associated with restructuring and integration activities, \$405 of benefit associated with the adoption of ASU 2016-09 *Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting* and \$134 of other discrete benefits related to state tax filing positions. The effective income tax rate for the three month period ended October 1, 2016 of 32.9% includes immaterial discrete items of \$33.

The Company believes it is reasonably possible that some of its unrecognized tax positions may be effectively settled within the next twelve months due to the closing of audits and the statute of limitations expiring in varying jurisdictions. The decrease, pertaining primarily to credits and state tax, is estimated to be approximately \$531.

8. Reportable Segments

The Company operates through operating segments for which separate financial information is available, and for which operating results are evaluated regularly by the Company's chief operating decision maker in determining resource allocation and assessing performance. Those operating segments with similar economic characteristics and that meet all other required criteria, including nature of the products and production processes, distribution patterns and classes of customers, are aggregated as reportable segments.

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

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

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

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

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

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

	Three Months Ended		Six Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net External Sales				
Plain	\$72,392	\$68,835	\$145,045	\$139,285
Roller	32,317	26,795	63,730	54,629
Ball	16,480	14,569	32,260	28,279
Engineered Products	43,128	43,744	87,179	86,329
	\$164,317	\$153,943	\$328,214	\$308,522
Gross Margin				
Plain	\$27,728	\$26,603	\$56,104	\$53,157
Roller	12,897	11,496	25,652	23,785
Ball	6,740	5,183	12,915	10,487
Engineered Products	14,446	13,449	29,049	26,553
	\$61,811	\$56,731	\$123,720	\$113,982
Selling, General & Administrative Expenses				
Plain	\$6,323	\$5,825	\$12,772	\$11,815
Roller	1,641	1,526	3,212	2,967
Ball	1,680	1,317	3,295	2,779
Engineered Products	5,122	4,413	10,399	9,306
Corporate	12,829	12,107	25,695	24,117
	\$27,595	\$25,188	\$55,373	\$50,984
Operating Income				
Plain	\$20,662	\$19,867	\$41,823	\$39,630
Roller	11,236	10,406	22,419	21,194
Ball	5,020	3,724	9,515	7,438
Engineered Products	805	7,786	9,022	14,733
Corporate	(12,445)	(12,229)	(25,701)	(24,220)
	\$25,278	\$29,554	\$57,078	\$58,775
Geographic External Sales				
Domestic	\$144,997	\$135,240	\$288,023	\$270,417
Foreign	19,320	18,703	40,191	38,105
	\$164,317	\$153,943	\$328,214	\$308,522
Intersegment Sales				
Plain	\$1,397	\$889	\$2,553	\$2,102
Roller	2,884	4,264	6,293	8,248
Ball	624	326	1,152	841
Engineered Products	7,848	6,899	16,021	14,416
	\$12,753	\$12,378	\$26,019	\$25,607

All intersegment sales are eliminated in consolidation.

9. Integration and Restructuring of Operations

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 \$5,577 associated with the restructuring in the second quarter of fiscal 2018 attributable to the Engineered Products segment. The \$5,577 charge includes a \$1,337 impairment of fixed assets and a \$5,157 impairment of intangible assets offset by a \$917 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.

