

TRANSCAT INC  
Form 10-Q  
November 06, 2015

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 26, 2015

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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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 4, 2015 was 6,899,271.

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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) Second Quarter Ended		(Unaudited) Six Months Ended	
	September 26, 2015		September 27, 2014	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Service Revenue	\$ 14,190	\$ 12,595	\$ 27,725	\$ 24,733
Distribution Sales	15,286	18,516	31,421	35,497
Total Revenue	29,476	31,111	59,146	60,230
Cost of Service Revenue	10,729	9,323	20,733	18,524
Cost of Distribution Sales	12,010	14,862	24,614	28,111
Total Cost of Revenue	22,739	24,185	45,347	46,635
Gross Profit	6,737	6,926	13,799	13,595
Selling, Marketing and Warehouse Expenses	3,229	3,169	6,769	6,904
Administrative Expenses	2,138	2,241	4,633	4,416
Total Operating Expenses	5,367	5,410	11,402	11,320
Operating Income	1,370	1,516	2,397	2,275
Interest and Other Expense, net	36	138	131	183
Income Before Income Taxes	1,334	1,378	2,266	2,092
Provision for Income Taxes	456	519	787	788
Net Income	\$ 878	\$ 859	\$ 1,479	\$ 1,304
Basic Earnings Per Share	\$ 0.13	\$ 0.13	\$ 0.22	\$ 0.19
Average Shares Outstanding	6,886	6,802	6,868	6,772
Diluted Earnings Per Share	\$ 0.12	\$ 0.12	\$ 0.21	\$ 0.18
Average Shares Outstanding	7,119	7,056	7,135	7,050

See accompanying notes to consolidated financial statements.

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

	(Unaudited) Second Quarter Ended		(Unaudited) Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net Income	\$ 878	\$ 859	\$ 1,479	\$ 1,304
Other Comprehensive Income (Loss):				
Currency Translation Adjustment	(313)	(170)	(221)	(180)
Unrecognized Prior Service Cost, net of tax effects of \$(7) and \$(4) for the second quarters ended September 26, 2015 and September 27, 2014, respectively; and \$(14) and \$(8) for the six months ended September 26, 2015 and September 27, 2014, respectively.	10	6	21	13
Unrealized Loss on Other Asset, net of tax effects of \$27 and \$7 for the second quarters ended September 26, 2015 and September 27, 2014, respectively; and \$28 for the six months ended September 26, 2015.	(42)	(13)	(44)	-
Total Other Comprehensive Loss	(345)	(177)	(244)	(167)
Comprehensive Income	\$ 533	\$ 682	\$ 1,235	\$ 1,137

See accompanying notes to consolidated financial statements.

**TRANSCAT, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except Share and Per Share Amounts)

	(Unaudited) September 26, 2015	March 28, 2015
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 163	\$ 65
Accounts Receivable, less allowance for doubtful accounts of \$103 and \$111 as of September 26, 2015 and March 28, 2015, respectively	15,004	16,899
Other Receivables	1,355	1,171
Inventory, net	6,269	6,750
Prepaid Expenses and Other Current Assets	1,461	1,209
Deferred Tax Assets	986	1,048
<b>Total Current Assets</b>	<b>25,238</b>	<b>27,142</b>
Property and Equipment, net	11,419	9,397
Goodwill	22,652	20,923
Intangible Assets, net	4,172	3,554
Other Assets	959	1,133
<b>Total Assets</b>	<b>\$ 64,440</b>	<b>\$ 62,149</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts Payable	\$ 8,438	\$ 7,695
Accrued Compensation and Other Liabilities	4,318	4,195
Income Taxes Payable	-	43
<b>Total Current Liabilities</b>	<b>12,756</b>	<b>11,933</b>
Long-Term Debt	11,984	12,168
Deferred Tax Liabilities	1,782	1,684
Other Liabilities	1,922	2,046
<b>Total Liabilities</b>	<b>28,444</b>	<b>27,831</b>
Shareholders' Equity:		
Common Stock, par value \$0.50 per share, 30,000,000 shares authorized; 6,895,703 and 6,835,828 shares issued and outstanding as of September 26, 2015 and March 28, 2015, respectively	3,448	3,418
Capital in Excess of Par Value	12,764	12,289
Accumulated Other Comprehensive Loss	(387)	(143)
Retained Earnings	20,171	18,754
<b>Total Shareholders' Equity</b>	<b>35,996</b>	<b>34,318</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 64,440</b>	<b>\$ 62,149</b>

See accompanying notes to consolidated financial statements.

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

	(Unaudited)	
	September 26, 2015	Six Months Ended September 27, 2014
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 1,479	\$ 1,304
<b>Adjustments to Reconcile Net Income to Net Cash</b>		
Provided by (Used in) Operating Activities:		
Loss on Disposal of Property and Equipment	34	4
Deferred Income Taxes	(33)	409
Depreciation and Amortization	1,742	1,371
Provision for Accounts Receivable and Inventory Reserves	83	48
Stock-Based Compensation Expense	280	389
Changes in Assets and Liabilities:		
Accounts Receivable and Other Receivables	1,839	241
Inventory	459	(1,345)
Prepaid Expenses and Other Assets	(146)	(871)
Accounts Payable	(309)	1,026
Accrued Compensation and Other Liabilities	(580)	(2,081)
Income Taxes Payable	466	(906)
Net Cash Provided by (Used in) Operating Activities	5,314	(411)
<b>Cash Flows from Investing Activities:</b>		
Purchases of Property and Equipment, net	(2,723)	(1,832)
Business Acquisitions, net of cash acquired	(2,918)	(6,681)
Net Cash Used in Investing Activities	(5,641)	(8,513)
<b>Cash Flows from Financing Activities:</b>		
(Repayment of) Proceeds from Revolving Credit Facility, net	(184)	8,734
Issuance of Common Stock	234	327
Repurchase of Common Stock	(71)	(71)
Net Cash (Used in) Provided by Financing Activities	(21)	8,990
Effect of Exchange Rate Changes on Cash	446	174
Net Increase in Cash	98	240
Cash at Beginning of Period	65	23
Cash at End of Period	\$ 163	\$ 263
<b>Supplemental Disclosure of Cash Flow Activity:</b>		
Cash paid during the period for:		
Interest	\$ 101	\$ 71
Income Taxes, net	\$ 669	\$ 1,783
<b>Non-Cash Investing and Financing Activities:</b>		
Contingent Consideration Related to Business Acquisition	\$ 300	\$ -
Holdback Amounts Related to Business Acquisitions	\$ 413	\$ -

