

RBC Bearings INC  
Form 10-Q  
August 06, 2015

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 June 27, 2015

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.)

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

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(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 July 24, 2015, RBC Bearings Incorporated had 23,487,024 shares of Common Stock outstanding.

TABLE OF CONTENTS

Part I -	<u>FINANCIAL INFORMATION</u>	3
ITEM 1.	<u>Financial Statements</u>	3
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
ITEM 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
ITEM 4.	<u>Controls and Procedures</u>	27
	<u>Changes in Internal Control over Financial Reporting</u>	27
Part II -	<u>OTHER INFORMATION</u>	28
ITEM 1.	<u>Legal Proceedings</u>	28
ITEM 1A.	<u>Risk Factors</u>	28
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
ITEM 3.	<u>Defaults Upon Senior Securities</u>	29
ITEM 4.	<u>Mine Safety Disclosures</u>	29
ITEM 5.	<u>Other Information</u>	29
ITEM 6.	<u>Exhibits</u>	29

## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## RBC Bearings Incorporated

## Consolidated Balance Sheets

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

	<b>June 27, 2015</b>	<b>March 28, 2015</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 61,562	\$ 125,455
Accounts receivable, net of allowance for doubtful accounts of \$1,582 at June 27, 2015 and \$860 at March 28, 2015	101,961	76,651
Inventory	255,518	206,158
Deferred income taxes	11,461	12,492
Prepaid expenses and other current assets	8,218	4,628
Total current assets	438,720	425,384
Property, plant and equipment, net	185,313	141,649
Goodwill	259,312	43,439
Intangible assets, net of accumulated amortization of \$14,953 at June 27, 2015 and \$13,185 at March 28, 2015	212,913	12,028
Other assets	9,820	9,573
Total assets	\$ 1,106,078	\$ 632,073
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 39,552	\$ 23,459
Accrued expenses and other current liabilities	34,629	17,326
Current portion of long-term debt	8,747	1,233
Total current liabilities	82,928	42,018
Deferred income taxes	12,085	10,126
Long-term debt, less current portion	418,699	7,965
Other non-current liabilities	25,449	22,531
Total liabilities	539,161	82,640
Stockholders' equity:	—	—

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Preferred stock, \$.01 par value; authorized shares: 10,000,000 at June 27, 2015 and March 28, 2015; none issued and outstanding		
Common stock, \$.01 par value; authorized shares: 60,000,000 at June 27, 2015 and March 28, 2015; issued and outstanding shares: 23,907,343 at June 27, 2015 and 23,833,185 at March 28, 2015	239	238
Additional paid-in capital	266,874	262,091
Accumulated other comprehensive loss	(6,292 )	(7,770 )
Retained earnings	327,580	314,176
Treasury stock, at cost, 469,941 shares at June 27, 2015 and 439,864 shares at March 28, 2015	(21,484 )	(19,302 )
Total stockholders' equity	566,917	549,433
Total liabilities and stockholders' equity	\$ 1,106,078	\$ 632,073

See accompanying notes.

**RBC Bearings Incorporated****Consolidated Statements of Operations**

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

(Unaudited)

	<b>Three Months Ended</b>	
	<b>June 27, 2015</b>	<b>June 28, 2014</b>
Net sales	\$142,308	\$112,984
Cost of sales	89,544	69,163
Gross margin	52,764	43,821
Operating expenses:		
Selling, general and administrative	23,725	18,996
Other, net	6,678	614
Total operating expenses	30,403	19,610
Operating income	22,361	24,211
Interest expense, net	1,711	224
Other non-operating (income) expense	606	(267)
Income before income taxes	20,044	24,254
Provision for income taxes	6,640	8,234
Net income	\$13,404	\$16,020
Net income per common share:		
Basic	\$0.58	\$0.70
Diluted	\$0.57	\$0.69
Weighted average common shares:		
Basic	23,162,560	23,005,437
Diluted	23,536,364	23,364,455
Dividends per share	\$—	\$2.00

See accompanying notes.

**RBC Bearings Incorporated**

**Consolidated Statements of Comprehensive Income**

(dollars in thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>June 27, 2015</b>	<b>June 28, 2014</b>
Net income	\$ 13,404	\$ 16,020
Pension and postretirement liability adjustments, net of taxes	(227 )	199
Unrealized gain on investments, net of taxes	-	72
Foreign currency translation adjustments	1,705	(819 )
Total comprehensive income	\$ 14,882	\$ 15,472

See accompanying notes.

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

	<b>Three Months Ended</b>	
	<b>June 27,</b>	<b>June 28,</b>
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Net income	\$ 13,404	\$ 16,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,895	3,561
Excess tax benefits from stock-based compensation	(1,379 )	(2,444 )
Deferred income taxes	948	185
Amortization of intangible assets	1,768	497
Amortization of deferred financing costs	265	81
Stock-based compensation	2,132	1,767
Other non-cash charges	257	(1 )
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(54 )	2,500
Inventory	(3,266 )	(3,139 )
Prepaid expenses and other current assets	(3,048 )	1,857
Other non-current assets	(1,095 )	(794 )
Accounts payable	1,063	(804 )
Accrued expenses and other current liabilities	5,446	8,005
Other non-current liabilities	1,853	(370 )
Net cash provided by operating activities	22,189	26,921
Cash flows from investing activities:		
Purchase of property, plant and equipment	(5,270 )	(3,488 )
Proceeds from sale of assets	4	3
Business acquisition	(500,000 )	—
Net cash used in investing activities	(505,266 )	(3,485 )
Cash flows from financing activities:		
Proceeds from revolving credit facility	225,000	—
Proceeds from term loans	200,000	—
Repayments of term loans	(124 )	(132 )
Finance fees paid in connection with credit facility	(7,122 )	—
Exercise of stock options	1,273	2,377
Excess tax benefits from stock-based compensation	1,379	2,444
Repurchase of common stock	(2,182 )	(948 )
Dividends paid to shareholders	—	(46,014 )
Other, net	—	(10 )