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

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

Cautionary Statement As To Forward-Looking Information

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

The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “would” and similar are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation: (a) the bearing and engineered products industries are highly competitive, and this competition could reduce our profitability or limit our ability to grow; (b) the loss of a major customer could result in a material reduction in our revenues and profitability; (c) weakness in any of the industries in which our customers operate, as well as the cyclical nature of our customers’ businesses generally, could materially reduce our revenues and profitability; (d) future reductions or changes in U.S. government spending could negatively affect our business; (e) fluctuating or interruption to supply, and availability of raw materials, components and energy resources could materially increase our costs or reduce our revenues, cash flow from operations and profitability; (f) our products are subject to certain approvals, and the loss of such approvals could materially reduce our revenues and profitability; (g) restrictions in our indebtedness agreements could limit our growth and our ability to respond to changing conditions; (h) work stoppages and other labor problems could materially reduce our ability to operate our business; (i) our business is capital intensive and may consume cash in excess of cash flow from our operations; (j) unexpected equipment failures, catastrophic events or capacity constraints may increase our costs and reduce our sales due to production curtailments or shutdowns; (k) we may not be able to continue to make the acquisitions necessary for us to realize our growth strategy; (l) the costs and difficulties of integrating acquired businesses could impede our future growth; (m) we depend heavily on our senior management and other key personnel, the loss of whom could materially affect our financial performance and prospects; (n) our international operations are subject to risks inherent in such activities; (o) currency translation risks may have a material impact on our results of operations; (p) we may be required to make significant future contributions to our pension plan; (q) we may incur material losses for product liability and recall related claims; (r) environmental regulations impose substantial costs and limitations on our operations, and environmental compliance may be more costly than we expect; (s) our intellectual property and other proprietary rights are valuable, and any inability to protect them could adversely affect our business and results of operations; in addition, we may be subject to infringement claims by third parties; (t) cancellation of orders in our backlog of orders could negatively impact our revenues; (u) if we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud; (v) provisions in our charter documents may prevent or hinder efforts to acquire a controlling interest in us; (w) health care reform could adversely affect our operating results; (x) we may not pay cash dividends in the foreseeable future; (y) retirement of commercial aircraft could reduce our revenues, and (z) we may not achieve satisfactory operating results in the integration of acquired companies. Additional information regarding these and other risks and uncertainties is contained in our periodic filings with the SEC, including, without limitation, the risks identified under the heading “Risk Factors” set forth in the Annual Report on Form 10-K for the year ended April 1, 2017. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not intend, and undertake no obligation, to update or alter any forward-looking statement. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Quarterly Report.

Overview

We are a well-known international manufacturer and maker of highly engineered precision bearings and components. Our precision solutions are integral to the manufacture and operation of most machines and mechanical systems, reduce wear to moving parts, facilitate proper power transmission and reduce damage and energy loss caused by friction. While we manufacture products in all major bearings categories, we focus primarily on the higher end of the bearing and engineered component markets where we believe our value added manufacturing and engineering capabilities enable us to differentiate ourselves from our competitors and enhance profitability. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. With 45 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 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 consist of several sub-classes, including rod end bearings, spherical plain bearings and journal bearings. Unlike ball bearings, which are used in high-speed rotational applications, plain bearings are primarily used to rectify inevitable misalignments in various mechanical components.

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

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

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

Purchasers of bearings and engineered products include industrial equipment and machinery manufacturers, producers of commercial and military aerospace equipment such as missiles and radar systems, agricultural machinery manufacturers, construction, energy, mining, marine and specialized equipment manufacturers, marine products, automotive and commercial truck manufacturers. The markets for our products are cyclical, and we have endeavored to mitigate this cyclical nature by entering into sole-source relationships and long-term purchase agreements, through diversification across multiple market segments within the aerospace and defense and diversified industrial segments, by increasing sales to the aftermarket and by focusing on developing highly customized solutions.

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

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

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

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

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

Outlook

Our net sales for the three month period ended September 30, 2017 increased 6.7% compared to the same period last fiscal year. Our industrial markets increased 22.9% while the aerospace markets decreased 1.2%. Our backlog, as of September 30, 2017, was \$390.2 million compared to \$341.8 million as of October 1, 2016.

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 September 30, 2017, we had cash and cash equivalents of \$42.9 million of which approximately \$37.9 million was cash held by our foreign operations. We expect that our undistributed foreign earnings will be re-invested indefinitely for working capital, internal growth and acquisitions for and by our foreign entities.

Results of Operations**(dollars in millions)**

	Three Months Ended		\$	%	
	September 30, 2017	October 1, 2016			
Total net sales	\$164.3	\$153.9	\$ 10.4	6.7	%
Net income	\$14.8	\$18.2	\$ (3.4)	(18.7)	%
Net income per common share: diluted	\$0.61	\$0.77			
Weighted average common shares: diluted	24,309,593	23,712,717			

Our net sales for the three month period ended September 30, 2017 increased 6.7% compared to the same period last fiscal year. The overall increase in net sales was a result of a 22.9% increase in our industrial markets partially offset by a decrease of 1.2% in our aerospace markets. The increase in industrial was a result of strong performance in marine, mining, semicon, energy, and general industrial activity. The decline in aerospace sales was mainly due to timing on commercial OEM.

