TRANSCAT INC
Form 10-Q
February 08, 2011

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

FORM 10-Q

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

For the quarterly period ended: December 25, 2010

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: 000 03905

TRANSCAT, INC.

(Exact name of registrant as specified in its charter)

Ohio	**16 0874418**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

35 Vantage Point Drive, Rochester, New York 14624

(Address of principal executive offices) (Zip Code)

(585) 352 7777

(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 þ No o

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 o 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.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ
		(Do not check if a 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 o No þ

The number of shares of Common Stock, par value $0.50 per share, of the registrant outstanding as of February 4, 2011 was 7,253,790.

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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

TRANSCAT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In Thousands, Except Per Share Amounts)

	(Unaudited) Third Quarter Ended		(Unaudited) Nine Months Ended	
	December 25, 2010	**December 26, 2009**	**December 25, 2010**	**December 26, 2009**
Product Sales	$ 16,562	$ 15,186	$ 43,009	$ 38,424
Service Revenue	7,319	6,637	22,420	19,102
Net Revenue	23,881	21,823	65,429	57,526
Cost of Products Sold	12,119	11,843	31,863	29,769
Cost of Services Sold	5,710	5,174	17,198	14,894
Total Cost of Products and Services Sold	17,829	17,017	49,061	44,663
Gross Profit	6,052	4,806	16,368	12,863
Selling, Marketing and Warehouse Expenses	2,999	2,564	8,577	7,531
Administrative Expenses	1,613	1,451	4,993	4,321
Total Operating Expenses	4,612	4,015	13,570	11,852
Operating Income	1,440	791	2,798	1,011
Interest Expense	13	9	41	34
Other Expense, net	1	7	13	39
Total Other Expense	14	16	54	73
Income Before Income Taxes	1,426	775	2,744	938
Provision for Income Taxes	529	292	1,042	356
Net Income	897	483	1,702	582
Other Comprehensive Income	13	26	23	98

Comprehensive Income	$ 910	$ 509	$ 1,725	$ 680
Basic Earnings Per Share	$ 0.12	$ 0.07	$ 0.23	$ 0.08
Average Shares Outstanding	7,307	7,343	7,299	7,373
Diluted Earnings Per Share	$ 0.12	$ 0.06	$ 0.23	$ 0.08
Average Shares Outstanding	7,553	7,560	7,543	7,602

See accompanying notes to consolidated financial statements.

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TRANSCAT, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share and Per Share Amounts)

	(Unaudited) December 25, 2010	March 27, 2010
ASSETS		
Current Assets:		
Cash	$ 18	$ 123
Accounts Receivable, less allowance for doubtful accounts of $101 and $82 as of December 25, 2010 and March 27, 2010, respectively	10,387	11,439
Other Receivables	1,357	418
Inventory, net	7,386	5,906
Prepaid Expenses and Other Current Assets	1,061	915
Deferred Tax Asset	648	566
Total Current Assets	20,857	19,367
Property and Equipment, net	4,176	4,163
Goodwill	10,334	10,038
Intangible Assets, net	1,237	1,234
Deferred Tax Asset	453	533
Other Assets	393	378
Total Assets	$ 37,450	$ 35,713
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	$ 9,252	$ 8,798
Accrued Compensation and Other Liabilities	3,276	3,171
Income Taxes Payable	374	251
Total Current Liabilities	12,902	12,220
Long-Term Debt	1,674	2,532
Other Liabilities	807	704
Total Liabilities	15,383	15,456
Shareholders Equity:		
Common Stock, par value $0.50 per share, 30,000,000 shares authorized; 7,750,685 and 7,698,450 shares issued as of December 25, 2010 and March 27, 2010, respectively; 7,251,903 and 7,279,668 shares outstanding as of December 25, 2010 and March 27, 2010, respectively	3,875	3,849
Capital in Excess of Par Value	9,975	9,357
Accumulated Other Comprehensive Income	405	382
Retained Earnings	10,006	8,304

Less: Treasury Stock, at cost, 498,782 and 418,782 shares as of December 25, 2010 and March 27, 2010, respectively		(2,194)		(1,635)
Total Shareholders Equity		22,067		20,257
Total Liabilities and Shareholders Equity	$	37,450	$	35,713

See accompanying notes to consolidated financial statements.

