RBC Bearings INC
Form 10-Q
August 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 28, 2008

OR

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

Commission File Number: 333-124824

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

Delaware	95-4372080
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Tribology Center Oxford, CT	06478
(Address of principal executive offices)	(Zip Code)

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

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

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 x Accelerated filer o Non-accelerated filer o Smaller reporting

company o

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

As of July 30, 2008, RBC Bearings Incorporated had 21,783,686 shares of Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

ASSETS	**June 28, 2008** (Unaudited)	**March 29, 2008**
Current assets:		
Cash	$ 13,397	$ 9,859
Accounts receivable, net of allowance for doubtful accounts of $1,100 at June 28, 2008 and $1,018 at March 29, 2008	64,044	66,137
Inventory	129,549	123,820
Deferred income taxes	4,793	5,567
Prepaid expenses and other current assets	6,330	9,976
Total current assets	218,113	215,359
Property, plant and equipment, net	76,729	73,243
Goodwill	32,488	31,821
Intangible assets, net of accumulated amortization of $3,957 at June 28, 2008 and $3,583 at March 29, 2008	13,090	11,404
Other assets	4,941	5,285
Total assets	$ 345,361	$ 337,112
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,308	$ 24,851
Accrued expenses and other current liabilities	15,336	13,489
Current portion of long-term debt	750	750
Total current liabilities	42,394	39,090
Long-term debt, less current portion	50,500	57,000
Deferred income taxes	6,367	6,064
Other non-current liabilities	11,554	11,048
Total liabilities	110,815	113,202
Stockholders' equity:		
Preferred stock, $.01 par value; authorized shares: 10,000,000 at June 28, 2008 and March 29, 2008; none issued and outstanding	—	—
Common stock, $.01 par value; authorized shares: 60,000,000 at June 28, 2008 and March 29, 2008; issued and outstanding shares: 21,782,186 shares at June 28, 2008 and March 29, 2008, respectively	218	218
Additional paid-in capital	184,837	184,285
Accumulated other comprehensive income	1,058	1,312
Retained earnings	52,371	41,688
Treasury stock, at cost, 123,553 shares at June 28, 2008 and 113,322 shares at March 29, 2008	(3,938)	(3,593)
Total stockholders' equity	234,546	223,910
Total liabilities and stockholders' equity	$ 345,361	$ 337,112

See accompanying notes.

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

	Three Months Ended June 28, 2008		Three Months Ended June 30, 2007	
Net sales	$	92,380	$	79,823
Cost of sales		61,825		52,378
Gross margin		30,555		27,445
Operating expenses:				
Selling, general and administrative		13,127		11,302
Other, net		382		362
Total operating expenses		13,509		11,664
Operating income		17,046		15,781
Interest expense, net		681		980
Loss on early extinguishment of debt		319		—
Other non-operating income		(83)		(114)
Income before income taxes		16,129		14,915
Provision for income taxes		5,446		5,090
Net income	$	10,683	$	9,825
Net income per common share:				
Basic	$	0.50	$	0.46
Diluted	$	0.49	$	0.45
Weighted average common shares:				
Basic		21,561,375		21,377,482
Diluted		21,782,020		21,882,470

See accompanying notes.

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

	Three Months Ended June 28, 2008	Three Months Ended June 30, 2007
Cash flows from operating activities:		
Net income	$ 10,683	$ 9,825
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,792	2,172
Deferred income taxes	1,077	1,786
Amortization of intangible assets	374	241
Amortization of deferred financing costs	59	51
Stock-based compensation	552	350
Loss on disposition of assets	30	10
Loss on early extinguishment of debt (non-cash portion)	319	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	3,139	(3,091)
Inventory	(3,981)	(3,798)
Prepaid expenses and other current assets	3,666	(1,122)
Other non-current assets	33	(2)
Accounts payable	1,249	4,362
Accrued expenses and other current liabilities	1,114	246
Other non-current liabilities	607	2,400
Net cash provided by operating activities	21,713	13,430
Cash flows from investing activities:		
Purchase of property, plant and equipment	(4,569)	(6,623)
Acquisition of businesses, net of cash acquired	(6,579)	(4,360)
Proceeds from sale of assets	18	4
Net cash used in investing activities	(11,130)	(10,979)
Cash flows from financing activities:		
Net increase (decrease) in revolving credit facility	9,000	(4,000)
Exercise of stock options	—	1,043
Repurchase of common stock	(345)	—
Retirement of industrial revenue bonds	(15,500)	—
Principal payments on capital lease obligations	(48)	(51)
Net cash used in financing activities	(6,893)	(3,008)
Effect of exchange rate changes on cash	(152)	(12)
Cash and cash equivalents:		
Increase (decrease) during the period	3,538	(569)
Cash, at beginning of period	9,859	5,184
Cash, at end of period	$ 13,397	$ 4,615

Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	630	$	935
Income taxes	$	1,112	$	510

See accompanying notes.

RBC Bearings Incorporated
Notes to Unaudited Interim Consolidated Financial Statements
(dollars in thousands, except share and per share data)

The consolidated financial statements included herein have been prepared by RBC Bearings Incorporated, a Delaware corporation (collectively with its subsidiaries, the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The March 29, 2008 fiscal year end balance sheet data have been derived from the Company's audited financial statements, but do not include all disclosures required by generally accepted accounting principles in the United States. The interim financial statements included with this report have been prepared on a consistent basis with the Company's audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 29, 2008.

The consolidated financial statements include the accounts of RBC Bearings Incorporated and its wholly-owned subsidiary, Roller Bearing Company of America, Inc. ("RBCA") and its wholly-owned subsidiaries, Industrial Tectonics Bearings Corporation ("ITB"), RBC Linear Precision Products, Inc. ("LPP"), RBC Nice Bearings, Inc. ("Nice"), RBC Precision Products - Bremen, Inc. ("Bremen (MBC)"), RBC Precision Products - Plymouth, Inc. ("Plymouth"), Tyson Bearings, Inc. ("Tyson"), Schaublin Holdings S.A. and its wholly-owned subsidiaries ("Schaublin"), RBC de Mexico S DE RL DE CV ("Mexico"), RBC Oklahoma, Inc. ("RBC Oklahoma"), RBC Aircraft Products, Inc. ("API"), Shanghai Representative office of Roller Bearing Company of America, Inc. ("RBC Shanghai"), RBC Southwest Products, Inc. ("SWP"), All Power Manufacturing Co. ("All Power"), RBC Bearings U.K. Limited and its wholly-owned subsidiary Phoenix Bearings Limited ("Phoenix") and RBC CBS Coastal Bearing Services LLC ("CBS"), as well as the Transport Dynamics ("TDC"), Heim ("Heim"), Engineered Components ("ECD"), A.I.D. Company ("AID"), BEMD Company ("BEMI and PIC Design ("PIC Design") divisions of RBCA. U.S. Bearings ("USB") is a division of SWP and Schaublin USA is a division of Nice. All material intercompany balances and transactions have been eliminated in consolidation.

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

The Company operates in four reportable business segments—roller bearings, plain bearings, ball bearings, other and corporate—in which it manufactures roller bearing components and assembled parts and designs and manufactures high-precision roller and ball bearings. The Company sells to a wide variety of original equipment manufacturers ("OEMs") and distributors who are widely dispersed geographically.

The results of operations for the three month period ended June 28, 2008 are not necessarily indicative of the operating results for the full year. The three month periods ended June 28, 2008 and June 30, 2007 each include 13 weeks. The amounts shown are in thousands, unless otherwise indicated.

Certain reclassifications have been made to prior year's financial statements to conform with current year presentation.

Adoption of Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157 "Fair Value Measurements" ("SFAS No. 157") in order to establish a single definition of fair value and a framework for measuring fair value that is intended to result in increased consistency and comparability in fair value measurements. In February 2008, the FASB issued Staff Position FAS 157-2, which delayed by one year the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a

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recurring basis (at least annually). The delay pertains to items including, but not limited to, non-financial assets and non-financial liabilities initially measured at fair value in a business combination, reporting units measured at fair value in the first step of evaluating goodwill for impairment, indefinite-lived intangible assets measured at fair value for impairment assessment, and long-lived assets measured at fair value for impairment assessment. The adoption of SFAS No. 157 as of the beginning of the 2009 fiscal year did not have an impact on the measurement of the Company's financial assets and liabilities. The Company plans to adopt the remaining provisions of SFAS No. 157 as of the beginning of its 2010 fiscal year and is currently assessing the impact adoption will have on its results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities, Including an amendment of FASB Statement No. 115," ("SFAS No. 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company chose to not adopt the fair value measurement provisions of SFAS No. 159.