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 Par Value		Capital In Excess of Par	Accumulated Other Comprehensive	Retained	Total
	Shares	Amount	Value	Loss	Earnings	
Balance as of March 28, 2015	6,836	\$ 3,418	\$ 12,289	\$ (143)	\$ 18,754	\$ 34,318
Issuance of Common Stock	42	21	213	-	-	234
Repurchase of Common Stock	(8)	(4)	(5)	-	(62)	(71)
Stock-Based Compensation	26	13	267	-	-	280
Other Comprehensive Loss	-	-	-	(244)	-	(244)
Net Income	-	-	-	-	1,479	1,479
Balance as of September 26, 2015	6,896	\$ 3,448	\$ 12,764	\$ (387)	\$ 20,171	\$ 35,996

See accompanying notes to consolidated financial statements.



**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 compliance services and distributor of professional grade handheld test, measurement and control instrumentation. The Company is focused on providing services and products to highly regulated industries, particularly life science, which includes companies in the pharmaceutical, medical device and biotechnology industries. Additional industries served include industrial manufacturing, energy and utilities, chemical manufacturing and other industries that require accuracy in their processes and confirmation of the capabilities of their equipment.

**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 28, 2015 ( fiscal year 2015 ) contained in the Company's 2015 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 26, 2015 and March 28, 2015, investment assets totaled \$0.8 million and \$0.9 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 26, 2016 ( fiscal year 2016 ) and the first six months of fiscal year 2015, the Company recorded non-cash stock-based compensation cost of \$0.3 million and \$0.4 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 income (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 the first six months of fiscal years 2016 and 2015. 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 gain of \$0.3 million during the first six months of fiscal year 2016 and a gain of less than \$0.1 million during the first six months of fiscal year 2015, 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 Canadian dollars being hedged. On September 26, 2015, the Company had a foreign exchange contract, which matured in October 2015, outstanding in the notional amount of \$5.3 million. 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, and the resulting net additional shares of common stock are included in the calculation of average shares of common stock outstanding.

For the second quarters and first six months of fiscal years 2016 and 2015, the net additional common stock equivalents had a \$.01 per share effect on the calculation of diluted earnings per share. The average shares outstanding used to compute basic and diluted earnings per share are as follows:

	Second Quarter Ended		Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Average Shares Outstanding Basic	6,886	6,802	6,868	6,772
Effect of Dilutive Common Stock Equivalents	233	254	267	278
Average Shares Outstanding Diluted	7,119	7,056	7,135	7,050
Anti-dilutive Common Stock Equivalents	10	-	-	-

**Recently Issued Accounting Pronouncements:** In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-011 to Topic 330, Inventory. This ASU requires entities using inventory costing methods other than last-in-first-out and retail inventory method to value their inventory at the lower of cost and net realizable value. This ASU is effective for fiscal years beginning after December 15, 2016 and is to be applied prospectively. Early adoption of this ASU is permitted. The Company does not expect adoption of this ASU to have a material impact on its Consolidated Financial Statements.

In September 2015, FASB issued ASU 2015-016 to Topic 805, Business Combinations. This ASU requires that an acquirer recognize adjustments to provisional amounts of assets and liabilities that are identified during the measurement period and the effect on earnings, if any, that result from the change to the provisional amounts in the reporting period in which the adjustment amounts are determined. This ASU is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. This ASU is to be applied prospectively to adjustments to provisional amounts that occur after adoption, regardless of the date of acquisition. The Company elected early adoption of this ASU, and there was no material impact to its Consolidated Financial Statements.

## NOTE 2 DEBT

**Description:** Transcat, through its credit agreement, as amended (the Credit Agreement), which matures September 20, 2018, has a revolving credit facility that allows for maximum borrowings of \$30.0 million (the Revolving Credit Facility). The Revolving Credit Facility is subject to a maximum borrowing restriction based on a 2.75 multiple of earnings before income taxes, depreciation and amortization and non-cash stock-based compensation expense for the preceding four consecutive fiscal quarters. As of September 26, 2015, \$29.5 million was available under the Revolving Credit Facility, of which \$12.0 million was outstanding and included in long-term debt on the Consolidated Balance Sheet.

Borrowings available under the Revolving Credit Facility for business acquisitions are limited to \$15.0 million in any fiscal year. During the first six months of fiscal year 2016, the Company borrowed \$2.9 million for business acquisitions.

**Interest and Other Costs:** Interest on the Revolving Credit Facility accrues, at Transcat's election, at either the one-month London Interbank Offered Rate (LIBOR), adjusting daily, or a fixed rate for a designated period at the LIBOR corresponding to such period, 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 rate margins and commitment fees are determined on a quarterly basis based upon the Company's calculated leverage ratio, as defined in the Credit Agreement. The one-month LIBOR as of September 26, 2015 was 0.2%. The Company's interest rate for the first six months of fiscal year 2016 ranged from 1.7% to 1.8%.

**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 during the first six months of fiscal year 2016.

**Other Terms:** The Company has pledged all of its U.S. tangible and intangible personal property, the equity interests of its U.S.-based subsidiaries, and a majority of the common stock of Transcat Canada Inc. as collateral security for the loans made under the Revolving Credit Facility.