Net income for the second quarter of fiscal 2018 was \$14.8 million compared to \$18.2 million for the same period last year. Net income of \$14.8 million in the second quarter of fiscal 2018 was affected by restructuring and integration costs of \$5.6 million, a \$0.4 million tax benefit related to the adoption of ASU 2016-09, and \$0.1 million of discrete tax benefits. Net income for the second quarter of fiscal 2017 was affected by \$0.2 million of costs related to restructuring and discrete tax expense.

	Six Months Ended		\$	%	
	September 30, 2017	October 1, 2016			
Total net sales	\$328.2	\$308.5	\$ 19.7	6.4	%
Net income	\$36.6	\$36.3	\$ 0.3	1.0	%
Net income per common share: diluted	\$1.51	\$1.53			
Weighted average common shares: diluted	24,250,740	23,670,000			

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Net sales increased \$19.7 million or 6.4% for the six month period ended September 30, 2017 over the same period last year. The increase in net sales was mainly the result of a 17.3% increase in industrial sales and an increase of 0.8% in aerospace sales. 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 defense OEM.

Net income for the six months ended September 30, 2017 was \$36.6 million compared to \$36.3 million for the same period last year. The net income of \$36.6 million in fiscal 2018 was affected by restructuring and integration costs of \$5.6 million, a \$2.7 million tax benefit related to the adoption of ASU 2016-09, and \$0.2 million of discrete tax benefits. Net income for the first six months of fiscal 2017 was affected by \$0.3 million in costs associated with the Sargent acquisition and \$0.1 million in costs related to restructuring offset by \$0.2 million of discrete tax benefit.

Gross Margin

	Three Months Ended				
	September	October			
	30,	1,	\$	%	
	2017	2016	Change	Change	
Gross Margin	\$61.8	\$ 56.7	\$ 5.1	9.0	%
Gross Margin %	37.6%	36.9 %			

Gross margin increased \$5.1 million, or 9.0%, in the second quarter of fiscal 2018 compared to the second quarter of fiscal 2017. This was mainly driven by higher sales during the current period.

	Six Months Ended				
	September	October			
	30,	1,	\$	%	
	2017	2016	Change	Change	
Gross Margin	\$123.7	\$ 114.0	\$ 9.7	8.5	%
Gross Margin %	37.7 %	36.9 %			

Gross margin increased \$9.7 million or 8.5% for the first six months of fiscal 2018 compared to the same period last year. Gross margin for the first six months of fiscal 2017 was affected by the unfavorable impact of \$0.4 million of inventory purchase accounting associated with the Sargent acquisition. The increase year over year is primarily a result of higher sales during the period.

Selling, General and Administrative

	Three Months Ended				
	September	October			
	30,	1,	\$	%	
	2017	2016	Change	Change	
SG&A	\$27.6	\$ 25.2	\$ 2.4	9.6	%

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% of net sales 16.8% 16.4 %

SG&A expenses increased by \$2.4 million to \$27.6 million for the second quarter of fiscal 2018 as compared to \$25.2 million for the second quarter of fiscal 2017. This increase was mainly driven by \$1.9 million of personnel related expenses, \$0.2 million of additional stock compensation expense and \$0.3 million of other costs. As a percentage of sales, SG&A was 16.8% for the second quarter of fiscal 2018 compared to 16.4% for the same period last year.

	Six Months Ended				
	September	October	\$	%	
	30,	1,	Change	Change	
	2017	2016			
SG&A	\$55.4	\$ 51.0	\$ 4.4	8.6	%
% of net sales	16.9%	16.5 %			

SG&A expenses increased by \$4.4 million to \$55.4 million for the first six months of fiscal 2018 compared to \$51.0 million for the same period last year. This increase is primarily due to \$3.3 million of personnel related expenses, \$0.7 million of additional stock compensation and \$0.4 million of other costs.

Other, Net

	Three Months Ended			
	September	October	\$	%
	30,	1,	Change	Change
	2017	2016		
Other, net	\$ 8.9	\$ 2.0	\$ 6.9	349.4 %
% of net sales	5.4 %	1.3 %		

Other operating expenses for the second quarter of fiscal 2018 totaled \$8.9 million compared to \$2.0 million for the same period last year. For the second quarter of fiscal 2018 other operating expenses were comprised mainly of \$6.5 million of integration and restructuring costs and \$2.4 million of amortization of intangible assets. For the second quarter of fiscal 2017 other operating expenses were comprised mainly of \$2.4 million of amortization of intangible assets offset by \$0.4 million of other income.

