

RBC Bearings INC
Form 10-Q
February 08, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended December 30, 2006

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
(State or other jurisdiction of incorporation or organization)

95-4372080
(I.R.S. Employer Identification No.)

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

06478
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated filer Accelerated filer Non-accelerated filer

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 February 1, 2007, RBC Bearings Incorporated had 21,237,287 shares of Class A 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)

	December 30, 2006 (Unaudited)	April 1, 2006
ASSETS		
Current assets:		
Cash	\$ 13,456	\$ 16,126
Accounts receivable, net of allowance for doubtful accounts of \$766 at December 30, 2006 and \$838 at April 1, 2006	51,824	50,935
Inventory	103,277	103,148
Deferred income taxes	5,716	5,412
Prepaid expenses and other current assets	2,916	2,453
Total current assets	177,189	178,074
Property, plant and equipment, net	57,655	58,028
Goodwill	29,839	25,150
Intangible assets, net of accumulated amortization of \$2,154 at December 30, 2006 and \$1,616 at April 1, 2006	6,917	3,981
Deferred financing costs, net of accumulated amortization of \$348 at December 30, 2006 and \$1,269 at April 1, 2006	1,254	4,233
Deferred income taxes		4,616
Other assets	1,932	1,841
Total assets	\$ 274,786	\$ 275,923
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 20,670	\$ 19,436
Accrued expenses and other current liabilities	10,227	8,572
Current portion of long-term debt	2,568	3,217
Capital lease obligations	210	237
Total current liabilities	33,675	31,462
Long-term debt, less current portion	70,113	162,530
Capital lease obligations, less current portion	496	170
Deferred income taxes	2,871	
Other non-current liabilities	7,811	8,421
Total liabilities	114,966	202,583
Stockholders' equity:		
Common Stock, \$.01 par value; authorized shares: 60,000,000; issued and outstanding shares: 20,684,150 at December 30, 2006 and 16,976,381 at April 1, 2006	206	170
Additional paid-in capital	167,167	103,317
Accumulated other comprehensive loss	(2,559)	(3,392)
Accumulated deficit	(4,994)	(26,755)
Total stockholders' equity	159,820	73,340
Total liabilities and stockholders' equity	\$ 274,786	\$ 275,923

See accompanying notes.

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

	Three Months Ended December 30, 2006	December 31, 2005	Nine Months Ended December 30, 2006	December 31, 2005
Net sales	\$ 76,544	\$ 67,390	\$ 225,023	\$ 198,758
Cost of sales	52,001	47,029	153,468	139,134
Gross margin	24,543	20,361	71,555	59,624
Operating expenses:				
Selling, general and administrative	10,762	9,203	30,999	32,325
Other, net	(552)	370	115	1,020
Total operating expenses	10,210	9,573	31,114	33,345
Operating income	14,333	10,788	40,441	26,279
Interest expense, net	1,225	2,978	4,590	12,582
Loss on early extinguishment of debt			3,576	3,771
Other non-operating expense (income)	(1,227)		(1,227)	
Income before income taxes	14,335	7,810	33,502	9,926
Provision for income taxes	4,976	2,711	11,741	3,442
Net income	9,359	5,099	21,761	6,484
Preferred stock dividends				(893)
Participation rights of preferred stock in undistributed earnings				(630)
Net income available to common stockholders	\$ 9,359	\$ 5,099	\$ 21,761	\$ 4,961
Net income per common share:				
Basic	\$ 0.45	\$ 0.31	\$ 1.07	\$ 0.43
Diluted	\$ 0.44	\$ 0.29	\$ 1.03	\$ 0.37
Weighted average common shares:				
Basic	20,573,670	16,546,681	20,319,173	11,649,073
Diluted	21,439,491	17,676,227	21,149,868	13,307,181

See accompanying notes.