### NOTE 3 STOCK-BASED COMPENSATION

The Transcat, Inc. 2003 Incentive Plan, as Amended and Restated (the 2003 Plan), provides for, among other awards, grants of restricted stock units and stock options to directors, officers and key employees at the fair market value at the date of grant. At September 26, 2015, the number of shares available for future grant under the 2003 Plan totaled 1.3 million.

**Restricted Stock:** The Company grants performance-based restricted stock units as a primary component of executive compensation. The units generally vest following the third fiscal year from the date of grant subject to certain cumulative diluted earnings per share growth targets over the eligible period. Compensation cost ultimately recognized for performance-based restricted stock units will equal the grant date fair market value of the unit that coincides with the actual outcome of the performance conditions. On an interim basis, the Company records compensation cost based on the estimated level of achievement of the performance conditions.

The Company achieved 75% of the target level for the performance-based restricted stock units granted in the fiscal year ended March 30, 2013 and as a result, issued eighteen thousand shares of common stock to executive officers and certain key employees during the first quarter of fiscal year 2016. The following table summarizes the non-vested performance-based restricted stock units outstanding as of September 26, 2015:

Date	Granted	Measurement Period	Total Number of Units Granted	Grant Date Fair Value Per Unit	Estimated Level of Achievement at September 26, 2015
April 2013		April 2013 - March 2016	99	\$ 6.17	75% of target level
April 2014		April 2014 - March 2017	64	\$ 9.28	50% of target level
April 2015		April 2015 - March 2018	73	\$ 9.59	100% of target level

Total expense relating to performance-based restricted stock units, based on grant date fair value and the achievement criteria, in the first six months of fiscal years 2016 and 2015 was \$0.2 million and \$0.3 million, respectively. As of September 26, 2015, unearned compensation, to be recognized over the grants' respective service periods, totaled \$0.8 million.

During the first quarter of fiscal year 2015, the Company's Board of Directors granted its Executive Chairman a stock award of ten thousand shares of common stock under the 2003 Plan. The award vested 50% on July 1, 2014, and the remaining 50% vested on July 1, 2015. During the second quarter of fiscal year 2016, the Company's Board of Directors granted a stock award of two thousand shares of common stock under the 2003 Plan to a retiring board member. The award vested in the second quarter of fiscal year 2016. Total expense relating to these stock awards, based on grant date fair value, was less than \$0.1 million in the first six months of fiscal year 2016.

**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.

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The following table summarizes the Company's options as of and for the six months ended September 26, 2015:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of March 28, 2015	561	\$ 6.83		
Exercised	(32)	4.38		
Forfeited	(1)	4.26		
Outstanding as of September 26, 2015	528	6.99	3	\$ 1,345
Exercisable as of September 26, 2015	448	6.88	2	\$ 1,188

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 2016 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 holders exercised their options on September 26, 2015. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

Total expense related to stock options was less than \$0.1 million during the first six months of fiscal years 2016 and 2015. Total unrecognized compensation cost related to non-vested stock options as of September 26, 2015 was \$0.2 million, which is expected to be recognized over a weighted average period of two years. The aggregate intrinsic value of stock options exercised in the first six months of fiscal year 2016 was \$0.2 million. Cash received from the exercise of options in the first six months of fiscal year 2016 was \$0.1 million.

**NOTE 4 SEGMENT INFORMATION**

Transcat has two reportable segments: Service and Distribution. The Company has no inter-segment sales. The following table presents segment information for the second quarter and six months ended September 26, 2015 and September 27, 2014:

	Second Quarter Ended		Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
<b>Revenue:</b>				
Service	\$ 14,190	\$ 12,595	\$ 27,725	\$ 24,733
Distribution	15,286	18,516	31,421	35,497
Total	29,476	31,111	59,146	60,230
<b>Gross Profit:</b>				
Service	3,461	3,272	6,992	6,209
Distribution	3,276	3,654	6,807	7,386
Total	6,737	6,926	13,799	13,595
<b>Operating Expenses:</b>				
Service (1)	2,623	2,607	5,508	5,277
Distribution (1)	2,744	2,803	5,894	6,043
Total	5,367	5,410	11,402	11,320
<b>Operating Income:</b>				
Service	838	665	1,484	932
Distribution	532	851	913	1,343
Total	1,370	1,516	2,397	2,275
<b>Unallocated Amounts:</b>				
Interest and Other Expense, net	36	138	131	183
Provision for Income Taxes	456	519	787	788
Total	492	657	918	971
<b>Net Income</b>	<b>\$ 878</b>	<b>\$ 859</b>	<b>\$ 1,479</b>	<b>\$ 1,304</b>

(1) Operating expense allocations between segments were based on actual amounts, a percentage of revenues, headcount, and management's estimates.

**NOTE 5 BUSINESS ACQUISITIONS**

During the first six months of fiscal year 2016, Transcat completed three business acquisitions. On June 22, 2015, Transcat acquired substantially all of the assets of Calibration Technologies, Inc., a regional provider of analytical instrument services including qualification, validation, repair and installation, headquartered in Morris Plains, New Jersey. Effective August 24, 2015, Transcat acquired Anmar Metrology, Inc. (Anmar), a calibration and repair service provider with significant focus on the life science and defense market, headquartered in San Diego, California. On August 25, 2015, Transcat acquired Nordcal Calibration Inc. (Nordcal), a provider of radio frequency and electronic calibration and repair services, located in Montreal, Quebec.

These transactions align with the Company's acquisition strategy of targeting service businesses that expand the Company's geographic reach and leverage its infrastructure while also increasing the depth and breadth of the Company's service capabilities.

