

TRANSCAT INC
Form 10-Q
August 08, 2016

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**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: June 25, 2016

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 August 4, 2016 was 6,992,211.

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

	(Unaudited)	
	June 25, 2016	First Quarter Ended June 27, 2015
Service Revenue	\$ 17,175	\$ 13,535
Distribution Sales	15,972	16,135
Total Revenue	33,147	29,670
Cost of Service Revenue	12,446	10,004
Cost of Distribution Sales	12,455	12,604
Total Cost of Revenue	24,901	22,608
Gross Profit	8,246	7,062
Selling, Marketing and Warehouse Expenses	4,248	3,540
Administrative Expenses	2,560	2,495
Total Operating Expenses	6,808	6,035
Operating Income	1,438	1,027
Interest and Other Expense, net	168	95
Income Before Income Taxes	1,270	932
Provision for Income Taxes	436	331
Net Income	\$ 834	\$ 601
Basic Earnings Per Share	\$ 0.12	\$ 0.09
Average Shares Outstanding	6,954	6,851
Diluted Earnings Per Share	\$ 0.12	\$ 0.08
Average Shares Outstanding	7,161	7,132

See accompanying notes to consolidated financial statements.

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

	(Unaudited)	
	First Quarter Ended	
	June 25, 2016	June 27, 2015
Net Income	\$ 834	\$ 601
Other Comprehensive Income (Loss):		
Currency Translation Adjustment	80	92
Other, net of tax effects of \$1 and \$(6) for the first quarters ended June 25, 2016 and June 27, 2015, respectively	(1)	9
Total Other Comprehensive Income	79	101
Comprehensive Income	\$ 913	\$ 702

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) June 25, 2016	March 26, 2016
ASSETS		
Current Assets:		
Cash	\$ 781	\$ 641
Accounts Receivable, less allowance for doubtful accounts of \$118 and \$113 as of June 25, 2016 and March 26, 2016, respectively	17,221	17,080
Other Receivables	934	881
Inventory, net	7,589	6,520
Prepaid Expenses and Other Current Assets	1,296	1,096
Total Current Assets	27,821	26,218
Property and Equipment, net	14,017	12,313
Goodwill	32,705	29,112
Intangible Assets, net	9,607	8,211
Other Assets	1,071	853
Total Assets	\$ 85,221	\$ 76,707
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	\$ 7,322	\$ 8,141
Accrued Compensation and Other Liabilities	7,408	7,688
Current Portion of Long-Term Debt	1,429	-
Total Current Liabilities	16,159	15,829
Long-Term Debt	25,917	19,073
Deferred Tax Liabilities	1,181	1,071
Other Liabilities	1,914	1,823
Total Liabilities	45,171	37,796
Shareholders' Equity:		
Common Stock, par value \$0.50 per share, 30,000,000 shares authorized; 6,987,342 and 6,923,557 shares issued and outstanding as of June 25, 2016 and March 26, 2016, respectively	3,494	3,462
Capital in Excess of Par Value	13,226	12,993
Accumulated Other Comprehensive Loss	(279)	(358)
Retained Earnings	23,609	22,814
Total Shareholders' Equity	40,050	38,911
Total Liabilities and Shareholders' Equity	\$ 85,221	\$ 76,707

See accompanying notes to consolidated financial statements.

