

TRANSCAT INC
Form 10-Q
November 09, 2007

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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: September 29, 2007

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 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.

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

The number of shares of Common Stock, par value \$0.50 per share, of the registrant outstanding as of October 31, 2007 was 7,152,346.

	<u>Page(s)</u>
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements:	
<u>Consolidated Statements of Operations and Comprehensive Income for the Second Quarter and Six Months Ended September 29, 2007 and September 23, 2006</u>	3
<u>Consolidated Balance Sheets as of September 29, 2007 and March 31, 2007</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended September 29, 2007 and September 23, 2006</u>	5
<u>Consolidated Statements of Shareholders' Equity for the Six Months Ended September 29, 2007</u>	6
<u>Notes to Consolidated Financial Statements</u>	7-10
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11-21
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	22
Item 4. <u>Controls and Procedures</u>	22
PART II. OTHER INFORMATION	
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	22
Item 6. <u>Exhibits</u>	23
<u>SIGNATURES</u>	24
<u>INDEX TO EXHIBITS</u>	25
<u>EX-3.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

Table of Contents**PART 1. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****TRANSCAT, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(In Thousands, Except Per Share Amounts)

	(Unaudited) Second Quarter Ended		(Unaudited) Six Months Ended	
	September 29, 2007	September 23, 2006	September 29, 2007	September 23, 2006
Product Sales	\$ 11,219	\$ 9,880	\$ 22,146	\$ 20,417
Service Sales	5,406	4,980	10,669	9,963
Net Sales	16,625	14,860	32,815	30,380
Cost of Products Sold	8,087	7,415	15,952	15,244
Cost of Services Sold	4,276	3,897	8,362	7,728
Total Cost of Products and Services Sold	12,363	11,312	24,314	22,972
Gross Profit	4,262	3,548	8,501	7,408
Selling, Marketing and Warehouse Expenses	1,919	1,807	4,127	3,942
Administrative Expenses	1,749	1,222	3,331	2,610
Total Operating Expenses	3,668	3,029	7,458	6,552
Operating Income	594	519	1,043	856
Interest Expense	29	90	63	184
Other Expense, net	209	46	290	120
Total Other Expense	238	136	353	304
Income Before Income Taxes	356	383	690	552
Provision for Income Taxes	162	137	258	189
Net Income	194	246	432	363
Other Comprehensive Income	265	13	457	94

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Comprehensive Income	\$ 459	\$ 259	\$ 889	\$ 457
Basic Earnings Per Share	\$ 0.03	\$ 0.04	\$ 0.06	\$ 0.05
Average Shares Outstanding	7,127	6,902	7,099	6,864
Diluted Earnings Per Share	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.05
Average Shares Outstanding	7,577	7,425	7,474	7,377

See accompanying notes to consolidated financial statements.

3

Table of Contents

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

	(Unaudited) September 29, 2007	March 31, 2007
ASSETS		
Current Assets:		
Cash	\$ 188	\$ 357
Accounts Receivable, less allowance for doubtful accounts of \$62 and \$47 as of September 29, 2007 and March 31, 2007, respectively	7,874	8,846
Other Receivables	858	352
Inventory, net	3,662	4,336
Prepaid Expenses and Other Current Assets	1,108	762
Deferred Tax Asset	955	851
Total Current Assets	14,645	15,504
Property and Equipment, net	3,275	2,814
Goodwill	2,967	2,967
Deferred Tax Asset	769	791
Other Assets	352	346
Total Assets	\$ 22,008	\$ 22,422
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	\$ 5,411	\$ 5,307
Accrued Compensation and Other Liabilities	1,931	2,578
Income Taxes Payable	216	42
Total Current Liabilities	7,558	7,927
Long-Term Debt	1,333	2,900
Other Liabilities	411	366
Total Liabilities	9,302	11,193
Shareholders Equity:		
Common Stock, par value \$0.50 per share, 30,000,000 shares authorized; 7,413,262 and 7,286,119 shares issued as of September 29, 2007 and March 31, 2007, respectively; 7,137,480 and 7,010,337 shares outstanding as of September 29, 2007 and March 31, 2007, respectively	3,707	3,643
Capital in Excess of Par Value	5,792	5,268
Warrants	329	329
Accumulated Other Comprehensive Income	500	43
Retained Earnings	3,366	2,934

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Less: Treasury Stock, at cost, 275,782 shares as of September 29, 2007 and March 31, 2007	(988)	(988)
Total Shareholders' Equity	12,706	11,229
Total Liabilities and Shareholders' Equity	\$ 22,008	\$ 22,422

See accompanying notes to consolidated financial statements.