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

	Nine Months Ended December 30, 2006	December 31, 2005
Cash flows from operating activities:		
Net income	\$ 21,761	\$ 6,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,994	6,641
Deferred income taxes	7,173	2,870
Amortization of intangible assets	537	497
Non-cash stock-based compensation	511	207
Amortization of deferred financing costs and debt discount	292	642
Loss (gain) on disposition of assets	(658)	30
Loss on early extinguishment of debt (non-cash portion)	3,576	1,536
Other	16	12
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	1,565	7,011
Inventory	2,179	(9,859)
Prepaid expenses and other current assets	(404)	373
Other non-current assets	(1,830)	(119)
Accounts payable	292	(1,006)
Accrued expenses and other current liabilities	352	(3,186)
Other non-current liabilities	(156)	1,031
Net cash provided by operating activities	42,200	13,164
Cash flows from investing activities:		
Purchase of property, plant and equipment	(8,031)	(7,772)
Acquisition of business	(8,753)	(2,602)
Proceeds from sale of equipment	3,517	27
Net cash used in investing activities	(13,267)	(10,347)
Cash flows from financing activities:		
Increase (decrease) in revolving credit facility	52,000	(5,000)
Proceeds from sale of stock	57,824	92,128
Redemption of Class C redeemable preferred stock		(30,630)
Redemption of Class D preferred stock		(4,000)
Exercise of stock options and warrants	1,144	285
Excess tax benefits from stock-based compensation	4,406	
Proceeds from term loans		41,100
Retirement of debt		(83,562)
Payments on term loans	(146,297)	(3,703)
Principal payments on capital lease obligations	(235)	(190)
Financing fees paid in connection with senior credit facility	(889)	(1,312)
Net cash (used in) provided by financing activities	(32,047)	5,116
Effect of exchange rate changes on cash	444	(256)
Cash and cash equivalents:		
Increase (decrease) during the period	(2,670)	7,677
Cash, at beginning of period	16,126	2,635
Cash, at end of period	\$ 13,456	\$ 10,312
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		

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Interest	\$	5,234	\$	14,066
Income taxes (refunds)	\$	(79)	\$	886

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 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 April 1, 2006.

The consolidated financial statements include the accounts of RBC Bearings Incorporated, 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. (Miller), RBC Precision Products - Plymouth Inc. (Bremen), Tyson Bearings, Inc. (Tyson), Schaublin Holding, 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) and All Power Manufacturing Co. (All Power) as well as its Transport Dynamics (TDC), Heim (Heim), and Engineered Components (ECD) divisions. 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, 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 and nine month periods ended December 30, 2006 are not necessarily indicative of the operating results for the full year. The amounts shown are in thousands, unless otherwise indicated.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued SFAS Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure, and transition. FIN 48 is effective for financial statements issued for fiscal years beginning after December 15, 2006. The Company has not completed its analysis of the potential impact of FIN 48 on its financial statements, but it is not expected to have a material effect.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158 requires the employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement is effective for fiscal years ending after December 15, 2006. The Company is currently evaluating the impact this statement will have on its financial statements upon adoption.

1. Acquisition

On September 12, 2006, the Company acquired All Power, a manufacturer of highly-engineered precision plain, roller and ball bearings for the industrial, defense and aerospace industries, for approximately \$9,926. The purchase price included approximately \$8,753 in cash, a \$750 note payable and approximately \$423 in transaction expenses. As a result of the acquisition, the Company recorded intangible assets of approximately \$3,672 and goodwill of approximately \$2,958.

The products associated with the acquisition are complementary with products already provided by other Company businesses. All Power, which is located in Santa Fe Springs, California, is included in the plain bearings reportable segment.

2. Secondary Offering

On April 18, 2006, pursuant to a purchase agreement with Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, KeyBanc Capital Markets and Robert W. Baird & Co., the Company, along with certain of its stockholders, sold 8,989,550 shares of its common stock (5,995,529 sold by certain of the Company's stockholders). The offering yielded the Company aggregate net proceeds of \$57,824 after payment of the underwriting discount, commissions and offering expenses. The full amount of the net proceeds were used to prepay outstanding balances under the Amended Term Loan.

3. Net Income Per Common Share

Basic net income per common share is computed by dividing net income available to common stockholders (both Class A and Class B common stockholders shared equally in net income) by the weighted-average number of common shares outstanding. Prior to August 15, 2005, the Company also had outstanding Class B convertible participating preferred stock (the Class B preferred stock participated in all undistributed earnings with the common stock). The Company allocated earnings to the common stockholders and the Class B convertible participating preferred stockholders under the two-class method as required by Emerging Issues Task Force Issue No. 03-6, *Participating Securities and the Two-Class Method* under SFAS Statement No. 128. The two-class method is an earnings allocation method under which basic net income per share is calculated for the Company's common stock and its Class B convertible participating preferred stock considering both accrued preferred stock dividends and participation rights in undistributed earnings as if all such earnings had been distributed during the year. Since the Company's Class B convertible participating preferred stock was not contractually responsible to share in the Company's losses, in applying the two-class method to compute basic net income per common share, no allocation was made to the Class B preferred stock if a net loss existed or if an undistributed net loss resulted from reducing net income by the accrued preferred stock dividends.

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 and, prior to August 15, 2005, the assumed conversion of the Class B convertible participating preferred stock to common shares (if-converted method). If the if-converted method was anti-dilutive

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(that is, the if-converted method resulted in a higher net income per common share amount than basic net income per share calculated under the two-class method), then the two-class method was used to compute diluted net income per common share, including the effect of common share equivalents. Common share equivalents consist of the incremental common shares issuable upon the exercise of stock options and warrants.

