SPARTON CORP
Form SC 13D/A
May 04, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO § 240.13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO § 240.13d-2(a)

(Amendment No. 1)1

Sparton Corporation
(Name of Issuer)

Common Stock, $1.25 par value
(Title of Class of Securities)

847235108
(CUSIP Number)

STEVE WOLOSKY, ESQ.
OLSHAN FROME WOLOSKY LLP
1325 Avenue of the Americas
New York, New York 10019
(212) 451-2300
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

May 4, 2016
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box ¨.

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

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1 The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP NO. 847235108

1	NAME OF REPORTING PERSON ENGINE CAPITAL, L.P.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 320,319	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 320,319	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 320,319		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 3.3%		
14	TYPE OF REPORTING PERSON PN		

CUSIP NO. 847235108

1	NAME OF REPORTING PERSON ENGINE JET CAPITAL, L.P.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 47,468	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 47,468	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 47,468		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) less than 1%		
14	TYPE OF REPORTING PERSON PN		

CUSIP NO. 847235108

1	NAME OF REPORTING PERSON ENGINE CAPITAL MANAGEMENT, LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 367,787	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 367,787	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 367,787		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 3.7%		
14	TYPE OF REPORTING PERSON OO		

CUSIP NO. 847235108

1	NAME OF REPORTING PERSON ENGINE INVESTMENTS, LLC		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 367,787	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 367,787	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 367,787		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 3.7%		
14	TYPE OF REPORTING PERSON OO		

CUSIP NO. 847235108

1	NAME OF REPORTING PERSON ARNAUD AJDLER		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) ox (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS OO		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION BELGIUM		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER 367,787	
	8	SHARED VOTING POWER - 0 -	
	9	SOLE DISPOSITIVE POWER 367,787	
	10	SHARED DISPOSITIVE POWER - 0 -	
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 367,787		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES		o
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 3.7%		
14	TYPE OF REPORTING PERSON IN		

CUSIP NO. 847235108

1	NAME OF REPORTING PERSON NORWOOD CAPITAL PARTNERS, LP		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP		(a) o (b) o
3	SEC USE ONLY		
4	SOURCE OF FUNDS WC		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e)		¨
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7	SOLE VOTING POWER - 0 -	
	8	SHARED VOTING POWER 311,589	
	9	SOLE DISPOSITIVE POWER - 0 -	
	10	SHARED DISPOSITIVE POWER 311,589	
11	The table below reflects the calculation of weighted-average shares outstanding for each period presented as well as the computation of basic and diluted net income per common share:		

	Three Months Ended		Nine Months Ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Net income	$12,109	$12,167	$45,767	$34,471
Denominator for basic net income per common share—weighted-average shares outstanding	22,538,502	21,894,128	22,286,974	21,860,593
Effect of dilution due to employee stock options	323,845	555,665	437,312	491,347
Denominator for diluted net income per common share — weighted-average shares outstanding	22,862,347	22,449,793	22,724,286	22,351,940

Basic net income per common share	$0.54	$0.56	$2.05	$1.58
Diluted net income per common share	$0.53	$0.54	$2.01	$1.54

At December 29, 2012, 209,500 employee stock options and 300 restricted shares have been excluded from the calculation of diluted earnings per share. At December 31, 2011, 15,100 employee stock options and no restricted shares have been excluded from the calculation of diluted earnings per share. The inclusion of these employee stock options and unvested restricted stock shares would be anti-dilutive.

2. 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 are measured at fair value by using quoted prices in active markets and are classified as Level 1 of the valuation hierarchy.

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3. Inventory

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

	December 29, 2012	March 31, 2012
Raw materials	$17,606	$15,056
Work in process	39,947	39,480
Finished goods	115,072	104,269
	$172,625	$158,805

4. Intangible Assets

	Weighted Average Useful Lives	December 29, 2012 Gross Carrying Amount	December 29, 2012 Accumulated Amortization	March 31, 2012 Gross Carrying Amount	March 31, 2012 Accumulated Amortization
Product approvals	15	$6,199	$ 2,548	$6,181	$ 2,232
Customer relationships and lists	11	5,559	3,330	5,556	3,007
Trade names	15	1,387	1,047	1,386	972
Distributor agreements	5	722	722	722	722
Patents and trademarks	15	5,986	1,734	5,404	1,359
Domain names	10	437	200	437	167
Other	4	980	842	979	826
Total		$21,270	$ 10,423	$20,665	$ 9,285

Amortization expense for definite-lived intangible assets for the three and nine month periods ended December 29, 2012 was $363 and $1,127, respectively. Amortization expense for definite-lived intangible assets for the three and nine month periods ended December 31, 2011 was $374 and $1,112, respectively. Estimated amortization expense for the remaining three months of fiscal 2013, the five succeeding fiscal years and thereafter is as follows:

2013	$399
2014	1,470
2015	1,470
2016	1,461
2017	1,440
2018	1,440
2019 and thereafter	3,167

5. Debt

The balances payable under all borrowing facilities are as follows:

	December 29, 2012	March 31, 2012
Notes payable	$ 10,901	$1,041
Total debt	10,901	1,041
Less: current portion	1,360	1,041
Long-term debt	$ 9,541	$—

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On October 1, 2012, Schaublin purchased the land and building, which it occupied and had been leasing, for 14,067 CHF (approximately $14,910). Schaublin obtained a 20 year fixed rate mortgage of 9,300 CHF (approximately $9,857) at an interest rate of 2.9%. The balance of the purchase price of 4,767 CHF (approximately $5,053) was paid from cash on hand. The balance on this mortgage as of December 29, 2012 was 9,184 CHF, or $10,050.

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

Amounts outstanding under the JP Morgan Credit Agreement generally bear interest at the prime rate or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based upon the Company’s consolidated ratio of net debt to adjusted EBITDA, measured at the end of each quarter. As of December 29, 2012, the Company’s margin is 0.5% for prime rate loans and 1.5% for LIBOR rate loans.