4

Table of Contents

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

	(Unaudited)	
	Six Months Ended	
	September	September
	29,	23,
	2007	2006
Cash Flows from Operating Activities:		
Net Income	\$ 432	\$ 363
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Deferred Income Taxes	(85)	148
Depreciation and Amortization	788	769
Provision for Accounts Receivable and Inventory Reserves	(63)	43
Stock-Based Compensation Expense	428	328
Changes in Assets and Liabilities:		
Accounts Receivable and Other Receivables	892	515
Inventory	749	(46)
Prepaid Expenses and Other Assets	(602)	(280)
Accounts Payable	104	(408)
Accrued Compensation and Other Liabilities	(595)	(924)
Income Taxes Payable	174	(41)
Net Cash Provided by Operating Activities	2,222	467
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(999)	(454)
Net Cash Used in Investing Activities	(999)	(454)
Cash Flows from Financing Activities:		
Chase Revolving Line of Credit, net	(1,567)	
GMAC Revolving Line of Credit, net		223
Payments on Other Debt Obligations		(368)
Issuance of Common Stock	160	110
Net Cash Used in Financing Activities	(1,407)	(35)
Effect of Exchange Rate Changes on Cash	15	4
Net Decrease in Cash	(169)	(18)
Cash at Beginning of Period	357	115

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Cash at End of Period	\$ 188	\$ 97
Supplemental Disclosures of Cash Flow Activity:		
Cash paid during the period for:		
Interest	\$ 69	\$ 198
Income Taxes, net	\$ 177	\$ 85
Supplemental Disclosure of Non-Cash Financing Activity:		
Treasury Stock Acquired in Cashless Exercise of Stock Options	\$	\$ 50
See accompanying notes to consolidated financial statements.		

5

Table of Contents

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

	Common Stock		Capital			Accumulated		Treasury Stock		Total
	Issued \$0.50 Par Value Shares	Amount	In Excess of Par Value	Warrants	Other Comprehensive Income	Retained Earnings	Outstanding at Cost Shares	Amount		
Balance as of March 31, 2007	7,286	\$ 3,643	\$ 5,268	\$ 329	\$ 43	\$ 2,934	276	\$ (988)	\$ 11,229	
Issuance of Common Stock	98	49	111						160	
Stock-Based Compensation			256						256	
Issuance of Restricted Stock	29	15	157						172	
Comprehensive Income:										
Currency Translation Adjustment					453				453	
Unrecognized Prior Service Cost, net of tax					4				4	
Net Income						432			432	
Balance as of September 29, 2007	7,413	\$ 3,707	\$ 5,792	\$ 329	\$ 500	\$ 3,366	276	\$ (988)	\$ 12,706	

See accompanying notes to consolidated financial statements.

Table of Contents

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

NOTE 1 GENERAL

Description of Business: Transcat, Inc. (Transcat or the Company) is a leading distributor of professional grade test, measurement, and calibration instruments and a provider of calibration and repair services, primarily throughout the process, life science and manufacturing industries.

Basis of Presentation: Transcat's unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (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 31, 2007 (fiscal year 2007) contained in the Company's 2007 Annual Report on Form 10-K filed with the SEC.

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 dilutive stock options, warrants, and unvested restricted stock awards. 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 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 second quarter and the first six months of the fiscal year ending March 29, 2008 (fiscal year 2008), the net additional common stock equivalents had no effect on the calculation of dilutive earnings per share. For the second quarter and the first six months of fiscal year 2007, the net additional common stock equivalents had a \$.01 per share effect and no effect, respectively, on the calculation of dilutive earnings per share. The total number of dilutive and anti-dilutive common stock equivalents resulting from stock options, warrants and unvested restricted stock are summarized as follows:

	Second Quarter Ended		Six Months Ended	
	September	September	September	September
	29,	23,	29,	23,
	2007	2006	2007	2006
Shares Outstanding:				
Dilutive	450	523	375	513
Anti-dilutive	626	368	701	378
Total	1,076	891	1,076	891

Range of Exercise Prices per Share:

Options	\$ 1.50-\$7.72	\$ 0.80-\$5.80	\$ 1.50-\$7.72	\$ 0.80-\$5.80
Warrants	\$ 1.50-\$5.80	\$ 0.97-\$5.80	\$ 1.50-\$5.80	\$ 0.97-\$5.80

Stock-Based Compensation: In accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, 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 uses the modified prospective application method to record compensation cost related

to unvested stock awards as of March 25, 2006 by recognizing the unamortized grant date fair value of the awards over the remaining service periods of those awards with no change in historical reported earnings. Awards granted after March 25, 2006 are valued at fair value and are recognized on a straight line basis over the service periods 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 have any stock-based compensation costs capitalized as part of an asset. The Company estimates forfeiture rates based on its historical experience.

