

TRANSCAT INC
Form 10-Q
November 08, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: September 28, 2013

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: 000-03905

TRANSCAT, INC.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or
organization)

16-0874418

(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

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.

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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

The number of shares of common stock, par value \$0.50 per share, of the registrant outstanding as of November 7, 2013 was 6,684,161.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited)		(Unaudited)	
	Second Quarter Ended		Six Months Ended	
	September	September	September	September
	28,	29,	28,	29,
	2013	2012	2013	2012
Distribution Sales	\$ 17,410	\$ 16,948	\$ 34,381	\$ 33,313
Service Revenue	11,472	9,840	23,211	18,572
Total Revenue	28,882	26,788	57,592	51,885
Cost of Distribution Sales	13,297	13,225	26,250	25,380
Cost of Services Sold	8,764	7,485	17,307	14,220
Total Cost of Revenue	22,061	20,710	43,557	39,600
Gross Profit	6,821	6,078	14,035	12,285
Selling, Marketing and Warehouse Expenses	3,295	2,959	6,996	6,400
Administrative Expenses	2,245	1,939	4,606	4,111
Total Operating Expenses	5,540	4,898	11,602	10,511
Operating Income	1,281	1,180	2,433	1,774
Interest and Other Expense, net	68	51	72	98
Income Before Income Taxes	1,213	1,129	2,361	1,676
Provision for Income Taxes	442	384	869	570
Net Income	\$ 771	\$ 745	\$ 1,492	\$ 1,106
Basic Earnings Per Share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.15
Average Shares Outstanding	7,390	7,411	7,409	7,390
Diluted Earnings Per Share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.15
Average Shares Outstanding	7,586	7,567	7,633	7,574

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	(Unaudited)		(Unaudited)	
	Second Quarter Ended		Six Months Ended	
	September	September	September	September
	28,	29,	28,	29,
	2013	2012	2013	2012
Net Income	\$ 771	\$ 745	\$ 1,492	\$ 1,106
Other Comprehensive Income (Loss):				
Currency Translation Adjustment	1	6	1	1
Unrecognized Prior Service Cost, net of tax	9	13	18	(69)
Unrecognized Gain on Other Asset, net of tax	21	11	17	7
	31	30	36	(61)
Comprehensive Income	\$ 802	\$ 775	\$ 1,528	\$ 1,045

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.

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

	(Unaudited) September 28, 2013	March 30, 2013
ASSETS		
Current Assets:		
Cash	\$ 409	\$ 406
Accounts Receivable, less allowance for doubtful accounts of \$85 and \$118 as of September 28, 2013 and March 30, 2013, respectively	13,993	15,411
Other Receivables	2,185	977
Inventory, net	8,267	6,803
Prepaid Expenses and Other Current Assets	1,394	1,134
Deferred Tax Asset	1,223	1,087
Total Current Assets	27,471	25,818
Property and Equipment, net	6,472	6,885
Goodwill	17,559	17,592
Intangible Assets, net	3,176	3,691
Other Assets	1,170	1,061
Total Assets	\$ 55,848	\$ 55,047
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 7,163	\$ 8,883
Accrued Compensation and Other Liabilities	4,860	3,979
Income Taxes Payable	79	465
Total Current Liabilities	12,102	13,327
Long-Term Debt	8,718	8,017
Deferred Tax Liability	622	551
Other Liabilities	1,641	1,502
Total Liabilities	23,083	23,397
Shareholders' Equity:		
Common Stock, par value \$0.50 per share, 30,000,000 shares authorized; 7,371,153 and 7,423,507 shares issued and outstanding as of September 28, 2013 and March 30, 2013, respectively	3,686	3,712
Capital in Excess of Par Value	10,942	10,616
Accumulated Other Comprehensive Income	517	481
Retained Earnings	17,620	16,841
Total Shareholders' Equity	32,765	31,650
Total Liabilities and Shareholders' Equity	\$ 55,848	\$ 55,047

See accompanying notes to consolidated financial statements.

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

	(Unaudited)	
	Six Months Ended	
	September	September
	28, 2013	29, 2012
Cash Flows from Operating Activities:		
Net Income	\$1,492	\$ 1,106
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Gain on Disposal of Property and Equipment	(31)	-
Deferred Income Taxes	(88)	(222)
Depreciation and Amortization	1,440	1,221
Provision for Accounts Receivable and Inventory Reserves	101	95
Stock-Based Compensation Expense	257	148
Changes in Assets and Liabilities:		
Accounts Receivable and Other Receivables	164	1,145
Inventory	(1,516)	(672)
Prepaid Expenses and Other Assets	(528)	(897)
Accounts Payable	(1,720)	71
Accrued Compensation and Other Liabilities	1,049	(1,098)
Income Taxes Payable	(386)	(243)
Net Cash Provided by Operating Activities	234	654
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(553)	(1,346)
Proceeds from Sale of Property and Equipment	240	-
Business Acquisition	-	(3,129)
Net Cash Used in Investing Activities	(313)	(4,475)
Cash Flows from Financing Activities:		
Proceeds from Revolving Line of Credit, net	701	3,877
Payments of Contingent Consideration	-	(14)
Issuance of Common Stock	111	124
Repurchase of Common Stock	(780)	-
Net Cash Provided by Financing Activities	32	3,987
Effect of Exchange Rate Changes on Cash	50	(4)
Net Increase in Cash	3	162
Cash at Beginning of Period	406	32
Cash at End of Period	\$409	\$ 194
Supplemental Disclosure of Cash Flow Activity:		
Cash paid during the period for:		
Interest	\$52	\$ 66
Income Taxes, net	\$1,340	\$ 1,032