The JP Morgan Credit Agreement requires the Company to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA, not to exceed 3.25 to 1; and (2) a consolidated fixed charge coverage ratio not to exceed 1.5 to 1. The credit agreement allows the Company to, among other things, make distributions to shareholders, repurchase its stock, incur other debt or liens, or acquire or dispose of assets provided that the Company complies with certain requirements and limitations of the agreement. As of December 29, 2012, the Company was in compliance with all such covenants.

Approximately $5,545 of the JP Morgan Credit Agreement is being utilized to provide letters of credit to secure RBCA’s obligations relating to certain insurance programs. As of December 29, 2012, RBCA had the ability to borrow up to an additional $144,455 under the JP Morgan Credit Agreement.

On October 27, 2008, Schaublin entered into a new bank credit facility with Credit Suisse (the “Swiss Credit Facility”) which replaced the prior bank credit facility of December 8, 2003 and its amendment of November 8, 2004. This facility provides for up to 4,000 CHF, or $4,377, of revolving credit loans and letters of credit. Borrowings under the Swiss Credit Facility bear interest at Credit Suisse’s prevailing prime bank rate. As of December 29, 2012, there were no borrowings under the Swiss Credit Facility.

6. 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 March 30, 2002. The Company is no longer subject to U.S. federal corporate income tax examination by the Internal Revenue Service for fiscal years ending before March 28, 2009. A U.S. federal corporate income tax examination by the Internal Revenue Service for the fiscal years ended March 31, 2007 and March 29, 2008 was deemed effectively settled in the Company’s second quarter of the fiscal year ended March 30, 2013 and the statute of limitations expired for the Company’s fiscal year ended March 28, 2009 in the Company’s third quarter of the fiscal year ended March 30, 2013. The Company is presently under an examination by the Internal Revenue Service for its U.S. federal corporate income tax return for the fiscal year ended April 2, 2011.

The effective income tax rates for the three and nine month periods ended December 29, 2012 and December 31, 2011, were 35.1% and 32.1% and 29.2% and 33.8%, respectively. In addition to discrete items, the effective income tax rates for these periods are different from the U.S. statutory rates due to a special manufacturing deduction in the U.S. and foreign income taxed at lower rates which decrease the rate, and state income taxes and an officers’ compensation adjustment which increase the rate.

The effective income tax rate for the three month period ended December 29, 2012 of 35.1% includes discrete items of $105 which are substantially comprised of the reversal of unrecognized tax benefits associated with the expiration of statutes of limitations along with the recognition of interest on unrecognized tax positions. The effective income tax rate without these discrete items would have been 35.6%. The effective tax rate, without discrete items, for the three month period ended December 31, 2011 would have been 34.5%. 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 between $1,200 and $1,500.

7. 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. Certain other operating segments that do not exhibit the common attributes mentioned above and do not meet the quantitative thresholds for separate disclosure are combined and disclosed as "Other".

The Company has four reportable business segments, Plain Bearings, Roller Bearings, Ball Bearings and Other, which are described below. Within the Plain Bearings, Roller Bearings and Ball Bearings reportable segments, the Company has not aggregated any operating segments. Within the Other reportable segment, the Company has aggregated operating segments because they do not meet the quantitative threshold for separate disclosure.

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

Roller Bearings. Roller bearings are anti-friction bearings that use rollers instead of balls. 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.

Other. Other consists of three operating locations that do not fall into the above segmented categories. The Company's precision machine tool collets provide effective part holding and accurate part location during machining operations. Additionally, the Company provides machining for integrated bearing assemblies and aircraft components for the commercial and defense aerospace markets and tight-tolerance, precision mechanical components for use in the motion control industry.

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

	Three Months Ended		Nine Months Ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Net External Sales				
Plain	$51,497	$ 46,816	$160,166	$143,522
Roller	26,115	30,632	87,564	88,711
Ball	10,779	9,962	30,146	30,931
Other	7,945	7,694	22,169	23,024
	$96,336	$ 95,104	$300,045	$286,188
Gross Margin				
Plain	$20,220	$ 16,772	$61,868	$51,800
Roller	10,587	11,238	34,269	31,287
Ball	1,848	2,365	6,350	7,080
Other	3,621	3,251	9,762	9,239
	$36,276	$ 33,626	$112,249	$99,406
Selling, General & Administrative Expenses				
Plain	$3,865	$ 3,621	$11,252	$10,716
Roller	1,682	1,596	5,098	4,731
Ball	729	581	2,279	2,176
Other	968	981	2,754	3,018
Corporate	9,323	8,230	27,053	24,139
	$16,567	$ 15,009	$48,436	$44,780
Operating Income				
Plain	$16,160	$ 13,028	$49,946	$40,724
Roller	8,826	10,292	28,889	28,339
Ball	1,083	1,027	3,965	3,000
Other	2,592	2,231	6,968	6,111
Corporate	(9,502)	(8,374)	(27,420)	(24,590)
	$19,159	$ 18,204	$62,348	$53,584
Geographic External Sales				
Domestic	$82,227	$ 82,148	$258,082	$244,424
Foreign	14,109	12,956	41,963	41,764
	$96,336	$ 95,104	$300,045	$286,188
Intersegment Sales				
Plain	$757	$ 650	$2,278	$1,886
Roller	4,372	4,130	13,677	12,210
Ball	671	451	1,844	1,188
Other	5,760	5,857	18,340	17,070

$11,560	$ 11,088	$36,139	$32,354

All intersegment sales are eliminated in consolidation.