Table of Contents

The estimated fair value of the awards granted during the first six months of fiscal year 2008 was calculated using the Black-Scholes-Merton pricing model (Black-Scholes), which produced a weighted average fair value of awards granted of \$4.62 per share. During the first six months of fiscal year 2008, the Company recorded, as a non-cash administrative expense in the Consolidated Statement of Operations, stock-based compensation in the amount of \$0.4 million.

The following summarizes the assumptions used in the Black-Scholes model during the first six months of fiscal year 2008:

Expected life	6 years
Annualized volatility rate	70.8%
Risk-free rate of return	4.6%
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 is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility is based on historical volatility of the Company's stock. The expected term of all awards granted is estimated by taking the average of the weighted average vesting term and the contractual term, as illustrated in SEC Staff Accounting Bulletin 107. This methodology is not materially different from the Company's historical data on exercise timing. Separate groups having similar historical exercise behavior with regard to award exercise timing and forfeiture rates are considered separately for valuation and attribution purposes.

NOTE 2 DEBT

Description. On November 21, 2006, Transcat entered into a Credit Agreement (the Chase Credit Agreement) with JPMorgan Chase Bank, N.A. The Chase Credit Agreement provides for a three-year revolving credit facility in the amount of \$10 million (the Revolving Credit Facility). The Chase Credit Agreement replaced the Amended and Restated Loan and Security Agreement dated November 1, 2004, as further amended, with GMAC Commercial Finance LLC.

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 Chase Credit Agreement. The Base Rate and the LIBOR rates as of September 29, 2007 were 7.8% and 5.1%, respectively. The Company's interest rate for the first six months of fiscal year 2008 ranged from 5.8% to 7.6%.

Covenants. The Chase 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 six months of fiscal year 2008.

Other Terms. The Company has pledged all of its U.S. tangible and intangible personal property as collateral security for the loans made under the Revolving Credit Facility.

NOTE 3 INCOME TAXES

Effective April 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 establishes a single model to address accounting for uncertain tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. Upon adoption of FIN 48, the Company had no unrecognized tax benefits. During the first six months of fiscal year 2008, the Company recognized no adjustments for uncertain tax benefits and expects no material changes to unrecognized tax positions within the next twelve months.

The Company recognizes interest and penalties, if any, related to uncertain tax positions in the provision for income taxes. No interest and penalties related to uncertain tax positions were recognized during the first six months of fiscal year 2008 or accrued at September 29, 2007.

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The Company files income tax returns in the U.S. federal jurisdiction, various states and Canada. The Company is no longer subject to examination by U.S. federal income tax authorities for the tax years 2004 and prior, by state tax authorities for the tax years 2003 and prior, and by Canadian tax authorities for the tax years 2002 and prior. There are no tax years currently under examination by U.S. federal, state or Canadian tax authorities.

Table of Contents

In May 2007, the FASB issued Staff Position FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The implementation of this standard did not have an impact on the Company's Consolidated Financial Statements.

Transcat accounts for certain income and expense items differently for financial reporting purposes than for income tax reporting purposes. Deferred taxes are provided in recognition of these temporary differences. A valuation allowance on net deferred tax assets is provided for items for which it is more likely than not that the benefit of such items will not be realized, in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires an assessment of both positive and negative evidence when measuring the need for a deferred tax valuation allowance.

NOTE 4 STOCK-BASED COMPENSATION

Stock Options: In June 2003, the Company adopted the Transcat, Inc. 2003 Incentive Plan (the 2003 Plan). The 2003 Plan provides for grants of options to directors, officers and key employees to purchase Common Stock at no less than the fair market value at the date of grant. Options generally vest ratably over a period of up to four years and expire up to ten years from the date of grant. Options granted to executive officers during the second quarter of fiscal year 2008 vest using a graded schedule of 0% in the first year, 20% in each of the second and third years, and 60% in the fourth year. The expense relating to these executive officer options is recognized on a straight-line basis over the requisite service period for the entire award.

The following table summarizes the Company's options as of and for the first six months ended September 29, 2007:

	Number Of Shares	Weighted Average Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of March 31, 2007	329	\$ 3.11		
Granted	392	6.94		
Exercised	(50)	1.09		
Cancelled/Forfeited	(2)	1.40		
Outstanding as of September 29, 2007	669	5.51	9	\$ 956
Exercisable as of September 29, 2007	194	3.01	7	\$ 668

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the second quarter of fiscal year 2008 and the exercise price, multiplied by the number of in-the-money stock options) that would have been received by the option holders had all option holders exercised their options on September 29, 2007. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.