	Six Months Ended			
	September	October	\$	%
	30,	1,	Change	Change
	2017	2016		
Other, net	\$ 11.3	\$ 4.2	\$ 7.1	166.8 %
% of net sales	3.4 %	1.4 %		

Other operating expenses for the first six months of fiscal 2018 totaled \$11.3 million compared to \$4.2 million for the same period last year. For the first six months of fiscal 2018 other operating expenses were comprised mainly of \$6.5 million of integration and restructuring costs, \$4.7 million of amortization of intangible assets, and \$0.1 million of other costs. For the first six months of fiscal 2017 other operating expenses were comprised mainly of \$4.6 million in amortization of intangibles offset by \$0.4 million of other income.

Interest Expense, Net

	Three Months Ended			
	September	October	\$	%
	30,	1,	Change	

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	2017	2016	Change
Interest expense, net	\$ 1.9	\$ 2.3	\$ (0.4) (15.1)%
% of net sales	1.2%	1.5 %	

Interest expense, net, generally consists of interest charged on our credit facilities and amortization of deferred financing fees, offset by interest income (see “Liquidity and Capital Resources – Liquidity”, below). Interest expense, net was \$1.9 million for the second quarter of fiscal 2018 compared to \$2.3 million for the same period last year. The Company had total debt of \$220.2 million at September 30, 2017 compared to \$330.1 million at October 1, 2016.

	Six Months Ended			
	September	October	\$	%
	30,	1,	Change	Change
	2017	2016		
Interest expense, net	\$3.9	\$ 4.5	\$ (0.6)	(13.3)%
% of net sales	1.2%	1.5 %		

Interest expense, net, generally consists of interest charged on our credit facilities and amortization of deferred financing fees, offset by interest income (see “Liquidity and Capital Resources – Liquidity”, below). Interest expense, net was \$3.9 million for the first six months of fiscal 2018 compared to \$4.5 million for the first six months of fiscal 2017.

Income Taxes

	Three Months Ended			
	September	October		
	30,	1,		
	2017	2016		
Income tax expense (benefit)	\$8.5	\$ 8.9		
Effective tax rate	36.4%	32.9 %		

Income tax expense for the three month period ended September 30, 2017 was \$8.5 million compared to \$8.9 million for the three month period ended October 1, 2016. Our effective income tax rate for the three month period ended September 30, 2017 was 36.4% compared to 32.9% for the three month period ended October 1, 2016. The effective income tax rate for the three month period ended September 30, 2017 of 36.4% was impacted by approximately \$0.9 million of benefit associated with restructuring and integration activities, \$0.4 million of benefit associated with the adoption of ASU 2016-09 *Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting* and \$0.1 million of other state discrete benefits. The effective income tax rate for the three month period ended October 1, 2016 was 32.9% which included immaterial discrete expense items.

Six Months
 Ended
 September
 30, 1,

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	2017	2016
Income tax expense (benefit)	\$16.1	\$ 17.7
Effective tax rate with discrete items	30.5%	32.8 %

Income tax expense for the six month period ended September 30, 2017 was \$16.1 million compared to \$17.7 million for the six month period ended October 1, 2016. Our effective income tax rate for the six month period ended September 30, 2017 was 30.5% compared to 32.8% for the six month period ended October 1, 2016. The effective income tax rate for the six month period ended September 30, 2017 of 30.5% was impacted by approximately \$0.9 million of benefit associated with restructuring and integration activities, \$2.7 million of benefit associated with the adoption of ASU 2016-09 *Compensation – Stock Compensations (Topic 718) Improvements to Employee Share-Based Payment Accounting* and \$0.2 million of other state discrete benefits. The effective income tax rate for the six month period ended October 1, 2016 of 32.8% included immaterial discrete benefit of \$0.2 million.

Integration and Restructuring of Operations

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 marketplace. 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. The total impact of this restructuring is expected to be between \$7.0 million and \$7.5 million in after-tax charges and is expected to conclude in the second quarter of fiscal 2019. The remainder of costs associated with the restructuring after the second quarter of fiscal 2018 will primarily be comprised of legal, maintenance and employee termination costs. The Company anticipates a positive cash flow result of approximately \$4.4 million from this transaction.