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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,” “ similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation: (a) the bearing industry is highly competitive, and this competition could reduce our profitability or limit our ability to grow; (b) the loss of a major customer could result in a material reduction in our revenues and profitability; (c) weakness in any of the industries in which our customers operate, as well as the cyclical nature of our customers’ businesses generally, could materially reduce our revenues and profitability; (d) future reductions or changes in U.S. government spending could negatively affect our business; (e) fluctuating supply and costs of raw materials and energy resources could materially 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; and (v) provisions in our charter documents may prevent or hinder efforts to acquire a controlling interest in us. Additional information regarding these and other risks and uncertainties is contained in our periodic filings with the SEC, including, without limitation, the risks identified under the heading "Risk Factors" set forth in the Annual Report on Form 10-K for the year ended March 31, 2012. 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 of highly engineered precision plain, roller and ball bearings. Our precision solutions are integral to the manufacture and operation of most machines and mechanical systems, reduce wear to moving parts, facilitate proper power transmission and reduce damage and energy loss caused by friction. While we manufacture products in all major bearing categories, we focus primarily on the higher end of the bearing market where we believe our value added manufacturing and engineering capabilities enable us to differentiate ourselves from our competitors and enhance profitability. We believe our unique expertise has enabled us to garner leading positions in many of the product markets in which we primarily compete. We have been providing bearing solutions to our customers since 1919. Under the leadership of our current management team, we have significantly broadened our end markets, products, customer base and geographic reach. We currently operate 25 facilities of which 23 are manufacturing facilities in four countries.

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

Outlook

Our backlog, as of December 29, 2012, was $211.3 million compared to $215.7 million as of December 31, 2011. Our net sales for the three month period ended December 29, 2012 increased 1.3% compared to the same period last fiscal year. Our aerospace and defense markets contributed 15.8% to this growth offset by a 12.2% decline in diversified industrial sales. The performance in the aerospace and defense market was driven by commercial aircraft build rates and the aerospace aftermarket. The diversified industrial market decline was attributable to slowing activity in mining and military vehicles. In the nine months ended December 29, 2012 our net sales increased 4.8% compared to the same period last fiscal year. Our aerospace and defense markets contributed 15.0% to this growth offset by a 4.1% decline in diversified industrial sales. The performance in the aerospace and defense market was driven by commercial aircraft build rates and the aerospace aftermarket. The diversified industrial market decline was attributable to slowing activity in mining, oil and gas and general industrial markets.

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. We have $112.0 million in cash and cash equivalents as of December 29, 2012, of which $33.7 million is foreign cash restricted to funding internal and external growth initiatives in our foreign entities. 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.

During the first quarter of fiscal 2013, we received approximately $3.6 million in distribution payments under the U.S. Continued Dumping and Subsidy Offset Act (CDSOA) relating to antidumping claims filed during the past six years. As a result of recent rulings by the Federal Circuit and the United States Court of International Trade, these distribution payments, which we received on or about April 25, 2012, were based on our allocation of the CDSOA funds distributed in each of the past six years. This amount was recorded in other non-operating (income) expense in the first quarter of fiscal 2013.

Results of Operations

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

	Three Months Ended		Nine Months Ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Statement of Operations Data:				
Net sales	100.0%	100.0 %	100.0%	100.0 %
Gross margin	37.7	35.4	37.4	34.7
Selling, general and administrative	17.2	15.8	16.1	15.6
Other, net	0.6	0.5	0.5	0.4
Operating income	19.9	19.1	20.8	18.7
Interest expense, net	0.3	0.3	0.2	0.3
Other non-operating (income) expense	0.2	—	(1.0)	0.2
Income before income taxes	19.4	18.8	21.6	18.2
Provision for income taxes	6.8	6.0	6.3	6.2
Net income	12.6	12.8	15.3	12.0

Segment Information

We have four reportable product segments: Plain Bearings, Roller Bearings, Ball Bearings and Other. Other consists of three operating locations that do not fall into the above segmented categories, primarily machine tool collets, machining for integrated bearing assemblies and aircraft components and tight-tolerance, precision mechanical components. Within the Plain Bearings, Roller Bearings and Ball Bearings segments, we have not aggregated any operating segments. Within the Other reportable segment, we have aggregated operating segments because they do not meet the quantitative threshold for separate disclosure.

Three Month Period Ended December 29, 2012 Compared to Three Month Period Ended December 31, 2011

Net Sales.

	Three Months Ended December 29, 2012	December 31, 2011	$ Change	% Change
Plain Bearings	$51.5	$ 46.8	$ 4.7	10.0 %
Roller Bearings	26.1	30.6	(4.5)	(14.7)%
Ball Bearings	10.8	10.0	0.8	8.2 %
Other	7.9	7.7	0.2	3.3 %
Total	$96.3	$ 95.1	$ 1.2	1.3 %

Net sales for the three month period ended December 29, 2012 were $96.3 million, an increase of $1.2 million, or 1.3%, compared to $95.1 million for the three month period ended December 31, 2011. The increase of $1.2 million was primarily attributable to $1.2 million of product mix/pricing and higher volume of $0.3 milllion offset by $0.3 million of unfavorable foreign exchange rates. Net sales to aerospace and defense customers increased 15.8% in the three month period ended December 29, 2012 compared to the same period last fiscal year, mainly driven by commercial aircraft build rates and the aerospace aftermarket. This was offset by a decline of 12.2% from the diversified industrial markets, resulting primarily from slowing activity in mining and military vehicles.

The Plain Bearings segment achieved net sales of $51.5 million in the three month period ended December 29, 2012, an increase of $4.7 million, or 10.0%, compared to $46.8 million for the same period in the prior fiscal year. This segment was favorably impacted by volume of approximately $4.0 million and $0.9 million in product mix/pricing offset by $0.2 million from unfavorable foreign exchange rates. Net sales to aerospace and defense customers increased $6.8 million offset by a decline of $2.1 million to diversified industrial customers. This segment was favorably impacted by commercial aircraft build rates and the aerospace aftermarket offset by slowing activity in mining and military vehicles.

The Roller Bearings segment achieved net sales of $26.1 million in the three month period ended December 29, 2012, a decrease of $4.5 million, or 14.7%, compared to $30.6 million for the same period in the prior fiscal year. This segment was impacted by lower volume of $4.2 million and product mix/pricing of $0.3 million. Net sales to the diversified industrial sector declined $4.0 million combined with a decrease of $0.5 million from the aerospace and defense sector. This segment was primarily effected by the slowing activity in mining.

The Ball Bearings segment achieved net sales of $10.8 million in the three month period ended December 29, 2012, an increase of $0.8 million, or 8.2%, compared to $10.0 million for the same period in the prior fiscal year. Of this increase, approximately $0.5 million was attributable to product mix/pricing and $0.3 million to volume. Net sales to the aerospace and defense sector contributed $0.4 million to this increase combined with an increase of $0.4 million from net sales to diversified industrial customers.