The acquisitions were accounted for using the acquisition method of accounting. Goodwill, calculated as the excess of the purchase price paid over the fair value of the underlying net assets of the businesses acquired, generally represents expected future economic benefits arising from the reputation of an acquired business, the assembled workforce, expected synergies and other assets acquired that could not be individually identified and separately recognized. Other intangible assets, namely customer bases and covenants not to compete, represent an allocation of a portion of the purchase price to identifiable intangible assets of the acquired businesses. Intangible assets are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of up to 10 years. Goodwill and the intangible assets relating to the Anmar and Nordcal acquisitions are not expected to be deductible for tax purposes.



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The total purchase price paid for the acquired businesses was approximately \$3.6 million, net of \$0.2 million cash acquired. The following is a summary of the preliminary purchase price allocation, in the aggregate, to the fair value, based on Level 3 inputs, of assets and liabilities acquired:

Goodwill	\$ 2,032
Intangible Assets Customer Base	1,031
Intangible Assets Covenants Not to Compete	250
Deferred Tax Liabilities	(208)
	<u>3,105</u>
Plus: Current Assets	430
Non-Current Assets	945
Less: Current Liabilities	(208)
Non-Current Liabilities	(641)
Total Purchase Price	\$ 3,631

The business acquisitions completed in the first six months of fiscal year 2016 contain holdback provisions, as defined by the respective purchase agreements. The Company accrued contingent consideration, based on its estimated fair value at the date of acquisition, in addition to other amounts relating to the holdback provisions. No contingent consideration or other holdback amounts were paid during the first six months of fiscal year 2016. As of September 26, 2015, \$0.3 million of contingent consideration and \$0.4 million of other holdback amounts were unpaid and reflected in other liabilities (current) on the Consolidated Balance Sheet.

During the first six months of fiscal year 2016, acquisition costs of \$0.2 million were incurred and recorded as administrative expenses in the Consolidated Statement of Income.

The results of the acquired businesses are included in Transcat's consolidated operating results as of the dates the businesses were acquired. The following unaudited pro forma information presents the Company's results of operations as if the acquisitions had occurred at the beginning of the respective fiscal years. The pro forma results do not purport to represent what the Company's results of operations actually would have been if the transactions had occurred at the beginning of each period presented or what the Company's operating results will be in future periods.

	(Unaudited)	
	Six Months Ended	
	September 26, 2015	September 27, 2014
Total Revenue	\$ 60,520	\$ 61,959
Net Income	1,642	1,506
Basic Earnings Per Share	0.24	0.22
Diluted Earnings Per Share	0.23	0.21

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Forward-Looking Statements.** This report contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These statements relate to expectations, estimates, beliefs, assumptions and predictions of future events and are identified by words such as anticipates, believes, estimates, expects, projects, intends, could, may and other similar words. Forward-looking statements are not based on historical fact and thus are subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or those expressed in such forward-looking statements. You should evaluate forward-looking statements in light of important risk factors and uncertainties that may affect our operating and financial results and our ability to achieve our financial objectives. These factors include, but are not limited to, our reliance on one vendor to supply a significant amount of inventory purchases, the risks related to current and future indebtedness, the relatively low trading volume of our common stock, risks related to our acquisition strategy and the integration of the businesses we acquire, the impact of economic conditions, the highly competitive nature of our two business segments, cybersecurity risks and foreign currency rate fluctuations. These risk factors and uncertainties are more fully described by us under the heading "Risk Factors" in our reports filed with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended March 28, 2015.





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You should not place undue reliance on our forward-looking statements. Except as required by law, we undertake no obligation to update or publicly announce any revisions to any of the forward-looking statements contained in this report, whether as a result of new information, future events or otherwise.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

There have been no material changes to our critical accounting policies and estimates from the information provided in our Annual Report on Form 10-K for the fiscal year ended March 28, 2015.

**RESULTS OF OPERATIONS**

The following table presents, for the second quarter and first six months of fiscal years 2016 and 2015, the components of our Consolidated Statements of Income:

	(Unaudited) Second Quarter Ended		(Unaudited) Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
<i>Gross Profit Percentage:</i>				
Service Gross Profit	24.4%	26.0%	25.2%	25.1%
Distribution Gross Profit	21.4%	19.7%	21.7%	20.8%
Total Gross Profit	22.9%	22.3%	23.3%	22.6%
<i>As a Percentage of Total Revenue:</i>				
Service Revenue	48.1%	40.5%	46.9%	41.1%
Distribution Sales	51.9%	59.5%	53.1%	58.9%
Total Revenue	100.0%	100.0%	100.0%	100.0%
Selling, Marketing and Warehouse Expenses	11.0%	10.2%	11.4%	11.5%
Administrative Expenses	7.3%	7.2%	7.8%	7.3%
Total Operating Expenses	18.3%	17.4%	19.2%	18.8%
Operating Income	4.6%	4.9%	4.1%	3.8%
Interest and Other Expense, net	0.1%	0.5%	0.3%	0.3%
Income Before Income Taxes	4.5%	4.4%	3.8%	3.5%
Provision for Income Taxes	1.5%	1.6%	1.3%	1.3%
Net Income	3.0%	2.8%	2.5%	2.2%

**SECOND QUARTER ENDED SEPTEMBER 26, 2015 COMPARED TO SECOND QUARTER ENDED SEPTEMBER 27, 2014** (dollars in thousands):

**Revenue:**

	Second Quarter Ended		Change	
	September 26, 2015	September 27, 2014	\$	%
<b>Revenue:</b>				
Service	\$ 14,190	\$ 12,595	\$ 1,595	12.7%
Distribution	15,286	18,516	(3,230)	(17.4%)
Total	\$ 29,476	\$ 31,111	\$ (1,635)	(5.3%)

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Total revenue declined \$1.6 million, or 5.3%, from the second quarter of fiscal year 2015 to the second quarter of fiscal year 2016.

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Service revenue, which accounted for 48.1% and 40.5% of our total revenue in second quarter of fiscal years 2016 and 2015, respectively, increased 12.7% from the second quarter of fiscal year 2015 to the second quarter of fiscal year 2016. This year-over-year increase was the result of organic and acquisition-related growth.