Segment Information

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

Plain Bearing Segment:

	Three Months Ended				
	September	October	\$	%	
	30,	1,	Change	Change	
	2017	2016			
Total net sales	\$72.4	\$ 68.8	\$ 3.6	5.2	%
Gross margin	\$27.7	\$ 26.6	\$ 1.1	4.2	%
Gross margin %	38.3%	38.6	%		

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SG&A	\$6.3	\$ 5.8	\$ 0.5	8.5	%
% of segment net sales	8.7 %	8.5 %			

Net sales increased \$3.6 million, or 5.2%, for the three months ended September 30, 2017 compared to the same period last year. The 5.2% increase was primarily driven by an increase of 12.1% in our industrial markets and a 3.1% increase in our aerospace markets. The increase in industrial sales was mostly driven by general industrial OEM while the increase in aerospace sales was mainly due to the commercial aerospace OEM.

Gross margin as a percent of sales decreased to 38.3% for the second quarter of fiscal 2018 compared to 38.6% for the same period last year. The decrease was primarily due to unfavorable product mix.

	Six Months Ended				
	September 30, 2017	October 1, 2016	\$ Change	% Change	
Total net sales	\$145.0	\$139.3	\$5.7	4.1	%
Gross margin	\$56.1	\$53.2	\$2.9	5.5	%
Gross margin %	38.7 %	38.2 %			
SG&A	\$12.8	\$11.8	\$1.0	8.1	%
% of segment net sales	8.8 %	8.5 %			

Net sales increased \$5.7 million, or 4.1%, for the six months ended September 30, 2017 compared to the same period last year. The 4.1% increase was primarily driven by an increase of 4.1% in our aerospace markets and an increase of 4.1% in the industrial markets. The increase in aerospace sales was mainly due to the commercial aerospace OEM and aftermarket. The increase in industrial sales was mostly driven by general industrial OEM and defense.

Gross margin as a percent of sales increased to 38.7% for the first six months of fiscal 2018 compared to 38.2% for the same period last year. The increase was primarily due to cost efficiencies achieved and increased volume during the period.

Roller Bearing Segment:

	Three Months Ended				
	September 30, 2017	October 1, 2016	\$ Change	% Change	
Total net sales	\$32.3	\$26.8	\$5.5	20.6	%
Gross margin	\$12.9	\$11.5	\$1.4	12.2	%
Gross margin %	39.9 %	42.9 %			
SG&A	\$1.6	\$1.5	\$0.1	7.5	%
% of segment net sales	5.1 %	5.7 %			

Net sales increased \$5.5 million, or 20.6% for the three months ended September 30, 2017 compared to the same period last year. Our industrial markets increased 46.5%, while our aerospace markets increased 0.5%. The increase in industrial sales was primarily due to energy, mining and general industrial markets while the increases in aerospace were due to increases in defense OEM partially offset by our commercial OEM market.

Gross margin for the three months ended September 30, 2017 was \$12.9 million, or 39.9% of sales, compared to \$11.5 million, or 42.9%, in the comparable period in fiscal 2017. This decrease in the gross margin percentage was primarily due to product mix.

	Six Months Ended		\$ Change	% Change	%
	September 30, 2017	October 1, 2016			
Total net sales	\$63.7	\$ 54.6	\$ 9.1	16.7	%
Gross margin	\$25.7	\$ 23.8	\$ 1.9	7.8	%
Gross margin %	40.3%	43.5 %			
SG&A	\$3.2	\$ 3.0	\$ 0.2	8.3	%
% of segment net sales	5.0 %	5.4 %			

Net sales increased \$9.1 million, or 16.7%, for the six months ended September 30, 2017 compared to the same period last year. Our industrial markets increased 35.8% while our aerospace markets increased by 1.6%. The increase in industrial sales was primarily due to energy and general industrial activity while the increase in aerospace was driven by defense OEM sales partially offset by the commercial OEM market.

Gross margin for the six months ended September 30, 2017 was \$25.7 million, or 40.3% of sales, compared to \$23.8 million, or 43.5%, in the comparable period in fiscal 2017. This decrease in the gross margin percentage was primarily due to the impact of product mix.