The Other segment, which is focused mainly on the sale of machine tool collets and precision components, achieved net sales of $7.9 million in the three month period ended December 29, 2012, an increase of $0.2 million, or 3.3%, compared to $7.7 million for the same period in the prior fiscal year. The increase in net sales was attributable to increased volume of approximately $0.3 million offset by $0.1 million of unfavorable foreign exchange rates. Of this increase, $0.5 million due to increased demand for mechanical components mainly in the U.S. market offset by lower net sales of $0.3 million of machine tool collets mainly in Europe.

Gross Margin.

	Three Months Ended			
	December 29, 2012	December 31, 2011	$ Change	% Change

Plain Bearings	$20.2	$ 16.8	$ 3.4	20.6 %
Roller Bearings	10.6	11.2	(0.6)	(5.8)%
Ball Bearings	1.9	2.4	(0.5)	(21.9)%
Other	3.6	3.2	0.4	11.4 %
Total	$36.3	$ 33.6	$ 2.7	7.9 %

Gross margin was $36.3 million, or 37.7% of net sales, in the three month period ended December 29, 2012, versus $33.6 million, or 35.4% of net sales, for the same period in fiscal 2012. The increase of $2.7 million in gross margin dollars was driven by approximately $1.3 million in product mix/pricing, $1.2 million in cost reductions and higher volume of $0.3 million offset by $0.1 million from unfavorable exchange rates across both the diversified industrial and aerospace and defense markets.

Gross margin for the Plain Bearings segment was $20.2 million, or 39.3%, in the three month period ended December 29, 2012 versus $16.8 million, or 35.8% for the comparable period in fiscal 2012. Of this increase, approximately $1.5 million was attributable to volume, $1.3 million to cost reductions and $0.7 million to product mix/pricing offset by $0.1 million related to unfavorable foreign exchange rates. This segment was favorably impacted by commercial aircraft build rates and the aerospace aftermarket offset by slowing activity in mining and military vehicles.

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The Roller Bearings segment reported gross margin of $10.6 million, or 40.5%, in three month period ended December 29, 2012 compared to $11.2 million, or 36.7%, in the same period in the prior fiscal year. This segment was favorably impacted by approximately $0.5 million in cost reductions and $0.3 million from product mix/pricing offset by lower volume of $1.4 million. This segment was primarily effected by the slowing activity in mining.

The Ball Bearings segment reported gross margin of $1.9 million, or 17.1%, in the three month period ended December 29, 2012 versus $2.4 million, or 23.7%, in the same period in fiscal 2012. This segment's performance was attributable to unfavorable cost increases of $0.7 million offset by $0.2 million of product mix/pricing.

During the three month period ended December 29, 2012, the Other segment reported gross margin of $3.6 million, or 45.6%, compared to $3.2 million, or 42.3%, for the same period in the prior fiscal year. This gross margin performance was favorably impacted by $0.3 million of higher volume and $0.1 million of cost reductions. Performance in this segment was impacted by lower net sales of machine tool collets mainly in Europe.

Selling, General and Administrative.

	Three Months Ended December 29, 2012	December 31, 2011	$ Change	% Change
Plain Bearings	$3.9	$ 3.6	$ 0.3	6.7 %
Roller Bearings	1.7	1.6	0.1	5.4 %
Ball Bearings	0.7	0.6	0.1	25.5 %
Other	1.0	1.0	—	(1.3)%
Corporate	9.3	8.2	1.1	13.3 %
Total	$16.6	$ 15.0	$ 1.6	10.4 %

SG&A expenses increased by $1.6 million, or 10.4%, to $16.6 million for the three month period ended December 29, 2012 compared to $15.0 million for the same period in fiscal 2012. The increase of $1.6 million was primarily attributable to an increase of $0.8 million in personnel-related expenses, $0.3 million in incentive stock compensation, $0.2 million in higher professional fees and $0.3 million of other miscellaneous expenses. As a percentage of net sales, SG&A was 17.2% for the three month period ended December 29, 2012 compared to 15.8% for the same period in fiscal 2012. While SG&A expenses increased $1.6 million, or 10.4%, in three month period ended December 29, 2012, net sales during this fiscal period increased by $1.2 million, or 1.3%, contributing to an increase in SG&A percentage to net sales of 17.2% from 15.8% in the same period in the prior fiscal year.

Other, Net. Other, net for the three month period ended December 29, 2012 was expense of $0.6 million, an increase of $0.2 million, compared to expense of $0.4 million for the same period in fiscal 2012. For the three month period ended December 29, 2012, other, net consisted of $0.4 million of amortization of intangibles and $0.2 million in costs associated with asset disposals and restructuring. For the three month period ended December 31, 2011, other, net consisted of $0.4 million of amortization of intangibles and $0.1 million of bad debt expense offset by miscellaneous income of $0.1 million.

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Operating Income.

	Three Months Ended December 29, 2012	December 31, 2011	$ Change	% Change
Plain Bearings	$16.2	$ 13.0	$ 3.2	24.0 %
Roller Bearings	8.8	10.3	(1.5)	(14.2)%
Ball Bearings	1.1	1.0	0.1	5.5 %
Other	2.6	2.2	0.4	16.2 %
Corporate	(9.5)	(8.3)	(1.2)	13.5 %
Total	$19.2	$ 18.2	$ 1.0	5.2 %

Operating income was $19.2 million, or 19.9% of net sales, in the three month period ended December 29, 2012 compared to $18.2 million, or 19.1% of net sales, in the comparable period in fiscal 2012. The increase of $1.0 million in operating income dollars was driven primarily by $1.2 million in product mix/pricing, $1.4 million of cost reductions and $0.3 million of higher volume offset by higher SG&A expenses of $1.6 million and $0.3 million of unfavorable foreign exchange rates.

The increase in operating income in three of our four segments was mostly attributable to increased commercial aircraft build rates and the aerospace aftermarket. This increase was offset by a decline in the diversified industrial markets in addition to higher SG&A expenses.