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TRANSCAT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	(Unaudited) Nine Months Ended	
	December 25, 2010	**December 26, 2009**
Cash Flows from Operating Activities:		
Net Income	$ 1,702	$ 582
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Deferred Income Taxes	1	(86)
Depreciation and Amortization	1,622	1,524
Provision for Accounts Receivable and Inventory Reserves	88	52
Stock-Based Compensation Expense	398	530
Change in Contingent Consideration	(55)	
Changes in Assets and Liabilities:		
Accounts Receivable and Other Receivables	73	(1,143)
Inventory	(1,517)	(706)
Prepaid Expenses and Other Assets	(519)	(833)
Accounts Payable	454	3,526
Accrued Compensation and Other Liabilities	332	645
Income Taxes Payable	113	(119)
Net Cash Provided by Operating Activities	2,692	3,972
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(1,081)	(941)
Payments of Contingent Consideration		(1,093)
Business Acquisition	(491)	
Net Cash Used in Investing Activities	(1,572)	(2,034)
Cash Flows from Financing Activities:		
Revolving Line of Credit, net	(842)	(1,499)
Payments on Other Debt Obligations	(16)	(20)
Payment of Contingent Consideration	(52)	
Issuance of Common Stock	236	169
Repurchase of Common Stock	(559)	(647)
Excess Tax Benefits Related to Stock-Based Compensation	10	9
Net Cash Used in by Financing Activities	(1,223)	(1,988)
Effect of Exchange Rate Changes on Cash	(2)	16

Net Decrease in Cash		(105)		(34)
Cash at Beginning of Period		123		59
Cash at End of Period	$	18	$	25
Supplemental Disclosures of Cash Flow Activity:				
Cash paid during the period for:				
Interest	$	43	$	49
Income Taxes, net	$	890	$	559

See accompanying notes to consolidated financial statements.

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TRANSCAT, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(In Thousands)
(Unaudited)

	Common Stock Issued $0.50 Par Value		Capital In Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock Outstanding at Cost		Total
	Shares	Amount				Shares	Amount	
Balance as of March 27, 2010	7,698	$ 3,849	$ 9,357	$ 382	$ 8,304	419	$ (1,635)	$ 20,257
Issuance of Common Stock	49	24	212					236
Repurchase of Common Stock						80	(559)	(559)
Stock-Based Compensation			376					376
Restricted Stock	3	2	20					22
Tax Benefit from Stock-Based Compensation			10					10
Comprehensive Income:								
Currency Translation Adjustment				13				13
Unrecognized Prior Service Cost, net of tax				10				10
Net Income					1,702			1,702
Balance as of December 25, 2010	7,750	$ 3,875	$ 9,975	$ 405	$ 10,006	499	$ (2,194)	$ 22,067

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Amounts)
(Unaudited)

NOTE 1 GENERAL

Description of Business: Transcat, Inc. (Transcat or the Company) is a leading distributor of professional grade handheld test and measurement instruments and accredited provider of calibration, repair and weighing system services primarily for pharmaceutical and FDA-regulated, industrial manufacturing, energy and utilities, chemical process, and other industries.

Basis of Presentation: Transcat s unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company s management, all adjustments considered necessary for a fair presentation (consisting of normal recurring adjustments) have been included. The results for the interim periods are not necessarily indicative of the results to be expected for the fiscal year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements as of and for the fiscal year ended March 27, 2010 (fiscal year 2010) contained in the Company s 2010 Annual Report on Form 10-K filed with the SEC.

Fair Value of Financial Instruments: Transcat has determined the fair value of debt and other financial instruments using a valuation hierarchy. The hierarchy, which prioritizes the inputs used in measuring fair value, consists of three levels. Level 1 uses observable inputs such as quoted prices in active markets; Level 2 uses inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, which is defined as unobservable inputs in which little or no market data exists, requires the Company to develop its own assumptions. The carrying amount of debt on the Consolidated Balance Sheets approximates fair value due to variable interest rate pricing, and the carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short-term nature.