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

	(Unaudited)	
	June 25, 2016	First Quarter Ended June 27, 2015
Cash Flows from Operating Activities:		
Net Income	\$ 834	\$ 601
Adjustments to Reconcile Net Income to Net Cash (Used in) Provided by Operating Activities:		
Loss on Disposal of Property and Equipment	4	25
Deferred Income Taxes	110	(139)
Depreciation and Amortization	1,549	840
Provision for Accounts Receivable and Inventory Reserves	49	52
Stock-Based Compensation Expense	149	171
Changes in Assets and Liabilities:		
Accounts Receivable and Other Receivables	730	2,896
Inventory	(815)	161
Prepaid Expenses and Other Assets	(433)	(26)
Accounts Payable	(1,186)	(1,162)
Accrued Compensation and Other Liabilities	(1,131)	(1,172)
Income Taxes Payable	-	389
Net Cash (Used in) Provided by Operating Activities	(140)	2,636
Cash Flows from Investing Activities:		
Purchases of Property and Equipment, net	(967)	(1,089)
Business Acquisitions	(6,923)	(700)
Net Cash Used in Investing Activities	(7,890)	(1,789)
Cash Flows from Financing Activities:		
Repayment of Revolving Credit Facility, net	(1,489)	(697)
Proceeds from Term Loan	10,000	-
Repayment of Term Loan	(238)	-
Issuance of Common Stock	175	127
Repurchase of Common Stock	(98)	(65)
Excess Tax Effect Related to Stock-Based Compensation	-	(22)
Net Cash Provided by (Used In) Financing Activities	8,350	(657)
Effect of Exchange Rate Changes on Cash	(180)	(205)
Net Increase (Decrease) in Cash	140	(15)
Cash at Beginning of Period	641	65
Cash at End of Period	\$ 781	\$ 50
Supplemental Disclosure of Cash Flow Activity:		
Cash paid during the period for:		
Interest	\$ 192	\$ 54
Income Taxes, net	\$ 396	\$ 117
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Contingent Consideration Related to Business Acquisitions	\$ -	\$ 300
Holdback Amounts Related to Business Acquisitions	\$ 735	\$ -

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See accompanying notes to consolidated financial statements.

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TRANSCAT, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In Thousands, Except Par Value Amounts)

(Unaudited)

	Common Stock Issued \$0.50 Par Value		Capital In Excess of Par	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount	Value			
Balance as of March 26, 2016	6,924	\$ 3,462	\$ 12,993	\$ (358)	\$ 22,814	\$ 38,911
Issuance of Common Stock	23	12	163	-	-	175
Repurchase of Common Stock	(10)	(5)	(54)	-	(39)	(98)
Stock-Based Compensation	50	25	124	-	-	149
Other Comprehensive Income	-	-	-	79	-	79
Net Income	-	-	-	-	834	834
Balance as of June 25, 2016	6,987	\$ 3,494	\$ 13,226	\$ (279)	\$ 23,609	\$ 40,050

See accompanying notes to consolidated financial statements.

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

NOTE 1 GENERAL

Description of Business: Transcat, Inc. (Transcat or the Company) is a leading provider of accredited calibration and laboratory instrument services and a value-added distributor of professional grade test, measurement and control instrumentation. The Company is focused on providing services and products to highly regulated industries, particularly the life science industry, which includes pharmaceutical, biotechnology, medical device and other FDA-regulated businesses. Additional industries served include industrial manufacturing; energy and utilities, including oil and gas; chemical manufacturing; FAA-regulated businesses, including aerospace and defense and other industries that require accuracy in their processes, confirmation of the capabilities of their equipment and for which the risk of failure is very costly.

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 8-03 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 26, 2016 (fiscal year 2016) contained in the Company's 2016 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 June 25, 2016 and March 26, 2016, investment assets totaled \$0.8 million and \$0.7 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 expense 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 quarter of the fiscal year ending March 25, 2017 (fiscal year 2017) and fiscal year 2016, the Company recorded non-cash stock-based compensation expense of \$0.1 million and \$0.2 million, respectively, in the Consolidated Statements of Income.

Foreign Currency Translation and Transactions: The accounts of Transcat 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 Transcat Canada Inc.'s financial statements into U.S. dollars are recorded directly to the accumulated other comprehensive loss 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 each of the first quarters of fiscal years 2017 and 2016. The Company continually utilizes short-term 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 and therefore the net change in the fair value of the contracts, which totaled a loss of \$0.1 million and \$0.2 million during the first quarter of fiscal years 2017 and 2016, respectively, was recognized as a component of 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

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Canadian dollars being hedged. On June 25, 2016, the Company had a foreign exchange contract, which matured in July 2016, outstanding in the notional amount of \$5.7 million. The foreign exchange contract was renewed in July 2016 and continues to be in place. 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 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, and the resulting net additional shares of common stock are included in the calculation of average shares of common stock outstanding.

For the first quarter of fiscal years 2017 and 2016, the net additional common stock equivalents had no effect on the calculation of dilutive earnings per share. The average shares outstanding used to compute basic and diluted earnings per share are as follows:

	First Quarter Ended	
	June 25,	June 27,
	2016	2015
Average Shares Outstanding	Ba	