Ball Bearing Segment:

	Three Months Ended		\$ Change	% Change	%
	September 30, 2017	October 1, 2016			
Total net sales	\$16.5	\$ 14.6	\$ 1.9	13.1	%
Gross margin	\$6.7	\$ 5.2	\$ 1.5	30.0	%
Gross margin %	40.9%	35.6 %			
SG&A	\$1.7	\$ 1.3	\$ 0.4	27.6	%
% of segment net sales	10.2%	9.0 %			

Net sales increased \$1.9 million, or 13.1%, for the second quarter of fiscal 2018 compared to the same period last year. Our industrial markets increased 30.7% while our aerospace markets decreased 22.2% during the period. The increase in industrial sales was a result of semiconductor and general industrial markets. The period over period decrease in aerospace sales was driven by defense OEM market activity.

Gross margin as a percent of sales increased to 40.9% for the second quarter of fiscal 2018 compared to 35.6% for the same period last year. The increase was primarily due to volume and cost efficiencies achieved during the period.

	Six Months Ended		\$ Change	% Change	%
	September 30, 2017	October 1, 2016			
Total net sales	\$32.3	\$ 28.3	\$ 4.0	14.1	%
Gross margin	\$12.9	\$ 10.5	\$ 2.4	23.2	%
Gross margin %	40.0%	37.1 %			
SG&A	\$3.3	\$ 2.8	\$ 0.5	18.6	%
% of segment net sales	10.2%	9.8 %			

Net sales increased \$4.0 million, or 14.1%, for the six months ended September 30, 2017 compared to the same period last year. Our industrial market sales increased 29.3% while sales to our aerospace markets decreased 18.3%. The increase in industrial sales was mainly driven by semiconductor and general industrial while the 18.3% decrease in aerospace sales was primarily driven by the defense OEM market.

Gross margin as a percent of sales increased to 40.0% for the six months ended September 30, 2017 compared to 37.1% for the same period last year. The increase was primarily due to volume and cost efficiencies achieved during the period.

Engineered Products Segment:

	Three Months Ended		\$ Change	% Change	%
	September 30, 2017	October 1, 2016			
Total net sales	\$43.1	\$ 43.7	\$ (0.6)	(1.4)	%
Gross margin	\$14.4	\$ 13.4	\$ 1.0	7.4	%
Gross margin %	33.5%	30.7 %			
SG&A	\$5.1	\$ 4.4	\$ 0.7	16.1	%
% of segment net sales	11.9%	10.1 %			

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Net sales decreased \$0.6 million, or 1.4%, for the second quarter of fiscal 2018 compared to the same period last year. Our aerospace markets decreased 6.4% while our industrial markets increased 9.6%. The decrease in aerospace sales was mainly due to our commercial and defense aerospace OEM markets. The increase in industrial sales was driven by marine and general industrial activity.

Gross margin as a percent of sales increased to 33.5% for the second quarter of fiscal 2018 compared to 30.7% for the same period last year. This increase is primarily due to product mix.

	Six Months Ended		\$	% Change	% Change
	September 30, 2017	October 1, 2016			
Total net sales	\$87.2	\$ 86.3	\$ 0.9	1.0	%
Gross margin	\$29.0	\$ 26.6	\$ 2.4	9.4	%
Gross margin %	33.3%	30.8 %			
SG&A	\$10.4	\$ 9.3	\$ 1.1	11.7	%
% of segment net sales	11.9%	10.8 %			

Net sales increased \$0.9 million, or 1.0%, for the six months ended September 30, 2017 compared to the same period last year. Our industrial markets increased 9.2% while our aerospace markets decreased 2.8%. The increase in industrial sales was driven by marine and general industrial activity. The decrease in aerospace sales was mainly due to the commercial aerospace OEM market.

Gross margin as a percent of sales increased to 33.3% for the six months ended September 30, 2017 compared to 30.8% for the same period last year. Gross margin for the first six months of fiscal 2017 was affected by \$0.3 million of acquisition related costs. This year over year increase was primarily attributable to volume and product mix.