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 30, 2006	December 31, 2005	December 30, 2006	December 31, 2005
Numerator:				
Net income	\$ 9,359	\$ 5,099	\$ 21,761	\$ 6,484
Preferred stock dividends				(893)
Participation rights of preferred stock in undistributed earnings				(630)
Numerator for basic and diluted net income per common share income available to common stockholders under the two-class method	9,359	5,099	21,761	4,961
Preferred stock dividends and participation rights of preferred stock				1,523
Numerator for diluted net income per common share income available to common stockholders after assumed conversion of preferred stock	\$ 9,359	\$ 5,099	\$ 21,761	\$ 6,484
Denominator:				
Denominator for basic net income per common share weighted-average shares	20,573,670	16,546,681	20,319,173	11,649,073
Effect of dilution due to employee stock options and warrants	865,821	1,129,546	830,695	785,636
Effect of dilution due to convertible preferred stock				872,472
Denominator for diluted net income per common share adjusted weighted-average shares	21,439,491	17,676,227	21,149,868	13,307,181
Basic net income per common share	\$ 0.45	\$ 0.31	\$ 1.07	\$ 0.43
Diluted net income per common share	\$ 0.44	\$ 0.29	\$ 1.03	\$ 0.37

4. Inventory

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

	December 30, 2006		April 1, 2006	
Raw materials	\$	8,398	\$	7,845
Work in process		31,012		30,147
Finished goods		63,867		65,156
	\$	103,277	\$	103,148

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. The amendments made by SFAS No. 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company has adopted

SFAS No. 151 in fiscal 2007. This adoption did not have a material impact on the consolidated financial position, results of operations or cash flows of the Company.

5. Comprehensive Income

The components of comprehensive income that relate to the Company are net income, foreign currency translation adjustments and minimum pension liability. Total comprehensive income is as follows:

	Three Months Ended		Nine Months Ended	
	December 30, 2006	December 31, 2005	December 30, 2006	December 31, 2005
Net income	\$ 9,359	\$ 5,099	\$ 21,761	\$ 6,484
Foreign currency translation adjustments	431	49	833	(588)
Minimum pension liability				(412)
Total comprehensive income	\$ 9,790	\$ 5,148	\$ 22,594	\$ 5,484

6. Stock-Based Compensation

1998 Stock Option Plan

Effective February 18, 1998, the Company adopted the RBC Bearings Incorporated (f/k/a Roller Bearing Holding Company, Inc.) 1998 Stock Option Plan. The terms of the 1998 option plan provide for the grant of options to purchase up to 8,413,900 shares of common stock to officers and employees of, and consultants (including members of the board of directors) to, the Company and its subsidiaries. Options granted may be either incentive stock options (under Section 422 of the Internal Revenue Code) or non-qualified stock options. The 1998 option plan, which expires on December 31, 2008, is to be governed by the Company's board of directors or a committee to which the board delegates its responsibilities. As of December 30, 2006, there were outstanding options to purchase 113,000 shares of common stock granted under the 1998 option plan, all of which were exercisable. As of August 15, 2005, the 1998 Stock Option Plan has been frozen and no additional stock options will be awarded pursuant to the plan.

2001 Stock Option Plan

The RBC Bearings Incorporated (f/k/a Roller Bearing Holding Company, Inc.) 2001 Stock Option Plan was adopted in fiscal 2002 and amended and restated on October 24, 2003. The terms of the 2001 option plan provide for the grant of options to purchase up to 1,008,553 shares of common stock to officers and employees of, and consultants (including members of the board of directors) to, the Company and its subsidiaries selected by the CEO to participate in the plan. Options granted may be either incentive stock options (under Section 422 of the Internal Revenue Code) or non-qualified stock options. The 2001 option plan, which expires in July 2011, is to be governed by the Company's board of directors or a committee to which the board of directors delegates its responsibilities. As of December 30, 2006, there were outstanding options to purchase 363,242 shares of common stock granted under the 2001 option plan, all of which were exercisable. As of August 15, 2005, the 2001 Stock Option Plan has been frozen and no additional stock options will be awarded pursuant to the plan.

2005 Long-Term Incentive Plan

The Company adopted the 2005 Long-Term Incentive Plan effective upon the completion of its initial public offering in August 2005. The plan provides for grants of stock options, stock appreciation rights, restricted stock and performance awards. Directors, officers and other employees and persons who engage in services for the Company are eligible for grants under the plan. The purpose of the plan is to provide these individuals with incentives to maximize stockholder value and otherwise contribute to the Company's success and to enable the Company to attract, retain and reward the best available persons for positions of responsibility.