Stock-Based Compensation: The Company measures the cost of services received in exchange for all equity awards granted, including stock options, warrants and restricted stock, based on the fair market value of the award as of the grant date. The Company records compensation cost related to unvested stock awards by recognizing, on a straight-line basis, the unamortized grant date fair value over the remaining service period of each award. Excess tax benefits from the exercise of stock awards are presented in the Consolidated Statements of Cash Flows as a financing activity. Excess tax benefits are realized benefits from tax deductions for exercised awards in excess of the deferred tax asset attributable to stock-based compensation costs for such awards. The Company did not capitalize any stock-based compensation costs as part of an asset. The Company estimates forfeiture rates based on its historical experience. During the first nine months of the fiscal year ending March 26, 2011 (fiscal year 2011) and the first nine months of fiscal year 2010, the Company recorded non-cash stock-based compensation expense in the amount of $0.4 million and $0.5 million, respectively, in the Consolidated Statements of Operations and Comprehensive Income.

Foreign Currency Translation and Transactions: The accounts of Transmation (Canada) Inc., the Company s wholly-owned subsidiary, are maintained in the local currency and have been translated to U.S. dollars. Accordingly, the amounts representing assets and liabilities, except for equity, have been translated at the period-end rates of exchange and related revenue and expense accounts have been translated at average rates of exchange during the period. Gains and losses arising from translation of Transmation (Canada) Inc. s balance sheets into U.S. dollars are recorded directly to the accumulated other comprehensive income component of shareholders equity.

Transcat records foreign currency gains and losses on Canadian business transactions. The net foreign currency loss was less than $0.1 million in the first nine months of fiscal years 2011 and 2010. The Company utilizes foreign exchange forward contracts to reduce the risk that its earnings would be adversely affected by changes in currency exchange rates. The Company does not apply hedge accounting and therefore, the change in the fair value of the contracts, which totaled less than $0.1 million during the first nine months of fiscal years 2011 and 2010, was recognized as a component of other expense in the Consolidated Statements of Operations and Comprehensive Income. The change in the fair value of the contracts is offset by the change in fair value on the underlying accounts receivables denominated in Canadian dollars being hedged. On December 25, 2010, the Company had a foreign exchange contract, set to mature in January 2011, outstanding in the notional amount of $0.8 million. The Company does not use hedging arrangements for speculative purposes.

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Earnings Per Share: Basic earnings per share of common stock are computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share of common stock reflect the assumed conversion of stock options, warrants, and unvested restricted stock awards using the treasury stock method in periods in which they have a dilutive effect. In computing the per share effect of assumed conversion, funds which would have been received from the exercise of options, warrants, and unvested restricted stock and the related tax benefits are considered to have been used to purchase shares of common stock at the average market prices during the period, and the resulting net additional shares of common stock are included in the calculation of average shares of common stock outstanding.

The average shares outstanding used to compute basic and diluted earnings per share are as follows:

	Third Quarter Ended		Nine Months Ended	
	December 25, 2010	December 26, 2009	December 25, 2010	December 26, 2009
Average Shares Outstanding Basic	7,307	7,343	7,299	7,373
Effect of Dilutive Common Stock Equivalents	246	217	244	229
Average Shares Outstanding Diluted	7,553	7,560	7,543	7,602
Anti-dilutive Common Stock Equivalents	594	623	596	612

Shareholders Equity: In November 2010, the Company repurchased 0.1 million shares of its common stock for $0.6 million from an officer of the Company and assigned the shares into treasury.

Subsequent Events: On January 11, 2011, Transcat acquired substantially all of the assets of Wind Turbine Tools, Inc. and affiliated entities. Wind Turbine Tools, Inc., located in Lincoln, Montana, is a premier provider of wind energy industry product tool kit solutions, technical assistance, torque calibration and hydraulic services.

On January 15, 2011, Transcat extended its credit agreement (the Credit Agreement) for three years. The Credit Agreement allows, within any twelve month period, business acquisitions totaling up to $10.0 million and payments of dividends and repurchases of common stock of up to $2.0 million. All other significant terms were unchanged.