The Plain Bearings segment achieved an operating income of $16.2 million in the three month period ended December 29, 2012 compared to $13.0 million for the same period last year. This improved contribution resulted from approximately a $1.5 million increase in volume, $1.3 million in cost reductions and $0.7 million in product mix/pricing offset by $0.3 million in unfavorable foreign exchange rates. This segment was favorably impacted by commercial aircraft build rates and the aerospace aftermarket offset by slowing activity in mining and military vehicles.

The Roller Bearings segment achieved an operating income of $8.8 million in the three month period ended December 29, 2012 compared to $10.3 million in the comparable period in fiscal 2012. The decrease of $1.5 million in operating income was mainly the result of approximately $0.3 million in product mix/pricing offset by $1.4 million from lower volume and cost increases of $0.4 million. This segment was primarily effected by the slowing activity in mining.

The Ball Bearings segment achieved an operating income of $1.1 million in the three month period ended December 29, 2012 compared to $1.0 million for the same period in the prior fiscal year. This segment's performance was favorably impacted by $0.2 million of product mix/pricing offset by cost increases of $0.1 million.

The Other segment achieved an operating income of $2.6 million in the three month period ended December 29, 2012 compared to $2.2 million for the same period in the prior fiscal year. The increase of $0.4 million was mainly due to approximately $0.3 million from higher volume and $0.1 million from cost reductions. Performance in this segment was impacted by lower net sales of machine tool collets mainly in Europe.

Interest Expense, Net. Interest expense, net was $0.3 million in the three month period ended December 29, 2012 compared to $0.2 million in the same period last fiscal year, primarily due to interest associated with the note on the Schaublin building purchase.

Other Non-Operating Expense. Other non-operating expense was $0.2 million in the three month period ended December 29, 2012, primarily due to foreign exchange loss.

Income Before Income Taxes. Income before taxes increased by $0.7 million to $18.6 million for the three month period ended December 29, 2012 compared to $17.9 million for the three month period ended December 31, 2011.

Income Taxes. Income tax expense for the three month period ended December 29, 2012 was $6.5 million compared to $5.8 million for the three month period ended December 31, 2011. Our effective income tax rate for the three month period ended December 29, 2012 was 35.1% compared to 32.1% for the three month period ended December 31, 2011. The effective income tax rate for the three month period ended December 29, 2012 of 35.1% includes discrete items in the amount of $0.1 million which are substantially comprised of the reversal of unrecognized tax benefits associated with the expiration of statutes of limitations along with the recognition of interest on unrecognized tax positions. The effective income tax rate without these discrete items would have been 35.6%. The effective income tax rate for the three month period ended December 31, 2011 of 32.1% includes discrete items of $0.4 million which were substantially comprised of a deferred income tax benefit pertaining to fixed assets. The effective income tax rate without these discrete items would have been 34.5%. In addition to discrete items, the effective income tax rates are different from the U.S. statutory rate due to a special manufacturing deduction in the U.S. and foreign income taxed at lower rates which decrease the rate, and state income taxes and an officers' compensation adjustment which increase the rate.

Net Income. Net income decreased by $0.1 million to $12.1 million for the three month period ended December 29, 2012 compared to $12.2 million for the three month period ended December 31, 2011.

Nine month Period Ended December 29, 2012 Compared to Nine Month Period Ended December 31, 2011

Net Sales.

	Nine Months Ended			
	December 29, 2012	December 31, 2011	$ Change	% Change
Plain Bearings	$ 160.2	$ 143.5	$ 16.7	11.6 %
Roller Bearings	87.5	88.7	(1.2)	(1.3)%
Ball Bearings	30.2	31.0	(0.8)	(2.5)%
Other	22.1	23.0	(0.9)	(3.7)%

Total	$300.0	$ 286.2	$ 13.8	4.8 %

Net sales for the nine month period ended December 29, 2012 were $300.0 million, an increase of $13.8 million, or 4.8%, compared to $286.2 million for the nine month period ended December 31, 2011. The increase of $13.8 million was primarily attributable to $8.5 million of product mix/pricing and $8.2 million of volume offset by $2.9 million of unfavorable foreign exchange rates. Net sales to aerospace and defense customers increased 15.0% in the nine month period ended December 29, 2012 compared to the same period last fiscal year, mainly driven by commercial aircraft build rates and the aerospace aftermarket. This was offset by a decline of 4.1% from the diversified industrial markets, resulting primarily from slowing activity in mining, oil and gas, heavy construction and general industrial markets.

The Plain Bearings segment achieved net sales of $160.2 million in the nine month period ended December 29, 2012, an increase of $16.7 million, or 11.6%, compared to $143.5 million for the same period in the prior fiscal year. This segment was favorably impacted by volume of approximately $13.6 million and $5.3 million in product mix/pricing offset by $2.2 million from unfavorable foreign exchange rates. Net sales to aerospace and defense customers increased $14.5 million combined with a $2.2 million increase in net sales to diversified industrial customers compared with the same period in the prior fiscal year. This segment was favorably impacted by commercial aircraft build rates and the aerospace aftermarket offset by slowing activity in mining, oil and gas, heavy construction and general industrial markets.

The Roller Bearings segment achieved net sales of $87.5 million in the nine month period ended December 29, 2012, a decrease of $1.2 million, or 1.3%, compared to $88.7 million for the same period in the prior fiscal year. This segment was favorably impacted by product mix/pricing of $1.9 million offset by lower volume of $3.1 million. Of this decline, $5.7 million was attributable to the diversified industrial sector offset by an increase of $4.5 million in net sales to aerospace and defense customers. This segment was primarily effected by the slowing activity in mining, oil and gas, heavy construction and general industrial markets.

The Ball Bearings segment achieved net sales of $30.2 million in the nine month period ended December 29, 2012, a decrease of $0.8 million, or 2.5%, compared to $31.0 million for the same period in the prior fiscal year. Of this decline, approximately $2.1 million was attributable to lower volume offset by the favorable impact of $1.3 million from product mix/pricing. Net sales to diversified industrial customers contributed $0.2 million to this decline combined with a decline of $0.6 million from the aerospace and defense sector.