As of December 30, 2006, 1,639,170 shares of common stock were authorized for issuance under the plan, subject to adjustment in the event of a reorganization, stock split, merger or similar change in the Company's corporate structure or in the outstanding shares of common stock. Of this amount, 683,502 options were awarded to the Company's CEO at the time of the Company's initial public offering in August 2005 at the offering price of \$14.50 per share and the remainder has been reserved for grants to the Company's employees at the discretion of the Company's compensation committee. The Company may grant shares of restricted stock to its employees and directors in the future under the plan. The Company's compensation committee administers the plan. The Company's board of directors also has the authority to administer the plan and to take all actions that the compensation committee is otherwise authorized to take under the plan. The terms and conditions of each award made under the plan, including vesting requirements, is set forth in a written agreement with the grantee.

Stock Options. Under the 2005 Long-Term Incentive Plan, the compensation committee or the board may approve the award of grants of incentive stock options and other non-qualified stock options. The compensation committee also has the authority to approve the grant of options that will become fully vested and exercisable automatically upon a change in control. The compensation committee may not, however, approve an award to any one person in any calendar year options to purchase common stock equal to more than 10% of the total number of shares authorized under the plan (other than the initial award to the Company's CEO discussed above), and it may not approve an award of incentive options first exercisable in any calendar year whose underlying shares have a fair market value greater than \$100,000 determined at the time of grant. As of December 30, 2006, there were outstanding options to purchase 1,029,002 shares of common stock granted under the 2005 plan, of which 696,002 were exercisable.

The compensation committee will approve the exercise price and term of any option in its discretion; however, the exercise price may not be less than 100% of the fair market value of a share of common stock on the date of grant. In the case of any incentive stock option, the option must be exercised within 10 years of the date of grant. The exercise price of an incentive option awarded to a person who owns stock constituting more than 10% of the Company's voting power may not be less than 110% of such fair market value on such date and the option must be exercised within five years of the date of grant.

Restricted Stock. Under the 2005 Long-Term Incentive Plan, the compensation committee may approve the award of restricted stock subject to the conditions and restrictions, and for the duration that it determines in its discretion. As of December 30, 2006, there were restricted stock awards of 75,175 shares of common stock granted under the 2005 plan, 733 of which are vested.

Stock Appreciation Rights. The compensation committee may approve the grant of stock appreciation rights, or SARs, subject to the terms and conditions contained in the plan. Under the 2005 Long-Term Incentive Plan, the exercise price of a SAR must equal the fair market value of a share of the Company's common stock on the date the SAR was granted. Upon exercise of a SAR, the grantee will receive an amount in shares of the Company's common stock equal to the difference between the fair market value of a

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share of common stock on the date of exercise and the exercise price of the SAR, multiplied by the number of shares as to which the SAR is exercised.

Performance Awards. The compensation committee may approve the grant of performance awards contingent upon achievement by the grantee or by the Company, of set goals and objectives regarding specified performance criteria, over a specified performance cycle. Awards may include specific dollar-value target awards, performance units, the value of which is established at the time of grant, and/or performance shares, the value of which is equal to the fair market value of a share of common stock on the date of grant. The value of a performance award may be fixed or fluctuate on the basis of specified performance criteria. A performance award may be paid out in cash and/or shares of common stock or other securities.

Amendment and Termination of the Plan. The board may amend or terminate the 2005 Long-Term Incentive Plan at its discretion, except that no amendment will become effective without prior approval of the Company's stockholders if such approval is necessary for continued compliance with the performance-based compensation exception of Section 162(m) of the Internal Revenue Code or any stock exchange listing requirements. If not previously terminated by the board, the plan will terminate on the tenth anniversary of its adoption. At the annual stockholders meeting on September 26, 2006, the plan was amended to provide for an increase in the number of authorized shares to be issued under the plan from 1,139,170 to 1,639,170. Of the additional 500,000 shares, a maximum of one-third can be used for restricted stock awards.

A summary of the status of the Company's warrants and stock options outstanding as of December 30, 2006 and changes during the nine months then ended, is presented below. All cashless exercises of options and warrants are handled through an independent broker.

	Number Of Common Stock Warrants/Options	Weighted- Average Exercise Price	Intrinsic Value
Outstanding, April 1, 2006	2,324,236	\$ 6.78	\$ 31,890
Exercised first quarter fiscal 2007	(482,352)	1.77	
Outstanding, July 1, 2006	1,841,884	8.09	26,909
Granted second quarter fiscal 2007	335,500	22.59	
Exercised second quarter fiscal 2007	(103,621)	1.26	
Outstanding, September 30, 2006			