

RBC Bearings INC
Form 10-Q
November 06, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 27, 2014

OR

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.)

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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 No

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

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

Large accelerated filer Accelerated filer

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

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

As of October 24, 2014, RBC Bearings Incorporated had 23,347,019 shares of Common Stock outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

RBC Bearings Incorporated

Consolidated Balance Sheets

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

	September 27, 2014 (Unaudited)	March 29, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 109,447	\$ 121,207
Short-term investments	—	2,419
Accounts receivable, net of allowance for doubtful accounts of \$1,000 at September 27, 2014 and \$1,060 at March 29, 2014	72,001	75,642
Inventory	199,332	198,021
Deferred income taxes	12,513	12,611
Prepaid expenses and other current assets	10,326	7,645
Total current assets	403,619	417,545
Property, plant and equipment, net	138,678	137,154
Goodwill	43,439	43,452
Intangible assets, net of accumulated amortization of \$12,311 at September 27, 2014 and \$12,821 at March 29, 2014	12,774	14,617
Other assets	8,479	8,225
Total assets	\$ 606,989	\$ 620,993
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 23,562	\$ 24,326
Accrued expenses and other current liabilities	21,518	17,220
Current portion of long-term debt	1,240	1,274
Total current liabilities	46,320	42,820
Deferred income taxes	9,899	9,779
Long-term debt, less current portion	8,334	9,173
Other non-current liabilities	21,492	20,769
Total liabilities	86,045	82,541
Stockholders' equity:		

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Preferred stock, \$.01 par value; authorized shares: 10,000,000 at September 27, 2014 and March 29, 2014; none issued and outstanding	—	—
Common stock, \$.01 par value; authorized shares: 60,000,000 at September 27, 2014 and March 29, 2014; issued and outstanding shares: 23,781,055 at September 27, 2014 and 23,524,028 at March 29, 2014	238	235
Additional paid-in capital	255,954	246,152
Accumulated other comprehensive income (loss)	(3,481) 2,365
Retained earnings	285,196	301,942
Treasury stock, at cost, 398,161 shares at September 27, 2014 and 317,817 shares at March 29, 2014	(16,963) (12,242)
Total stockholders' equity	520,944	538,452
Total liabilities and stockholders' equity	\$ 606,989	\$ 620,993

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	\$112,555	\$ 101,954	\$225,539	\$ 204,622
Cost of sales	72,804	61,363	141,967	123,562
Gross margin	39,751	40,591	83,572	81,060
Operating expenses:				
Selling, general and administrative	18,517	17,140	37,513	34,124
Other, net.	2,937	1,935	3,551	3,122
Total operating expenses	21,454	19,075	41,064	37,246
Operating income	18,297	21,516	42,508	43,814
Interest expense, net	308	253	532	494
Other non-operating (income) expense	(235)	(15)	(502)	(207)
Income before income taxes	18,224	21,278	42,478	43,527
Provision for income taxes	4,976	7,153	13,210	14,286
Net income	\$13,248	\$ 14,125	\$29,268	\$ 29,241
Net income per common share:				
Basic	\$0.57	\$ 0.62	\$1.27	\$ 1.28
Diluted	\$0.57	\$ 0.61	\$1.25	\$ 1.26
Weighted average common shares:				
Basic	23,134,902	22,827,498	23,070,170	22,807,239
Diluted	23,424,421	23,204,508	23,394,439	23,152,876
Dividends per share	—	—	\$2.00	—

See accompanying notes.

RBC Bearings Incorporated**Consolidated Statements of Comprehensive Income****(dollars in thousands)****(Unaudited)**

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net income	\$13,248	\$ 14,125	\$29,268	\$ 29,241
Pension and postretirement liability adjustments, net of taxes	199	(230)	398	(459)
Unrealized gain (loss) on investments, net of taxes	(345)	34	(273)	(12)
Foreign currency translation adjustments	(5,152)	2,470	(5,971)	3,248
Total comprehensive income	\$7,950	\$ 16,399	\$23,422	\$ 32,018

See accompanying notes.

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

	Six Months Ended September 27, 2014	September 28, 2013
Cash flows from operating activities:		
Net income	\$ 29,268	\$ 29,241
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,103	6,753
Excess tax benefits from stock-based compensation	(2,778)	(587)
Deferred income taxes	218	487
Amortization of intangible assets	964	837
Amortization of deferred financing costs	163	163
Consolidation and restructuring charges	5,026	—
Stock-based compensation	4,035	2,739
Loss on disposition or sale of assets	500	8
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	2,848	(2,195)
Inventory	(6,291)	(12,904)
Prepaid expenses and other current assets	(2,669)	(1,329)
Other non-current assets	(670)	(1,393)
Accounts payable	(560)	(1,030)
Accrued expenses and other current	7,451	364