The Other segment, which is focused mainly on the sale of machine tool collets and precision components, achieved net sales of $22.1 million in the nine month period ended December 29, 2012, a decrease of $0.9 million, or 3.7%, compared to $23.0 million for the same period in the prior fiscal year. The decline in net sales was attributable to approximately $0.7 million of unfavorable foreign exchange rates and $0.2 million of lower volume. Of this decline, $2.1 million was attributable to lower net sales of machine tool collets mainly in Europe and $0.7 million to unfavorable foreign exchange rates offset by an increase of $1.9 million due to increased demand for mechanical components mainly in the U.S. market.

Gross Margin.

	Nine Months Ended			
	December 29, 2012	December 31, 2011	$ Change	% Change
Plain Bearings	$61.9	$ 51.9	$ 10.0	19.4 %
Roller Bearings	34.3	31.2	3.1	9.5 %
Ball Bearings	6.3	7.1	(0.8)	(10.3)%
Other	9.7	9.2	0.5	5.7 %
Total	$112.2	$ 99.4	$ 12.8	12.9 %

Gross margin was $112.2 million, or 37.4% of net sales, in the nine month period ended December 29, 2012, versus $99.4 million, or 34.7% of net sales, for the same period in fiscal 2012. The increase of $12.8 million in gross margin dollars was driven by approximately $5.6 million in volume, $5.4 million in product mix/pricing and $2.7 million in cost reductions offset by $0.9 million from unfavorable exchange rates across both the diversified industrial and aerospace and defense markets.

Gross margin for the Plain Bearings segment was $61.9 million, or 38.6%, in the nine month period ended December 29, 2012 versus $51.9 million, or 36.1% for the comparable period in fiscal 2012. Of this increase, approximately $5.9 million was attributable to volume, $3.3 million to product mix/pricing and $1.4 million to cost reductions offset by $0.6 million related to unfavorable foreign exchange rates. This segment was favorably impacted by commercial aircraft build rates and the aerospace aftermarket offset by slowing activity in mining, oil and gas, heavy construction and general industrial markets.

The Roller Bearings segment reported gross margin of $34.3 million, or 39.1%, in nine month period ended December 29, 2012 compared to $31.2 million, or 35.3%, in the same period in the prior fiscal year. This segment was favorably impacted by approximately $1.9 million in cost reductions and $1.3 million in product mix/pricing offset by lower volume of $0.1 million. This segment was primarily effected by the slowing activity in mining, oil and gas, heavy construction and general industrial markets.

The Ball Bearings segment reported gross margin of $6.3 million, or 21.1%, in the nine month period ended December 29, 2012 versus $7.1 million, or 22.9%, in the same period in fiscal 2012. Of this gross margin percentage decline, $0.8 million was attributable to product mix/pricing offset by $0.7 million of lower volume and $0.9 million related to material and other costs.

During the nine month period ended December 29, 2012, the Other segment reported gross margin of $9.7 million, or 44.0%, compared to $9.2 million, or 40.1%, for the same period in the prior fiscal year. This increase in gross margin was primarily driven by approximately $0.4 million from cost reductions and $0.4 million of higher volume offset by $0.3 million from the impact of unfavorable foreign exchange. Performance in this segment was primarily impacted by lower net sales of machine tool collets mainly in Europe.

Selling, General and Administrative.

	Nine Months Ended December 29, 2012	December 31, 2011	$ Change	% Change
Plain Bearings	$11.2	$ 10.7	$ 0.5	5.0 %
Roller Bearings	5.1	4.8	0.3	7.8 %
Ball Bearings	2.3	2.2	0.1	4.7 %
Other	2.8	3.0	(0.2)	(8.7)%
Corporate	27.0	24.1	2.9	12.1 %
Total	$48.4	$ 44.8	$ 3.6	8.2 %

SG&A expenses increased by $3.6 million, or 8.2%, to $48.4 million for the nine month period ended December 29, 2012 compared to $44.8 million for the same period in fiscal 2012. The increase of $3.6 million was primarily attributable to an increase of $2.7 million in personnel-related costs as a result of headcount and salary increases, $0.9 million in incentive stock compensation and $0.3 million of other miscellaneous expenses offset by $0.3 million from the favorable impact of foreign exchange rates. As a percentage of net sales, SG&A was 16.1% for the nine month period ended December 29, 2012 compared to 15.6% for the same period in fiscal 2012. While SG&A expenses increased $3.6 million, or 8.2%, in the nine month period ended December 29, 2012, net sales during this fiscal period increased by $13.8 million, or 4.8%, contributing to the higher SG&A percentage to net sales of 16.1%.

Other, Net. Other, net for the nine month period ended December 29, 2012 was expense of $1.5 million, an increase of $0.5 million, compared to expense of $1.0 million for the same period in fiscal 2012. For the nine month period ended December 29, other, net consisted of $1.1 million of amortization of intangibles and $0.4 million in costs associated with asset disposals and restructuring. For the nine month period ended December 31, 2011, other, net consisted of $1.1 million of amortization of intangibles and $0.2 million of bad debt expense offset by a gain on sale of assets of $0.2 million and miscellaneous income of $0.1 million.

Operating Income.

	Nine Months Ended December 29, 2012	December 31, 2011	$ Change	% Change
Plain Bearings	$50.0	$ 40.7	$ 9.3	22.6 %
Roller Bearings	28.8	28.3	0.5	1.9 %
Ball Bearings	4.0	3.0	1.0	32.2 %
Other	6.9	6.1	0.8	14.0 %
Corporate	(27.4)	(24.5)	(2.9)	11.5 %
Total	$62.3	$ 53.6	$ 8.7	16.4 %

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Operating income was $62.3 million, or 20.8% of net sales, in the nine month period ended December 29, 2012 compared to $53.6 million, or 18.7% of net sales, in the comparable period in fiscal 2012. The increase of $8.7 million in operating income dollars was driven primarily by $5.6 million in volume and $5.4 million in product mix/pricing and $2.0 million of cost reductions offset by $3.6 million of higher SG&A expenses and $0.7 million from unfavorable exchange rates across both the diversified industrial and aerospace and defense markets.