Our fiscal years 2016 and 2015 Service revenue growth, in relation to prior fiscal year quarter comparisons, was as follows:

	FY 2016			FY 2015		
	Q2	Q1	Q4	Q3	Q2	Q1
Service Revenue Growth	12.7%	11.5%	7.5%	9.4%	9.8%	3.4%

Within any quarter, while we add new customers, we also have customers from the prior year whose service orders may not repeat for any number of reasons. Among those reasons are variations in the timing of periodic calibrations and other services, customer capital expenditures and customer outsourcing decisions. Because the timing of Service segment orders can vary on a quarter-to-quarter basis, we believe a trailing twelve-month trend provides a better indication of the progress of this segment. The following table presents the trailing twelve-month Service segment revenue for each quarter in fiscal years 2016 and 2015 as well as the trailing twelve-month revenue growth as a comparison to that of the prior fiscal year period:

	FY 2016			FY 2015		
	Q2	Q1	Q4	Q3	Q2	Q1
Trailing Twelve-Month:						
Service Revenue	\$ 54,793	\$ 53,198	\$ 51,801	\$ 50,793	\$ 49,706	\$ 48,583
Service Revenue Growth	10.2%	9.5%	7.5%	8.2%	9.7%	11.3%

Within the calibration industry, there is a broad array of measurement disciplines making it costly and inefficient for any one provider to invest the needed capital for the facilities, equipment and uniquely trained personnel necessary to address all measurement disciplines with in-house calibration capabilities. Our strategy has been to focus our investments in the core electrical, temperature, pressure and dimensional disciplines. Accordingly, over the long-term, we expect to outsource 15% to 20% of Service revenue to third-party vendors for calibration beyond our chosen scope of capabilities. During any individual quarter, we could fluctuate beyond these percentages. We continually evaluate our outsourcing needs and make capital investments, as deemed necessary, to add more in-house capabilities and reduce the need for third-party vendors. The following table presents the source of our Service revenue and the percentage of Service revenue derived from each source for each quarter of fiscal years 2016 and 2015:

	FY 2016			FY 2015		
	Q2	Q1	Q4	Q3	Q2	Q1
Percent of Service Revenue:						
In-House	81.4%	82.4%	82.8%	81.8%	81.6%	82.8%
Outsourced	16.7%	15.8%	15.4%	16.4%	16.5%	15.1%
Freight Billed to Customers	1.9%	1.8%	1.8%	1.8%	1.9%	2.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Our Distribution sales accounted for 51.9% of our total revenue in the second quarter of fiscal year 2016 and 59.5% of our total revenue in the second quarter of fiscal year 2015. Distribution sales in the second quarter of fiscal year 2016 were \$15.3 million, compared to \$18.5 million in the second quarter of fiscal year 2015. This year-over-year decline was primarily attributed to reduced demand from the oil and gas and related industries and weaker sales to customers impacted by the strength of the U.S. dollar.

Our fiscal years 2016 and 2015 Distribution sales (decline) growth, in relation to prior fiscal year quarter comparisons, was as follows:

	FY 2016			FY 2015		
	Q2	Q1	Q4	Q3	Q2	Q1
Distribution Sales (Decline) Growth	(17.4%)	(5.0%)	5.5%	(2.9%)	6.4%	0.1%



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Distribution orders include orders for instruments that we routinely stock in our inventory, customized products, and other products ordered less frequently, which we do not stock. Pending product shipments are primarily backorders, but also include products that are requested to be calibrated in our service centers prior to shipment, orders required to be shipped complete or at a future date, and other orders awaiting final credit or management review prior to shipment. Variations in pending product shipments can be impacted by several factors, including the timing of when product orders are placed in relation to the end of the fiscal period, specialized product orders that are not stocked, or production issues experienced by manufacturers. Our total pending product shipments at the end of the second quarter of fiscal year 2016 were \$3.1 million, a decrease of \$0.3 million from the second quarter of fiscal year 2015. The following table presents our historical trend of total pending product shipments and the percentage of total pending product shipments that were backorders at the end of each quarter of fiscal years 2016 and 2015:

	FY 2016			FY 2015		
	Q2	Q1	Q4	Q3	Q2	Q1
Total Pending Product Shipments	\$ 3,124	\$ 2,858	\$ 3,215	\$ 3,838	\$ 3,383	\$ 2,860
% of Pending Product Shipments that were Backorders	78.4%	75.8%	73.9%	73.9%	69.0%	64.1%

### Gross Profit:

	Second Quarter Ended		Change	
	September 26, 2015	September 27, 2014	\$	%
Gross Profit:				
Service	\$ 3,461	\$ 3,272	\$ 189	5.8%
Distribution	3,276	3,654	(378)	(10.3%)
Total	\$ 6,737	\$ 6,926	\$ (189)	(2.7%)

Total gross profit in the second quarter of fiscal year 2016 decreased \$0.2 million, or 2.7%, from the second quarter of fiscal year 2015. As a percentage of total revenue, gross margin in the second quarter of fiscal year 2016 increased 60 basis points to 22.9% compared to 22.3% in the second quarter of fiscal year 2015.

Service gross profit in the second quarter of fiscal year 2016 increased \$0.2 million, or 5.8%, from the second quarter of fiscal year 2015. Service gross margin decreased 160 basis points over the same period in the prior fiscal year to 24.4%. Our annual and quarterly Service gross margin is a function of several factors. In general, our Service revenue growth provides incremental gross margin growth due to the operating leverage achieved through our relatively fixed cost structure in this segment. However, other factors, such as percent of Service revenue outsourced to third-party vendors and the amount of Service revenue growth achieved through business acquisitions compared to that achieved organically may moderate or reduce our gross margins in any given quarter.