Corporate:

	Three Months Ended		\$	% Change	% Change
	September 30, 2017	October 1, 2016			
SG&A	\$12.8	\$ 12.1	\$ 0.7	6.0	%
% of total net sales	7.8 %	7.9 %			

	Six Months Ended		\$	% Change
	September 30, 2017	October 1, 2016		

	2017	2016		Change	
SG&A	\$25.7	\$ 24.1	\$ 1.6	6.5	%
% of total net sales	7.8 %	7.8 %			

Corporate SG&A increased for both the second quarter and first six months of fiscal 2018 compared to the same periods last year. This was primarily due to an increase in stock compensation expenses and personnel related costs.

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 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 September 30, 2017, we had cash and cash equivalents of \$42.9 million of which approximately \$37.9 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 new 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 September 30, 2017, there was \$40.5 million outstanding under the Revolver and \$176.3 million outstanding under the Term Loan, offset by \$3.7 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 September 30, 2017, the Company was in compliance with all such covenants.

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

Approximately \$3.8 million of the Revolver is being utilized to provide letters of credit to secure RBCA's obligations relating to certain insurance programs. As of September 30, 2017, RBCA has the ability to borrow up to an additional \$305.7 million under the Revolver.

Other Notes Payable

On October 1, 2012, Schaublin purchased the land and building, which it occupied and had been leasing, for 14.1 million CHF (approximately \$14.9 million). Schaublin obtained a 20 year fixed rate mortgage of 9.3 million CHF (approximately \$9.9 million) at an interest rate of 2.9%. The balance of the purchase price of 4.8 million CHF (approximately \$5.1 million) was paid from cash on hand. The balance on this mortgage as of September 30, 2017 was 7.0 million CHF, or \$7.2 million.

Cash Flows

Six Month Period Ended September 30, 2017 Compared to the Six Month Period Ended October 1, 2016

The following table summarizes our cash flow activities:

	FY18	FY17	\$ Change
Net cash provided by (used in):			
Operating activities	\$64.0	\$38.5	\$ 25.5
Investing activities	(12.7)	(10.2)	(2.5)
Financing activities	(47.4)	(30.0)	(17.4)
Effect of exchange rate changes on cash	0.1	0.0	0.1
Increase (decrease) in cash and cash equivalents	\$4.0	\$(1.7)	\$ 5.7

During fiscal 2018 we generated cash of \$64.0 million from operating activities compared to generating cash of \$38.5 million for fiscal 2017. The increase of \$25.5 million for fiscal 2018 was mainly a result of the favorable impact of the net change in operating assets and liabilities of \$15.2 million, an increase in net income of \$0.3 million and non-cash charges of \$10.0 million. The favorable change in operating assets and liabilities was primarily the result of a decrease in the amount of cash being used for working capital items as detailed in the table below, while the non-cash charges were primarily driven by a \$5.6 million impairment charge related to the restructuring of our Canadian operation, \$3.0 million from the adoption of ASU 2016-09, which no longer requires the reclassification of the excess tax impact from stock-based compensation from operating to financing activities, increased stock compensation of \$0.7 million, depreciation of \$0.4 million and amortization of intangibles of \$0.1 million and \$0.3 million of acquisition expenses present in fiscal 2017 offset by a decrease in deferred taxes of \$0.1 million.

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The following chart summarizes the favorable change in operating assets and liabilities of \$15.2 million for fiscal 2018 versus fiscal 2017 and unfavorable \$(12.3) million for fiscal 2017 versus fiscal 2016.

	FY18	FY17
Cash provided by (used in):		
Accounts receivable	\$1.5	\$(5.2)
Inventory	(1.1)	3.8
Prepaid expenses and other current assets	3.6	2.0
Other non-current assets	(0.8)	(1.5)
Accounts payable	4.5	0.8
Accrued expenses and other current liabilities	3.8	(4.7)
Other non-current liabilities	3.7	(7.5)
Total change in operating assets and liabilities:	\$ 15.2	\$(12.3)

During the first six months of fiscal 2018, we used \$12.7 million for investing activities as compared to \$10.2 million for fiscal 2017. The increase was attributable to an increase of \$3.1 million in capital expenditures and \$0.1 million of other expenses offset by \$0.7 million cash used for an acquisition in fiscal 2017.

During the first six months of fiscal 2018, we used \$47.4 million for financing activities compared to using \$30.0 million for fiscal 2017. This increase in cash used was primarily attributable to the payment of \$44.0 million on the revolving credit facility and \$6.3 million on the term loan during the first six months of fiscal 2018 as compared to \$29.0 million and \$5.0 million respectively during the same period of fiscal 2017.