The increase in operating income across all our segments was mostly attributable to increased commercial aircraft build rates and the aerospace aftermarket. This increase was offset by slowing activity in mining, oil and gas, heavy construction and general industrial markets and higher SG&A expenses, primarily driven by higher personnel costs and stock compensation expense.

The Plain Bearings segment achieved an operating income of $50.0 million in the nine month period ended December 29, 2012 compared to $40.7 million for the same period last year. This improved contribution resulted from approximately a $5.9 million increase in volume, $3.4 million in product mix/pricing and $0.6 million of cost reductions offset by $0.6 million of unfavorable foreign exchange rates. This segment was favorably impacted by commercial aircraft build rates and the aerospace aftermarket offset by slowing activity in mining, oil and gas, heavy construction and general industrial markets.

The Roller Bearings segment achieved an operating income of $28.8 million in the nine month period ended December 29, 2012 compared to $28.3 million in the comparable period in fiscal 2012. The increase of $0.5 million in operating income was mainly the result of approximately $1.2 million in product mix/pricing offset by $0.6 million in cost increases and $0.1 million in lower volume.

The Ball Bearings segment achieved an operating income of $4.0 million in the nine month period ended December 29, 2012 compared to $3.0 million for the same period in the prior fiscal year. This segment’s performance was favorably impacted by $0.8 million in product mix/pricing and $0.8 million in cost reductions offset by lower volume of $0.6 million.

The Other segment achieved an operating income of $6.9 million in the nine month period ended December 29, 2012 compared to $6.1 million for the same period in the prior fiscal year. The increase of $0.8 million was mainly due to approximately $0.5 million from cost reductions and $0.4 million from higher volume offset by $0.1 million from the unfavorable impact of foreign exchange rates. Performance in this segment was primarily impacted by lower net sales of machine tool collets mainly in Europe.

Interest Expense, Net. Interest expense, net decreased by $0.2 million to $0.7 million in the nine month period ended December 29, 2012, compared to $0.9 million in the same period last fiscal year.

Other Non-Operating (Income) Expense. Other non-operating income was $3.0 million in the nine month period ended December 29, 2012 compared to expense of $0.6 million in the same period last fiscal year. The change of $3.6 million was due to the receipt of a CDSOA distribution payment in the amount of $3.6 million in the nine month period ended December 29, 2012.

Income Before Income Taxes. Income before taxes increased by $12.5 million to $64.6 million for the nine month period ended December 29, 2012 compared to $52.1 million for the nine month period ended December 31, 2011.

Income Taxes. Income tax expense for the nine month period ended December 29, 2012 was $18.9 million compared to $17.6 million for the nine month period ended December 31, 2011. Our effective income tax rate for the nine month period ended December 29, 2012 was 29.2% compared to 33.8% for the nine month period ended December 31, 2011. The effective income tax rate for the nine month period ended December 29, 2012 of 29.2% includes discrete items in the amount of $3.8 million which are substantially comprised of the reversal of unrecognized tax benefits associated with the conclusion of income tax audits and the expiration of statutes of limitations. The effective income tax rate without these discrete items would have been 35.1%. The effective income tax rate for the nine month period ended December 31, 2011 of 33.8% included discrete items of $0.4 million which were substantially comprised of a deferred tax benefit pertaining to fixed assets. The effective income tax rate without these discrete items would have been 34.5%.

In addition to discrete items, the effective income tax rates are different from the U.S. statutory rate due to a special manufacturing deduction in the U.S. and foreign income taxed at lower rates which decrease the rate, and state income taxes and an officers' compensation adjustment which increase the rate.

Net Income. Net income increased by $11.3 million to $45.8 million for the nine month period ended December 29, 2012 compared to $34.5 million for the nine month period ended December 31, 2011.

Liquidity and Capital Resources

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

Liquidity

On October 1, 2012, Schaublin purchased the land and building, which it currently occupies and had been leasing, for 14.1 million CHF (approximately $15.0 million). Schaublin obtained a 20 year fixed rate mortgage for 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. As of December 29, 2012, the balance on this mortgage was 9.2 million CHF, or $10.1 million.

On November 30, 2010, we and RBCA terminated the previous KeyBank Credit Agreement and the related credit, security and ancillary agreements, and entered into a new credit agreement (the "JP Morgan Credit Agreement") and related security and guaranty agreements with certain banks, J.P. Morgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Chase Bank, N.A. and KeyBank National Association as Co-Lead Arrangers and Joint Lead Book Runners. The JP Morgan Credit Agreement provides RBCA with a $150.0 million five-year senior secured revolving credit facility which can be increased by up to $100.0 million, in increments of $25.0 million, under certain circumstances and subject to certain conditions (including the receipt from one or more lenders of the additional commitment).

Amounts outstanding under the JP Morgan Credit Agreement generally bear interest at the prime rate, or LIBOR plus a specified margin, depending on the type of borrowing being made. The applicable margin is based on our consolidated ratio of net debt to adjusted EBITDA from time to time. Currently, our margin is 0.5% for prime rate loans and 1.5% for LIBOR rate loans.

The JP Morgan Credit Agreement requires us to comply with various covenants, including among other things, financial covenants to maintain the following: (1) a ratio of consolidated net debt to adjusted EBITDA not to exceed 3.25 to 1; and (2) a consolidated fixed charge coverage ratio not to exceed 1.5 to 1. As of December 29, 2012, we were in compliance with all such covenants.

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

On November 30, 2010, we borrowed approximately $30.0 million under the JP Morgan Credit Agreement and used such funds to repay the approximately $30.0 million balance outstanding under the KeyBank Credit Agreement. In the first quarter of fiscal 2012, we paid down the $30.0 million outstanding revolver balance. Amounts outstanding under the new credit agreement are generally due and payable on the expiration date of November 30, 2015. We may elect to prepay some or all of the outstanding balance from time to time without penalty.