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(In Thousands, Except Per Share Amounts)
(Unaudited)

	Common Stock Issued \$0.50 Per Share Par Value		Capital In Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Total
	Shares	Amount				
Balance as of March 30, 2013	7,424	\$3,712	\$10,616	\$ 481	\$16,841	\$31,650
Issuance of Common Stock	26	13	98	-	-	111
Repurchase of Common Stock	(108)	(54)	(13)	-	(713)	(780)
Stock-Based Compensation	29	15	242	-	-	257
Tax Expense from Stock-Based Compensation	-	-	(1)	-	-	(1)
Other Comprehensive Income	-	-	-	36	-	36
Net Income	-	-	-	-	1,492	1,492
Balance as of September 28, 2013	7,371	\$3,686	\$10,942	\$ 517	\$17,620	\$32,765

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 provider of accredited calibration, repair, inspection and compliance services and distributor of professional grade handheld test, measurement and control instrumentation primarily for the life science, biotechnology, medical device, pharmaceutical and other FDA-regulated industries, industrial manufacturing, energy and utilities, chemical manufacturing, 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 what the results will be 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 30, 2013 (“fiscal year 2013”) contained in the Company’s 2013 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 and accounts payable approximate fair value due to their short-term nature. Investment assets, which fund the Company’s non-qualified deferred compensation plan, consist of mutual funds and are valued based on Level 1 inputs. At September 28, 2013 and March 30, 2013, investment assets totaled \$0.7 million and \$0.6 million, respectively, and are included as a component of other assets (non-current) on the Consolidated Balance Sheets.

Stock-Based Compensation: The Company measures the cost of services received in exchange for all equity awards granted, including stock options and restricted stock units, based on the fair market value of the award as of the grant date. The Company records compensation cost related to unvested equity 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 equity 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 six months of the fiscal year ending March 29, 2014 (“fiscal year 2014”) and the first six months of fiscal year 2013, the Company recorded non-cash stock-based compensation cost of \$0.3 million and \$0.1 million, respectively, in the Consolidated Statements of Income.

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The estimated fair value of options granted in the first six months of fiscal year 2014 were calculated using the Black-Scholes-Merton pricing model ("Black-Scholes"), which produced a weighted average fair value of \$4.23 per option. During fiscal year 2013, the Company did not grant any stock options.

The following are the weighted average assumptions used in the Black-Scholes model:

	FY 2014
Expected term (in years)	6
Annualized volatility rate	59.2%
Risk-free rate of return	1.7%
Dividend rate	0.0%

The Black-Scholes model incorporates assumptions to value stock-based awards. The risk-free rate of return for periods within the contractual life of the award was based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility was based on historical volatility of the Company's stock. The expected option term represented the period that stock-based awards are expected to be outstanding based on the simplified method, which averages an award's weighted-average vesting period and expected term for "plain vanilla" share options. Options are considered to be "plain vanilla" if they have the following basic characteristics: granted "at-the-money"; exercisability is conditioned upon service through the vesting date; termination of service prior to vesting results in forfeiture; limited exercise period following termination of service; and options are non-transferable and non-hedgeable. The Company will continue to use the simplified method until it has the historical data necessary to provide a reasonable estimate of expected life.

Foreign Currency Translation and Transactions: The accounts of Transmation (Canada) Inc., a wholly-owned subsidiary of the Company, are maintained in the local currency and have been translated to U.S. dollars. Accordingly, the amounts representing assets and liabilities have been translated at the period-end rates of exchange and related revenue and expense accounts have been translated at an average rate 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 six months of fiscal years 2014 and 2013. The Company utilizes foreign exchange forward contracts to reduce the risk that its earnings will be adversely affected by changes in currency exchange rates. The Company does not apply hedge accounting; therefore, the change in the fair value of the contracts, which totaled a gain of less than \$0.1 million during the first six months of fiscal year 2014 and a loss of less than \$0.1 million during the first six months of fiscal year 2013, was recognized in other expense in the Consolidated Statements of 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 September 28, 2013, the Company had two foreign exchange contracts, which mature in October 2013 and January 2014, outstanding in the notional amounts of \$3.3 million and \$2.0 million, respectively. The Company does not use hedging arrangements for speculative purposes.

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 and unvested restricted stock units 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 and unvested restricted stock units 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. 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:

	Second Quarter Ended		Six Months Ended	
	September	September	September	September
	28,	29,	28,	29,
	2013	2012	2013	2012
Average Shares Outstanding – Basic	7,390	7,411	7,409	7,390
Effect of Dilutive Common Stock Equivalents	196	156	224	184
Average Shares Outstanding – Diluted	7,586	7,567		