The following table presents the quarterly historical trend of our Service gross margin as a percent of Service revenue:

	FY 2016			FY 2015		
	Q2	Q1	Q4	Q3	Q2	Q1
Service Gross Margin	24.4%	26.1%	33.2%	24.5%	26.0%	24.2%

We evaluate Distribution gross profit from two perspectives. Channel gross profit includes net sales less the direct cost of inventory sold. Our Distribution gross profit includes channel gross profit as well as the impact of vendor rebates, cooperative advertising income, freight billed to customers, freight expenses and direct shipping costs. In general, our Distribution gross margin can vary based upon the mix of products sold, price discounting and the timing of periodic vendor rebates and cooperative advertising income received from suppliers.

Distribution gross profit was \$3.3 million in the second quarter of fiscal year 2016, a \$0.4 million decrease when compared to the second quarter of fiscal year 2015. As a percent of Distribution sales, Distribution gross margin was 21.4% in the second quarter of fiscal year 2016, a 170 basis point increase from the second quarter of fiscal year 2015. Vendor rebates accounted for 190 basis points of the segment gross margin in the second quarter of fiscal year 2016. The following table reflects the quarterly historical trend of our Distribution gross margin as a percent of

Distribution sales:

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	FY 2016		Q4	FY 2015		
	Q2	Q1		Q3	Q2	Q1
Channel Gross Margin (1)	19.4%	18.6%	19.2%	19.6%	19.8%	19.5%
Total Distribution Gross Margin (2)	21.4%	21.9%	20.7%	21.2%	19.7%	22.0%

- (1) Channel gross margin is calculated as net sales less purchase costs divided by net sales.  
(2) Includes vendor rebates, cooperative advertising income, freight billed to customers, freight expenses, and direct shipping costs.

**Operating Expenses:**

	Second Quarter Ended		Change	
	September 26, 2015	September 27, 2014	\$	%
Operating Expenses:				
Selling, Marketing and Warehouse	\$ 3,229	\$ 3,169	\$ 60	1.9%
Administrative	2,138	2,241	(103)	(4.6%)
Total	\$ 5,367	\$ 5,410	\$ (43)	(0.8%)

Operating expenses decreased by less than \$0.1 million from the second quarter of fiscal year 2015 to the second quarter of fiscal year 2016. As a percentage of total revenue, operating expenses were 18.3% in the second quarter of fiscal year 2016 and 17.4% in the second quarter of fiscal year 2015.

**Interest and Other Expense:**

	Second Quarter Ended		Change	
	September 26, 2015	September 27, 2014	\$	%
Interest and Other Expense, net	\$ 36	\$ 138	\$ (102)	(73.9%)

Net interest and other expenses decreased \$0.1 million in the second quarter of fiscal year 2016 compared to the second quarter of fiscal year 2015, primarily due to reduced foreign currency transaction costs.

**Taxes:**

	Second Quarter Ended		Change	
	September 26, 2015	September 27, 2014	\$	%
Provision for Income Taxes	\$ 456	\$ 519	\$ (63)	(12.1%)

Our effective tax rates for the second quarter of fiscal years 2016 and 2015 were 34.2% and 37.7%, respectively. The decrease largely reflects a change in the mix of taxable income between the U.S. and Canada. We continue to evaluate our tax provision on a quarterly basis and make adjustments, as deemed necessary, to our effective tax rate given changes in facts and circumstances expected for the entire fiscal year.



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**SIX MONTHS ENDED SEPTEMBER 26, 2015 COMPARED TO SIX MONTHS ENDED SEPTEMBER 27, 2014** (dollars in thousands):

**Revenue:**

	Six Months Ended		Change	
	September 26, 2015	September 27, 2014	\$	%
Revenue:				
Service	\$ 27,725	\$ 24,733	\$ 2,992	12.1%
Distribution	31,421	35,497	(4,076)	(11.5%)
Total	\$ 59,146	\$ 60,230	\$ (1,084)	(1.8%)

Total revenue decreased \$1.1 million, or 1.8%, from the first six months of fiscal year 2015 to the first six months of fiscal year 2016.

Service revenue increased \$3.0 million, or 12.1%, from the first six months of fiscal year 2015 to the first six months of fiscal year 2016. The year-over-year increase was driven by a combination of organic and acquisition-related growth.

Our Distribution sales accounted for 53.1% and 58.9% of our total revenue in the first six months of fiscal years 2016 and 2015, respectively. For the first six months of fiscal year 2016, Distribution sales decreased \$4.1 million, or 11.5%, compared to the first six months of fiscal year 2015. This year-over-year reduction in sales was primarily due to weakened demand from the oil and gas and related industries and weaker sales to customers impacted by the strength of the U.S. dollar.

**Gross Profit:**

	Six Months Ended		Change	
	September 26, 2015	September 27, 2014	\$	%
Gross Profit:				
Service	\$ 6,992	\$ 6,209	\$ 783	12.6%
Distribution	6,807	7,386	(579)	(7.8%)
Total	\$ 13,799	\$ 13,595	\$ 204	1.5%

Total gross profit in the first six months of fiscal year 2016 increased \$0.2 million, or 1.5%, from the first six months of fiscal year 2015. Total gross margin increased 70 basis points to 23.3% of total revenue in the first six months of fiscal year 2016 compared to 22.6% in the first six months of fiscal year 2015. The year-over-year increase in gross margin was primarily due to increased Distribution segment vendor rebates which contributed 80 basis points to total gross margin in the first six months of fiscal year 2016.

Service segment gross profit increased \$0.8 million, or 12.6%, from the first six months of fiscal year 2015 to the first six months of fiscal year 2016. In the first six months of fiscal year 2016, Service segment gross margin was 25.2%, consistent with the same time period in the prior fiscal year.

Distribution segment gross profit decreased \$0.6 million in the first six months of fiscal year 2016 to \$6.8 million. Distribution segment gross margin increased 90 basis points to 21.7% in the first six months of fiscal year 2015 compared to 20.8% in the first six months of fiscal year 2015. This increase is primarily due to increased vendor rebates.