The Company has evaluated all other events and transactions that occurred subsequent to December 25, 2010. No other material subsequent events have occurred that require recognition or disclosure in the Consolidated Financial Statements.

Reclassification of Amounts: Certain reclassifications of financial information for the prior fiscal year have been made to conform to the presentation for the current fiscal year.

NOTE 2 DEBT

Description: Transcat, through its Credit Agreement, has a revolving credit facility in the amount of $15.0 million (the Revolving Credit Facility). As of December 25, 2010, $15.0 million was available under the Credit Agreement, of which $1.7 million was outstanding and included in long-term debt on the Consolidated Balance Sheet.

Interest and Commitment Fees: Interest on the Revolving Credit Facility accrues, at Transcat s election, at either a base rate (defined as the highest of prime, a three month certificate of deposit plus 1%, or the federal funds rate plus $^1/2$ of 1%) (the Base Rate) or the London Interbank Offered Rate (LIBOR), in each case, plus a margin. Commitment fees accrue based on the average daily amount of unused credit available on the Revolving Credit Facility. Interest and commitment fees are adjusted on a quarterly basis based upon the Company s calculated leverage ratio, as defined in the Credit Agreement. The Base Rate and the LIBOR rates as of December 25, 2010 were 3.3% and 0.3%, respectively. The Company s interest rate for the first nine months of fiscal year 2011 ranged from 1.2% to 2.8%.

Covenants: The Credit Agreement has certain covenants with which the Company has to comply, including a fixed charge ratio covenant and a leverage ratio covenant. The Company was in compliance with all loan covenants and requirements throughout the first nine months of fiscal year 2011.

Other Terms: The Company has pledged all of its U.S. tangible and intangible personal property and the common stock of its wholly-owned subsidiary, Transmation (Canada) Inc., as collateral security for the loans made under the Revolving Credit Facility.

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NOTE 3 STOCK-BASED COMPENSATION

The Transcat, Inc. 2003 Incentive Plan, as amended (the 2003 Plan), provides for, among other awards, grants of restricted stock and stock options to directors, officers and key employees at the fair market value at the date of grant. At December 25, 2010, the number of shares available for future grant under the 2003 Plan totaled 0.2 million.

In addition, Transcat maintains a warrant plan for directors (the Directors Warrant Plan). Under the Directors Warrant Plan, as amended, warrants have been granted to non-employee directors to purchase common stock at the fair market value at the date of grant. All warrants authorized for issuance pursuant to the Directors Warrant Plan have been granted and were fully vested as of August 2009.

Restricted Stock: During the first quarter of fiscal years 2011, 2010 and the fiscal year ended March 28, 2009 (fiscal year 2009), the Company granted performance-based restricted stock awards in place of options as a primary component of executive compensation. The performance-based restricted stock awards vest after three years subject to certain cumulative diluted earnings per share growth targets over the eligible three-year period.

Compensation cost ultimately recognized for these performance-based restricted stock awards will equal the grant date fair market value of the award that coincides with the actual outcome of the performance conditions. On an interim basis, the Company records compensation cost based on an assessment of the probability of achieving the performance conditions. At December 25, 2010, the Company estimated the probability of achievement for the performance-based awards granted in fiscal years 2011, 2010 and 2009 to be 100%, 75% and 0% of the target levels, respectively. Total expense relating to performance-based restricted stock awards, based on grant date fair value and the estimated probability of achievement, was $0.1 million in the first nine months of fiscal years 2011 and 2010, respectively. Unearned compensation totaled $0.3 million as of December 25, 2010.

Stock Options: Options generally vest over a period of up to four years, using either a graded schedule or on a straight-line basis, and expire ten years from the date of grant. The expense relating to options is recognized on a straight-line basis over the requisite service period for the entire award. Total expense relating to options was $0.2 million and $0.4 million in the first nine months of fiscal years 2011 and 2010, respectively.

The following table summarizes the Company s options as of and for the nine months ended December 25, 2010:

	Number Of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of March 27, 2010	674	$ 5.72		
Granted				
Exercised	(12)	2.43		
Cancelled/Forfeited	(4)	7.17		
Outstanding as of December 25, 2010	658	5.77	6	$ 1,088