

RBC Bearings INC  
Form 10-K  
May 26, 2016

**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 April 2, 2016**

**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

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

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

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

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

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 26, 2015 (based on the September 25, 2015 closing sales price of \$58.50 of the registrant's Class A Common Stock, as reported by the Nasdaq National Market) was approximately \$1,370,643,300.

Number of shares outstanding of the registrant's Class A Common Stock at May 18, 2016:

23,541,972 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, 2016 are incorporated by reference into Part III of this Form 10-K.



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## **PART I**

### **ITEM 1. BUSINESS**

#### **RBC Bearings Incorporated**

We are 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. 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 37 facilities of which 33 are manufacturing facilities in five 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 and machinery manufacturers, industrial equipment and machinery manufacturers, construction machinery manufacturers and 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, aging of the existing commercial aircraft fleet, 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 18 "Reportable Segments."

***Industrial Market (34% of net sales for the fiscal year ended April 2, 2016)***

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, Komatsu America, National Oilwell Varco, Newport News Shipbuilding and various aftermarket distributors including Applied Industrial, BDI Corporation, 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 (66% of net sales for the fiscal year ended April 2, 2016)***

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 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, U.S. Department of Defense and various aftermarket distributors including National Precision Bearing, 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 2016, 4.0% of our net sales were made directly, and we estimate that approximately an additional 18.0% 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. We, based on experience, 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.



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Segment	Net Sales for the Fiscal Year Ended			Representative Applications
	April 2, 2016	March 28, 2015	March 29, 2014	
Plain Bearings	\$270,534 (45.3 )%	\$ 230,168 (51.7 )%	\$ 223,099 (53.3 )%	<ul style="list-style-type: none"> <li>· Aircraft engine controls and landing gear</li> <li>· Missile launchers</li> <li>· Mining, energy, and construction equipment</li> </ul>
Roller Bearings	\$112,039 (18.8 )%	\$ 128,702 (28.9 )%	\$ 115,806 (27.6 )%	<ul style="list-style-type: none"> <li>· Aircraft hydraulics</li> <li>· Military and commercial truck chassis</li> <li>· Packaging machinery and gear pumps</li> </ul>
Ball Bearings	\$53,650 (8.9 )%	\$ 56,464 (12.7 )%	\$ 49,555 (11.8 )%	<ul style="list-style-type: none"> <li>· Radar and night vision systems</li> <li>· Airframe control and actuation</li> <li>· Semiconductor equipment</li> </ul>
Engineered Products	\$161,249 (27.0 )%	\$ 29,944 (6.7 )%	\$ 30,426 (7.3 )%	<ul style="list-style-type: none"> <li>· Hydraulics, valves and fasteners</li> <li>· Industrial gears, components and collets</li> </ul>

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

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

*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 in excess of 71,600 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% of net sales should permit us to effectively meet demand levels for the foreseeable future.

*Inventory Management.* Our increasing emphasis on OEM service and the distributor/aftermarket sector has required us to maintain greater inventories of a broader range of products than the OEM market historically demanded. This requires a greater investment in working capital to maintain these levels. 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. Our worldwide distributor network provides our customers with more than 4,600 points of sale for our products. We intend to continue to focus on building distributor sales volume.

The sale of our products is supported by a well-trained and experienced customer service organization. This organization provides customers with instant access to key information regarding their 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 April 2, 2016, we had order backlog of \$346.4 million compared to a backlog of \$209.6 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 had 1,996 hourly employees and 1,281 salaried employees as of April 2, 2016, of whom 981 were employed in our international operations. As of April 2, 2016, 174 of our hourly employees were represented by unions in the U.S and 70 were represented by a union in Canada. We believe that our employee relations are satisfactory.

We are subject to four collective bargaining agreements covering substantially all of the hourly employees at our Fairfield, Connecticut, West Trenton, New Jersey, Plymouth, Indiana, and Montreal, Canada plants. These agreements expire on January 31, 2018, June 30, 2017, October 30, 2018, and June 23, 2018, respectively.

## **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 205 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 165 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 years 2017 or 2018.

Investigation and remediation of contamination is ongoing at some of our sites. In particular, 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 Public Reference Room at 405 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers 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 Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including any projections of earnings, cash flows, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; future growth rates in the markets we serve; increases in foreign sales; supply and cost of raw materials, any statements of belief; and any statements of assumptions underlying any of the foregoing. Forward-looking statements may include the words “may,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate,” the negative of such terms or other comparable terminology.

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

- Weaknesses and cyclicity in any of the industries in which our customers operate;
- Changes in marketing, product pricing and sales strategies or developments of new products by us or our competitors;
- Future reductions in U.S. governmental spending or changes in governmental programs, particularly military equipment procurement programs;
- 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, including Sargent;
- 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;

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- Changes in accounting standards, policies, guidance, interpretation or principles;
- Risks associated with operating internationally, including currency translation risks;
- The operating and stock performance of comparable companies;
- 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; and

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

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 33% and 28% of our net sales during fiscal 2016 and fiscal 2015, 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 2016, 4.0% of our net sales were made directly, and we estimate that, including our diversified industrial market, approximately an additional 18.0% 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. Although we currently m