**Operating Expenses:**

	Six Months Ended		Change	
	September 26, 2015	September 27, 2014	\$	%

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Operating Expenses:					
Selling, Marketing and Warehouse	\$	6,769	\$	6,904	\$ (135) (2.0%)
Administrative		4,633		4,416	217 4.9%
Total	\$	11,402	\$	11,320	\$ 82 0.7%

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Operating expenses for the first six months of fiscal year 2016 were \$11.4 million, an increase of \$0.1 million from the first six months of fiscal year 2015. The increase was primarily due to increased administrative expenses resulting from higher employee-related expenses, which were not fully offset by reductions in selling, marketing and warehouse expenses. As a percentage of total revenue, operating expenses during the first six months of fiscal year 2016 were 19.2%, compared to 18.8% in the first six months of fiscal year 2015.

### Taxes:

	Six Months Ended		Change	
	September 26, 2015	September 27, 2014	\$	%
Provision for Income Taxes	\$ 787	\$ 788	\$ (1)	(0.1%)

Our effective tax rates for the first six months of fiscal years 2016 and 2015 were 34.7% and 37.7%, respectively. The decrease largely reflects a change in the mix of taxable income between the U.S. and Canada. We continue to evaluate our tax provision on a quarterly basis and make adjustments, as deemed necessary, to our effective tax rate given changes in facts and circumstances expected for the entire fiscal year.

### LIQUIDITY AND CAPITAL RESOURCES

Our primary source of working capital is cash flow from operations. We have funded operations and acquisitions in recent periods with operating cash flows, and proceeds from our Revolving Credit Facility.

**Cash Flows:** The following table is a summary of our Consolidated Statements of Cash Flows (dollars in thousands):

	Six Months Ended	
	September 26, 2015	September 27, 2014
<b>Cash Provided by (Used in):</b>		
Operating Activities	\$ 5,314	\$ (411)
Investing Activities	(5,641)	(8,513)
Financing Activities	(21)	8,990

**Operating Activities:** Net cash provided by operations was \$5.3 million during the first six months of fiscal year 2016 compared to \$0.4 million of net cash used in operating activities during the first six months of fiscal year 2015.

The year-over-year increase in cash provided by operations is primarily the result of changes in net working capital (defined as current assets less current liabilities). The significant changes in net working capital were:

**Receivables:** Accounts receivable decreased by \$1.9 million in the first six months of fiscal year 2016, compared to an increase of \$0.7 million in the first six months of fiscal year 2015. The year-to-year variability is primarily due to sales declines in the first six months of fiscal year 2016. The following table illustrates our days sales outstanding as of September 26, 2015 and September 27, 2014:

	September 26, 2015	September 27, 2014
	Net Sales, for the last two fiscal months	\$ 21,284
Accounts Receivable, net	\$ 15,004	\$ 16,345
Days Sales Outstanding	42	43

**Inventory:** Our inventory strategy includes making appropriate large quantity, high dollar purchases with key manufacturers for various reasons, including maximizing on-hand availability of key products, reducing backorders for products with long lead times and optimizing vendor volume discounts. As a result, inventory levels will vary from quarter-to-quarter based on the timing of these large orders in relation to our quarter end. During the first six months of fiscal year 2016, our inventory balance decreased \$0.5 million due to

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normal inventory fluctuations. Our inventory balance increased \$1.3 million during the first six months of fiscal year 2015, due to a large strategic inventory purchase.

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**Accounts Payable:** In general, changes in accounts payable may or may not correlate with changes in inventory balances at any given quarter end due to the timing of vendor payments for inventory receipts and inventory shipped directly to customers, as well as the timing of outsourced Service revenues. Accounts payable increased \$0.7 million during the first six months of fiscal year 2016 compared to a \$1.0 million increase in the first six months of fiscal year 2015.

**Accrued Compensation and Other Liabilities:** Accrued Compensation and Other Liabilities include, among other things, amounts to be paid to employees for non-equity performance-based compensation. At the end of any particular period, the amounts accrued for such compensation may vary due to many factors including, but not limited to, changes in expected performance levels, the performance measurement period, and timing of payments to employees. During the first six months of fiscal year 2016, accrued compensation and other liabilities increased by \$0.1 million, resulting from \$0.5 million in non-equity performance-based compensation accruals in the period, offset by \$0.4 million in payments of non-equity performance-based compensation. During the first six months of fiscal year 2015, accrued compensation and other liabilities decreased by \$2.1 million, primarily due to the payment of previously accrued non-equity performance-based compensation.

**Income Taxes Payable:** In any given quarter, net working capital may be affected by the timing and magnitude of income tax payments. During the first six months of fiscal year 2015, income taxes payable decreased by \$1.0 million whereas in the first six months of fiscal year 2016, income taxes payable decreased by less than \$0.1 million.

**Investing Activities:** During the first six months of fiscal year 2016, we invested \$2.7 million in capital expenditures, compared to \$1.8 million in the first six months of fiscal year 2015, primarily for additional Service segment capabilities and assets for our instrument rental program. Also, during the first six months of fiscal year 2016, we used \$2.9 million for business acquisitions, compared to \$6.7 million used for a business acquisition in the first six months of fiscal year 2015.

**Financing Activities:** During the first six months of fiscal year 2016, approximately \$0.2 million in net cash was used for repayment of our Revolving Credit Facility, offset by \$0.2 million in cash generated from the issuance of common stock. During the first six months of fiscal year 2015, cash provided by financing activities included approximately \$8.7 million in cash from our Revolving Credit Facility, used primarily to acquire a business, and \$0.3 million from the issuance of common stock.

**Credit Agreement:** Through our credit agreement, as amended (the **Credit Agreement** ), which matures on September 20, 2018, we have a revolving credit facility (the **Revolving Credit Facility** ). The Revolving Credit Facility allows for maximum borrowings of \$30.0 million and limits the amount of borrowings that may be used for business acquisitions to \$15.0 million per fiscal year.