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Net cash provided by (used in) financing activities	418,224	(42,283 )
Effect of exchange rate changes on cash	960	(206 )
Cash and cash equivalents:		
Decrease during the period	(63,893 )	(19,053 )
Cash, at beginning of period	125,455	121,207
Cash, at end of period	\$61,562	\$102,154

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 28, 2015 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 28, 2015.

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

The results of operations for the three month period ended June 27, 2015 are not necessarily indicative of the operating results for the entire fiscal year ending April 2, 2016. The three month periods ended June 27, 2015 and June 28, 2014 each include 13 weeks. The amounts shown are in thousands, unless otherwise indicated.

#### *Adoption of Recent Accounting Pronouncements*

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-04, “Compensation - Retirement Benefits: Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets.” This ASU permits an entity with a fiscal year-end that doesn’t coincide with a month-end, to measure defined benefit plan assets and obligations using the month end that is closest to the entity’s fiscal year-end and apply that consistently from year to year. The practical expedient requires if a contribution or significant event occurs between the month-end date used to measure the defined benefit plan assets and an entity’s fiscal year end, the entity should adjust the measurement of the defined benefit plan assets and obligations to reflect the effects of those contributions and other significant events. This pronouncement is effective for fiscal and interim periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs." This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This pronouncement is effective for fiscal and interim periods beginning after December 15, 2015. Early adoption is allowed. Given the requirement for retrospective treatment, the Company is adopting this pronouncement in the first quarter of fiscal 2016. Other than a different presentation within the balance sheet, the adoption of this ASU did not have a material impact on the Company's financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement-Extraordinary and Unusual Items." This update eliminates the concept of extraordinary items and removes the requirements to separately present extraordinary events. This ASU also requires additional disclosures for items that are both unusual in nature and infrequent in occurrence. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements-Going Concern." This update requires management to evaluate whether there are conditions or events that raise substantial doubt about an entity's ability to continue as a going concern, and requires related footnote disclosures. This pronouncement is effective for fiscal years and interim periods beginning after December 15, 2016. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” 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. The Company has not determined the effect that the adoption of the pronouncement may have on its financial position and/or results of operations.

In April 2014, the FASB issued 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.

## 1. Accumulated Other Comprehensive Income (Loss)

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

	<b>Currency Translation</b>	<b>Pension and Postretirement Liability</b>	<b>Total</b>
Balance at March 28, 2015	\$ (93 )	\$ (7,677 )	\$ (7,770 )
Other comprehensive income (loss) before reclassifications (net of taxes)	1,705	(186 )	1,519
Amounts reclassified from accumulated other comprehensive income (loss)	—	(41 )	(41 )
Net current period other comprehensive income (loss)	1,705	(227 )	1,478
Balance at June 27, 2015	\$ 1,612	\$ (7,904 )	\$ (6,292 )

## 2. Net Income Per Common Share

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

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

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

	<b>Three Months Ended</b>	
	<b>June 27,</b>	<b>June 28,</b>
	<b>2015</b>	<b>2014</b>
Net income	\$13,404	\$16,020
Denominator for basic net income per common share—weighted-average shares outstanding	23,162,560	23,005,437
Effect of dilution due to employee stock options	373,804	359,018
Denominator for diluted net income per common share — weighted-average shares outstanding	23,536,364	23,364,455
Basic net income per common share	\$0.58	\$0.70
Diluted net income per common share	\$0.57	\$0.69

At June 27, 2015, 190,250 employee stock options have been excluded from the calculation of diluted earnings per share. At June 28, 2014, 227,500 employee stock options have been excluded from the calculation of diluted earnings per share. The inclusion of these employee stock options would be anti-dilutive.

### 3. Cash and Cash Equivalents

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

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

### 4. Inventory

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

<b>June 27,</b>	<b>March 28,</b>
<b>2015</b>	<b>2015</b>

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Raw materials	\$28,115	\$18,424
Work in process	73,311	50,243
Finished goods	154,092	137,491
	\$255,518	\$206,158

**5. Goodwill and Intangible Assets**

*Goodwill*

	<b>Roller</b>	<b>Plain</b>	<b>Ball</b>	<b>Engineered Products</b>	<b>Total</b>
March 28, 2015	\$16,007	\$20,641	\$5,623	\$1,168	\$43,439
Acquisitions	—	68,293	—	147,580	215,873
June 27, 2015	\$16,007	\$88,934	\$5,623	\$148,748	\$259,312

*Intangible Assets*

		June 27, 2015		March 28, 2015	
	Weighted Average Useful Lives	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product approvals	16	\$54,568	\$ 2,776	\$4,068	\$ 2,372
Customer relationships and lists	14	112,517	5,192	9,017	4,349
Trade names	13	20,102	1,720	2,102	1,372
Distributor agreements	5	722	722	722	722
Patents and trademarks	15	7,823	3,191	7,670	3,039
Domain names	10	437	310	437	299
Other	4	1,197	1,042	1,197	1,032
		197,366	14,953	25,213	