Capital Expenditures

Our capital expenditures were \$12.7 million for the six month period ended September 30, 2017. In addition, we expect to make capital expenditures of \$12.0 to \$15.0 million during the remainder of fiscal 2018 in connection with our existing business. We expect to fund fiscal 2018 capital expenditures principally through existing cash, internally generated funds and debt. We may also make substantial additional capital expenditures in connection with acquisitions.

Obligations and Commitments

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments. Changes in our business needs, cancellation provisions and interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Because these estimates are necessarily subjective, our actual payments in future periods are likely to vary from those presented in the table. The following table summarizes certain of our contractual obligations and principal and interest payments under our debt instruments and leases as of September 30, 2017:

Contractual Obligations⁽¹⁾	Payments Due By Period				
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
	(in thousands)				
Total debt	\$223,908	\$16,727	\$201,455	\$ 954	\$4,772
Operating leases	17,581	5,620	6,799	3,876	1,286
Interest on debt ⁽²⁾	13,511	3,772	8,723	307	709
Pension and postretirement benefits	18,944	1,829	3,818	3,869	9,428

Total contractual cash obligations	\$273,944	\$27,948	\$220,795	\$9,006	\$16,195
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We cannot make a reasonably reliable estimate of when the unrecognized tax liability of \$14.3 million, which (1) includes interest and penalties, and is offset by deferred tax assets, will be paid to the respective taxing authorities. These obligations are therefore excluded from the above table.

(2) These amounts represent expected cash payments of interest on our variable rate long-term debt under our Facilities at the prevailing interest rates at September 30, 2017.

Other Matters

Critical Accounting Policies and Estimates

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

Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We believe the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Consolidated Financial Statements in our fiscal 2017 Annual Report, incorporated by reference in our fiscal 2017 Form 10-K, describe the significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in our critical accounting estimates during the first three months of fiscal 2018.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Foreign Currency Exchange Rates. As a result of our operations in Europe, we are exposed to risk associated with fluctuating currency exchange rates between the U.S. dollar, the Euro, the Swiss Franc, the Polish Zloty and the Canadian Dollar. Our Swiss operations utilize the Swiss Franc as the functional currency, our French and German operations utilize the Euro as the functional currency, our Polish operations utilize the Polish Zloty as the functional currency and our Canadian operations utilize the Canadian Dollar as the functional currency. Foreign currency transaction gains and losses are included in earnings. Approximately 12% of our net sales were impacted by foreign currency fluctuations in the first six months of both fiscal 2018 and 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 September 30, 2017, we had no derivatives.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

ITEM 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of September 30, 2017. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2017, our disclosure controls and procedures were (1) designed to ensure that information relating to our Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported to our Chief Executive Officer and Chief Financial Officer within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, and (2) effective, in that they provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the six month period ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

There have been no material changes to our risk factors and uncertainties during the three month period ended September 30, 2017. For a discussion of the Risk Factors, refer to Part I, Item 2, "Cautionary Statement As To Forward-Looking Information," contained in this report and Part I, Item 1A, "Risk Factors," contained in the Company's Annual Report on Form 10-K for the period ended April 1, 2017.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

Not applicable.

Issuer Purchases of Equity Securities

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

Total share repurchases for the three months ended September 30, 2017 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)
07/2/2017 – 07/29/2017	10,256	\$ 102.28	10,256	\$ 22,497
07/30/2017 – 08/26/2017	—	—	—	22,497
08/27/2017 – 09/30/2017	170	113.63	170	\$ 22,478
Total	10,426	\$ 102.46	10,426	

ITEM 3.

Defaults Upon Senior Securities

Not applicable.

ITEM 4.

Mine Safety Disclosures

Not applicable.

ITEM 5.

Other Information

Not applicable.

ITEM 6.

Exhibits

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

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

SIGNATURES

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

RBC Bearings Incorporated
(Registrant)

By: /s/ Michael J. Hartnett
Name: Michael J. Hartnett
Title: Chief Executive Officer
Date: November 3, 2017

By: /s/ Daniel A. Bergeron
Name: Daniel A. Bergeron
Title: Chief Financial Officer and Chief Operations Officer
Date: November 3, 2017

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