Approximately $5.5 million of the JP Morgan Credit Agreement is being utilized to provide letters of credit to secure RBCA's obligations relating to certain insurance programs. As of December 29, 2012, RBCA had the ability to borrow up to an additional $144.5 million under the JP Morgan Credit Agreement.

On October 27, 2008, Schaublin entered into a new bank credit facility with Credit Suisse which replaced the prior bank credit facility of December 8, 2003 and its amendment of November 8, 2004. This facility provides for up to 4.0 million CHF, or $4.4 million, of revolving credit loans and letters of credit. Borrowings under this facility bear interest at Credit Suisse's prevailing prime bank rate. As of December 29, 2012, there were no borrowings under the Swiss Credit Facility.

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.

As of December 29, 2012, we had cash and cash equivalents of $112.0 million of which approximately $33.7 million was cash held by our foreign operations. We expect that our undistributed foreign earnings will be re-invested indefinitely for working capital, internal growth and acquisitions for and by our foreign entities.

Cash Flows

Nine month Period Ended December 29, 2012 Compared to the Nine month Period Ended December 31, 2011

In the nine month period ended December 29, 2012, we generated cash of $49.2 million from operating activities compared to $32.0 million for the nine month period ended December 31, 2011. The increase of $17.2 million was mainly a result of an increase of $11.3 million in net income, the net of non-cash charges of $0.7 million and a change in operating assets and liabilities of $5.2 million. The change in working capital investment was primarily attributable to increases in collections of accounts receivable of $13.3 million and slower inventory build of $3.8 million, offset by increases in prepaid expenses of $6.0 million and decreases in accounts payable of $2.0 million and non-current liabilities of $3.3 million. Inventory turnover for the nine month period ended December 29, 2012 decreased to 1.8 as compared to 1.9 for the same period in the prior fiscal year. Days sales outstanding decreased to 60 at December 29, 2012 as compared to 61 at December 31, 2011.

Cash used in investing activities for the nine month period ended December 29, 2012 included $30.8 million for capital expenditures and $1.2 million for the purchase of short-term investments. Cash used in investing activities for the nine month period ended December 31, 2011 included $11.3 million related to capital expenditures offset by proceeds of $3.9 million from the sale or maturity of short-term investments.

Financing activities provided $26.6 million in the nine month period ended December 29, 2012 compared to the use of $28.3 million for the nine month period ended December 31, 2011. The nine month period ended December 29, 2012 included $15.6 million from the exercise of stock options, $9.9 million in proceeds from a term loan and $5.6 million in excess tax benefits from stock-based compensation offset by $4.2 million from the repurchase of common stock and $0.3 million of payments on notes payable.

Capital Expenditures

Our capital expenditures were $30.8 million for the nine month period ended December 29, 2012, including approximately 14.1 million CHF (approximately $15.0 million) for the purchase of land and building in Switzerland, which Schaublin had been leasing, and $3.3 million for the purchase of new properties in South Carolina, Georgia and California. In addition, we expect to make additional capital expenditures of $8.0 to $9.0 million during fiscal 2013. We expect to fund fiscal 2013 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

As of December 29, 2012, there were no material changes in capital lease, operating lease or pension and postretirement obligations as compared to such obligations and liabilities as of March 31, 2012.

Other Matters

Critical Accounting Estimates

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 Note 1 to the Consolidated Financial Statements in our fiscal 2012 Annual Report, incorporated by reference in our fiscal 2012 Form 10-K, describe the significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management’s estimates. There have been no significant changes in our critical accounting estimates during the first nine months of fiscal 2013.

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 no debt outstanding under the credit agreement. If we do incur debt in the future, we would evaluate the impact of interest rate changes on our net income and cash flow and take appropriate action to limit our exposure.

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 and the British Pound Sterling. Our Swiss operations utilize the Swiss Franc as the functional currency, our French operations utilize the Euro as the functional currency and our English operations utilize the British Pound Sterling 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 nine months of fiscal 2013 compared to approximately 13% in the same period in fiscal 2012. 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 (of which there were none at December 29, 2012), the effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income ("AOCI"), and is reclassified into earnings when the hedged transaction affects earnings. As of December 29, 2012, the net impact of existing gains or losses expected to be reclassified from AOCI into earnings over the next twelve months is not material.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

ITEM 4. Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of December 29, 2012. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 29, 2012, our disclosure controls and procedures were (1) designed to ensure that information relating to our Company required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported to our Chief Executive Officer and Chief Financial Officer within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission, and (2) effective, in that they provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the nine month period ended December 29, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Part II - OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

There have been no material changes to our risk factors and uncertainties during the nine month period ended December 29, 2012. For a discussion of the Risk Factors, refer to Part I, Item 2, “Cautionary Statement As To Forward-Looking Information,” contained in this report and Part I, Item 1A, “Risk Factors,” contained in the Company’s Annual Report on Form 10-K for the period ended March 31, 2012.

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 June 15, 2007, our board of directors authorized us to repurchase up to $10.0 million of our common stock from time to time on the open market, through block trades, or in privately negotiated transactions depending on market conditions, alternative uses of capital and other factors. Purchases may be commenced, suspended or discontinued at any time without prior notice. The new program, which does not have an expiration date, replaced a $7.5 million program that expired on March 31, 2007.

Total share repurchases for the three months ended December 29, 2012 are as follows:

Period	Total number of shares Purchased	Average price paid per share	Number of shares purchased as part of the publicly announced program	Approximate dollar value of shares still available to be purchased under the program (000's)
09/30/2012-10/27/2012	7,755	$ 47.87	7,755	$ 4,478
10/28/2012-11/24/2012	1,700	43.67	1,700	4,403
11/25/2012-12/29/2012	76,054	49.13	76,054	$ 667
Total	85,509	$ 48.90	85,509	

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).*

* 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.

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SIGNATURES

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

RBC Bearings Incorporated
(Registrant)

By: /s/ Michael J. Hartnett
Name: Michael J. Hartnett
Title: Chief Executive Officer
Date: February 7, 2013

By: /s/ Daniel A. Bergeron
Name: Daniel A. Bergeron
Title: Chief Financial Officer
Date: February 7, 2013

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