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liabilities		
Other non-current liabilities	120	385
Net cash provided by operating activities	44,728	21,539
Cash flows from investing activities:		
Purchase of property, plant and equipment	(11,458)	(14,592)
Purchase of short-term investments	—	(729)
Proceeds from sale of short-term investments	2,380	—
Acquisition of businesses, net of cash acquired	—	(13,646)
Proceeds from sale of assets	593	35
Net cash used in investing activities	(8,485)	(28,932)
Cash flows from financing activities:		
Exercise of stock options	2,992	1,382
Excess tax benefits from stock-based compensation	2,778	587
Repurchase of common stock	(4,721)	(109)
Payment of term loan	(259)	(247)
Dividends paid to shareholders	(46,014)	—
Other, net	(101)	(58)
Net cash (used in) provided by financing activities	(45,325)	1,555
Effect of exchange rate changes on cash	(2,678)	1,560
Cash and cash equivalents:		
Decrease during the period	(11,760)	(4,278)
Cash, at beginning of period	121,207	114,480
	\$ 109,447	\$ 110,202

Cash, at end of
period

See accompanying notes.

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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, 2014 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, 2014.

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.

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations. In the third quarter of fiscal 2014, the Company concluded that it was appropriate to classify certain accounts receivables as other current assets. Accordingly, the Company had revised the classification to report these receivables under the Prepaid expenses and other current assets caption. Corresponding reclassifications have been made to the Consolidated Statement of Cash Flows for the six months ended September 28, 2013 to reflect the reclassification and this change in classification does not affect previously reported cash flows from operations, and had no effect on the previously reported Consolidated Statement of Operations for any period.

The results of operations for the three month period ended September 27, 2014 are not necessarily indicative of the operating results for the full year. The three month periods ended September 27, 2014 and September 28, 2013 each include 13 weeks. The amounts shown are in thousands, unless otherwise indicated.

Adoption of Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” to clarify existing guidance on revenue recognition. This guidance includes the required steps to achieve the core principle that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2016 with no early adoption permitted. We have not determined the effect that the adoption of the pronouncement may have on our financial position and/or results of operations.

In April 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” This update requires additional disclosures about discontinued operations and amends the requirements for reporting discontinued operations. Under this ASU only disposals constituting a major financial or operational impact or that represent a strategic shift should be reported as discontinued operations. This update also requires new disclosures for individually material disposals that do not qualify as discontinued operations. This guidance was adopted by the Company at the beginning of the second quarter of fiscal 2015. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, “Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” This ASU requires that companies net their unrecognized tax benefits against all same-jurisdiction net operating losses or tax credits carryforwards that would be used to settle the position with a tax authority. This standard is applicable for all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. It is effective for fiscal years, and for interim periods within those years, beginning after December 15, 2013. As such, it was adopted by the Company at the beginning of the first quarter of fiscal 2015. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

1. Accumulated Other Comprehensive Income (Loss)

The components of comprehensive income (loss) that relate to the Company are net income, valuation of available for sale investments, foreign currency translation adjustments and pension plan and postretirement benefits, all of which are presented in the consolidated statements of stockholders' equity and comprehensive income (loss).

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

	Currency Translation	Pension and Postretirement Liability	Investments	Total
Balance at March 29, 2014	\$ 8,837	\$ (6,732)	\$ 260	\$2,365
Other comprehensive income (loss) before reclassifications (net of taxes)	(5,971)	405	72	(5,494)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(7)	(345)	(352)
Net current period other comprehensive income (loss)	(5,971)	398	(273)	(5,846)
Balance at September 27, 2014	\$ 2,866	\$ (6,334)	\$ (13)	\$(3,481)

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.

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

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net income	\$ 13,248	\$ 14,125	\$ 29,268	\$ 29,241
Denominator for basic net income per common share—weighted-average shares outstanding	23,134,902	22,827,498	23,070,170	22,807,239
Effect of dilution due to employee stock options	289,519	377,010	324,269	345,637
Denominator for diluted net income per common share — weighted-average shares outstanding	23,424,421	23,204,508	23,394,439	23,152,876
Basic net income per common share	\$ 0.57	\$ 0.62	\$ 1.27	\$ 1.28
Diluted net income per common share	\$ 0.57	\$ 0.61	\$ 1.25	\$ 1.26

At September 27, 2014, 419,650 employee stock options and 800 restricted shares have been excluded from the calculation of diluted earnings per share. At September 28, 2013, 207,500 employee stock options and 2,000 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.

3. Cash and Cash Equivalents

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

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

4. Inventory

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

	September 27, 2014	March 29, 2014
Raw materials	\$ 18,266	\$ 18,001
Work in process	46,738	46,134
Finished goods	134,328	133,886
	\$ 199,332	\$ 198,021