The Revolving Credit Facility is subject to a maximum borrowing restriction based on a 2.75 multiple of earnings before income taxes, depreciation and amortization, and non-cash stock-based compensation expense for the preceding four consecutive fiscal quarters. As of September 26, 2015, \$29.5 million was available under the Revolving Credit Facility, of which \$12.0 million was outstanding and included in long-term debt on the Consolidated Balance Sheet.

The Credit Agreement has certain covenants with which we have to comply, including a fixed charge ratio covenant and a leverage ratio covenant. We were in compliance with all loan covenants and requirements during the first six months of fiscal year 2016.

We believe that amounts available under our current credit facility and our cash on hand are sufficient to satisfy our expected working capital and capital expenditure needs as well as our lease commitments for the foreseeable future.

### OUTLOOK

We expect to continue to successfully execute our strategy for the Service segment and look for it to deliver double-digit top-line segment growth in fiscal year 2016. Given the challenging market conditions in our Distribution segment, consolidated operating income growth for fiscal year 2016 is now expected to be in the low double-digits.

Looking beyond this fiscal year, we remain confident in the opportunities presented by our Service segment, both on the new business and acquisition front. With the recent acquisition of Anmar Metrology, we strengthened our presence in Southern California, which has a significant concentration of life sciences and aerospace companies, prime customers for our services. We are also optimistic that our new instrument rental program, enhanced web platform and the further leveraging of cross-selling opportunities between our two segments will drive improvements in the contribution from our Distribution segment, which continues to generate strong cash flow. Long term, Transcat is in an excellent position to advance our market position as a leader in calibration and compliance services.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### INTEREST RATES

Our exposure to changes in interest rates results from our borrowing activities. In the event interest rates were to move by 1%, our yearly interest expense would increase or decrease by approximately \$0.1 million assuming our average borrowing levels remained constant. As of September 26, 2015, \$29.5 million was available under our Revolving Credit Facility, of which \$12.0 million was outstanding and included in long-term debt on the Consolidated Balance Sheet.

We borrow from our Revolving Credit Facility at the one-month LIBOR, adjusting daily, or at a fixed rate for a designated period at the LIBOR corresponding to such period, in each case, plus a margin. Our interest rate margin is determined on a quarterly basis based upon our calculated leverage ratio. As of September 26, 2015, the one-month LIBOR was 0.2%. Our interest rate for the first six months of fiscal year 2016 ranged from 1.7% to 1.8%. On September 26, 2015, we had no hedging arrangements in place to limit our exposure to upward movements in interest rates.

#### FOREIGN CURRENCY

Approximately 90% of our total revenues for the first six months of fiscal years 2016 and 2015 were denominated in U.S. dollars, with the remainder denominated in Canadian dollars. A 10% change in the value of the Canadian dollar to the U.S. dollar would impact our revenue by approximately 1%. We monitor the relationship between the U.S. and Canadian currencies on a monthly basis and adjust sales prices for products and services sold in Canadian dollars as we believe to be appropriate.

We continually utilize short-term foreign exchange forward contracts to reduce the risk that future earnings would be adversely affected by changes in currency exchange rates. We do not apply hedge accounting and therefore the net change in the fair value of the contracts, which totaled a gain of \$0.3 million during the first six months of fiscal year 2016 and a gain of less than \$0.1 million during the first six months of fiscal year 2015, 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 Canadian dollars being hedged. On September 26, 2015, the Company had a foreign exchange contract, which matured in October 2015, outstanding in the notional amount of \$5.3 million. The Company does not use hedging arrangements for speculative purposes.

### ITEM 4. CONTROLS AND PROCEDURES

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.** Our principal executive officer and our principal financial officer evaluated our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our principal executive officer and principal financial officer to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of such date.

**Changes in Internal Control over Financial Reporting.** There has been no change in our internal control over financial reporting that occurred during the last fiscal quarter covered by this quarterly report (our second fiscal quarter) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Weighted Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)</b>
6/28/2015-9/26/2015	529 (2)	\$ 9.45 (2)	-	-

- (1) We have an Executive Officer and Director Share Repurchase Plan (the Plan), which allows us to repurchase shares of our common stock from certain of our executive officers and directors, subject to certain conditions and limitations. The purchase price is determined by the weighted average closing price per share of our common stock on The NASDAQ Global Market over the twenty (20) trading days following our acceptance of the repurchase request and may not be more than 15% higher than the closing price on the last day of the twenty (20) trading day period. We may purchase shares of our common stock pursuant to the Plan on a continuous basis, but we may not expend more than \$1.0 million in any fiscal year to repurchase the shares. Our board of directors may terminate the Plan at any time. No shares were repurchased under the Plan during the second quarter of fiscal year 2016.
- (2) These shares were repurchased from an employee of the Company in accordance with the Transcat, Inc. 2003 Incentive Plan and in connection with the exercise of options where the exercise price was paid through the tender of common stock that the employee otherwise owned.

**ITEM 6. EXHIBITS**

See Index to Exhibits.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**TRANSCAT, INC.**

Date: November 6, 2015

/s/ Lee D. Rudow  
Lee D. Rudow  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 6, 2015

/s/ John J. Zimmer  
John J. Zimmer  
Senior Vice President of Finance and Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)



**INDEX TO EXHIBITS**

- (3) Articles of Incorporation and Bylaws
  - 3.1 Certificate of Amendment to Articles of Incorporation
- (31) Rule 13a-14(a)/15d-14(a) Certifications
  - 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
  - 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32) Section 1350 Certifications
  - 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101) Interactive Data File
  - 101.INS XBRL Instance Document
  - 101.SCH XBRL Taxonomy Extension Schema Document
  - 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
  - 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
  - 101.LAB XBRL Taxonomy Extension Label Linkbase Document
  - 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document