Pending Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations," and SFAS No. 160, "Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements.

In comparison to current practice, the most significant changes to business combination accounting pursuant to SFAS No. 141(R) include requirements to:

- Recognize, with certain exceptions, 100 percent of the fair values of assets acquired, liabilities assumed, and noncontrolling interests in acquisitions of less than a 100 percent controlling interest when the acquisition constitutes a change in control of the acquired entity.
- Measure acquirer shares issued in consideration for a business combination at fair value on the acquisition date.
- Recognize contingent consideration arrangements at their acquisition-date fair values, with subsequent changes in fair value generally reflected in earnings.
- With certain exceptions, recognize preacquisition loss and gain contingencies at their acquisition-date fair values.
- Capitalize in-process research and development (IPR&D) assets acquired.
- Expense, as incurred, acquisition-related transaction costs.
- Capitalize acquisition-related restructuring costs only if the criteria in SFAS 146 are met as of the acquisition date.
- Recognize changes that result from a business combination transaction in an acquirer's existing income tax valuation allowances and tax uncertainty accruals as adjustments to income tax expense.

The premise of SFAS No. 160 is based on the economic entity concept of consolidated financial statements. Under the economic entity concept, all residual economic interest holders in an entity have an equity interest in the consolidated entity, even if the residual interest is relative to only a portion of the entity (i.e., a residual interest in a subsidiary). Therefore, SFAS No. 160 requires that a noncontrolling interest in a consolidated subsidiary be displayed in the consolidated statement of financial position as a separate component of equity because the noncontrolling interests meet the definition of equity of the consolidated entity. SFAS No. 141(R) is required to be adopted concurrently with SFAS No. 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which for the Company is fiscal 2010. Early adoption is prohibited. The Company is currently assessing the impact that SFAS No. 141(R) and SFAS No. 160 will have on its results of operations and financial position.

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In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 161 applies to all derivative instruments and related hedged items accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No.161 requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flow. To meet those objectives, SFAS No. 161 requires (1) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure (e.g., interest rate, credit or foreign exchange rate) and by purpose or strategy (fair value hedge, cash flow hedge, net investment hedge, and non-hedges), (2) information about the volume of derivative activity in a flexible format the preparer believes is the most relevant and practicable, (3) tabular disclosures about balance sheet location and gross fair value amounts of derivative instruments, income statement and other comprehensive income (OCI) location and amounts of gains and losses on derivative instruments by type of contract (e.g., interest rate contracts, credit contracts or foreign exchange contracts), and (4) disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years or interim periods beginning after November 15, 2008, which for the Company is the fourth quarter of fiscal 2009. Early application is encouraged, as are comparative disclosures for earlier periods, but neither are required. The Company is currently assessing the impact that SFAS No. 161 will have on its results of operations and financial position.

1. Acquisition

On June 6, 2008, the Company acquired the assets of Precision Industrial Components LLC ("PIC Design") for $6,579 in cash and the assumption of certain liabilities. As a result of the acquisition, the Company recorded amortizable intangible assets of $1,500, fixed assets of $1,579, goodwill of $652, other long-term assets of $57, other long-term liabilities of $420 and $3,211 of working capital. PIC Design, located in Middlebury, Connecticut, is a manufacturer and supplier of tight-tolerance, precision mechanical components for use in the motion control industry. PIC Design is included in the Other segment. Proforma net sales and net income inclusive of PIC Design are not materially different from those previously reported.

2. Net Income Per Common Share

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

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

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

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	Three Months Ended June 28, 2008	Three Months Ended June 30, 2007
Net income	$ 10,683	$ 9,825
Denominator for basic net income per common share—weighted-average shares	21,561,375	21,377,482
Effect of dilution due to employee stock options	220,645	504,988
Denominator for diluted net income per common share — weighted-average shares	21,782,020	21,882,470
Basic net income per common share	$ 0.50	$ 0.46
Diluted net income per common share	$ 0.49	$ 0.45

3. Inventory

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

	June 28, 2008	March 29, 2008
Raw materials	$	