TRANSCAT INC
Form 10-Q
August 10, 2012

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

FORM 10-Q

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

For the quarterly period ended: June 30, 2012

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 [x] 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 [x] 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 [x]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [x]

The number of shares of common stock, par value $0.50 per share, of the registrant outstanding as of August 6, 2012 was 7,409,652.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) First Quarter Ended	
	June 30, 2012	June 25, 2011
Product Sales	$16,365	$17,182
Service Revenue	8,732	8,423
Net Revenue	25,097	25,605
Cost of Products Sold	12,155	12,914
Cost of Services Sold	6,735	6,393
Total Cost of Products and Services Sold	18,890	19,307
Gross Profit	6,207	6,298
Selling, Marketing and Warehouse Expenses	3,441	3,626
Administrative Expenses	2,172	2,102
Total Operating Expenses	5,613	5,728
Operating Income	594	570
Interest and Other Expense, net	47	45
Income Before Income Taxes	547	525
Provision for Income Taxes	186	200
Net Income	$361	$325
Basic Earnings Per Share	$0.05	$0.04
Average Shares Outstanding	7,375	7,277
Diluted Earnings Per Share	$0.05	$0.04
Average Shares Outstanding	7,681	7,608

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	(Unaudited) First Quarter Ended June 30, 2012	(Unaudited) First Quarter Ended June 25, 2011
Net Income	$361	$325
Other Comprehensive (Loss) Income:		
Currency Translation Adjustment	(5)	(2)
Unrecognized Prior Service Cost, net of tax	(82)	3
Unrealized Loss on Other Assets, net of tax	(4)	-
	(91)	1
Comprehensive Income	$270	$326

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Amounts)

	(Unaudited) June 30, 2012	March 31, 2012
ASSETS		
Current Assets:		
Cash	$ 44	$ 32
Accounts Receivable, less allowance for doubtful accounts of $97 and $99 as of June 30, 2012 and March 31, 2012, respectively	11,905	13,800
Other Receivables	1,041	845
Inventory, net	7,224	6,396
Prepaid Expenses and Other Current Assets	1,067	1,064
Deferred Tax Asset	857	1,041
Total Current Assets	22,138	23,178
Property and Equipment, net	5,426	5,306
Goodwill	13,384	13,390
Intangible Assets, net	2,265	2,449
Deferred Tax Asset	315	-
Other Assets	849	654
Total Assets	$ 44,377	$ 44,977
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 6,248	$ 7,516
Accrued Compensation and Other Liabilities	2,873	5,171
Income Taxes Payable	219	366
Total Current Liabilities	9,340	13,053
Long-Term Debt	5,852	3,365
Deferred Tax Liability	-	139
Other Liabilities	1,382	1,042
Total Liabilities	16,574	17,599
Shareholders' Equity:		
Common Stock, par value $0.50 per share, 30,000,000 shares authorized; 7,905,461 and 7,840,994 shares issued as of June 30, 2012 and March 31, 2012, respectively; 7,406,679 and 7,341,007 shares outstanding as of June 30, 2012 and March 31, 2012, respectively	3,953	3,920
Capital in Excess of Par Value	10,932	10,810
Accumulated Other Comprehensive Income	357	448
Retained Earnings	14,755	14,394
Less: Treasury Stock, at cost, 498,782 shares	(2,194)	(2,194)
Total Shareholders' Equity	27,803	27,378
Total Liabilities and Shareholders' Equity	$ 44,377	$ 44,977

See accompanying notes to consolidated financial statements.

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

	(Unaudited) First Quarter Ended	
	June 30, 2012	June 25, 2011
Cash Flows from Operating Activities:		
Net Income	$ 361	$ 325
Adjustments to Reconcile Net Income to Net Cash		
Used in Operating Activities:		
Deferred Income Taxes	(218)	(8)
Depreciation and Amortization	600	670
Provision for Accounts Receivable and Inventory Reserves	70	66
Stock-Based Compensation Expense	75	258
Changes in Assets and Liabilities:		
Accounts Receivable and Other Receivables	1,662	(297)
Inventory	(808)	(1,028)
Prepaid Expenses and Other Assets	(346)	(163)
Accounts Payable	(1,254)	213
Accrued Compensation and Other Liabilities	(2,089)	(543)
Income Taxes Payable	(147)	(58)
Net Cash Used in Operating Activities	(2,094)	(565)
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(453)	(610)
Business Acquisition	-	(125)
Net Cash Used in Investing Activities	(453)	(735)
Cash Flows from Financing Activities:		
Revolving Line of Credit, net	2,487	1,296
Payments on Other Debt Obligations	-	(6)
Payments of Contingent Consideration	(14)	(58)
Issuance of Common Stock	80	70
Excess Tax Benefits Related to Stock-Based Compensation	-	6
Net Cash Provided by Financing Activities	2,553	1,308
Effect of Exchange Rate Changes on Cash	6	2
Net Increase in Cash	12	10
Cash at Beginning of Period	32	32
Cash at End of Period	$ 44	$ 42
Supplemental Disclosure of Cash Flow Activity:		
Cash paid during the period for:		
Interest	$ 22	$ 18
Income Taxes, net	$ 553	$ 262
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		

Contingent Consideration Related to Business Acquisition	$ -	$ 100

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands)
(Unaudited)

	Common Stock Issued $0.50 Par Value		Capital In Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock Outstanding at Cost		Total
	Shares	Amount				Shares	Amount	
Balance as of March 31, 2012	7,840	$3,920	$10,810	$ 448	$14,394	499	$(2,194)	$27,378
Issuance of Common Stock	13	7	73					80
Stock-Based Compensation	52	26	49					75
Other Comprehensive Loss				(91)				(91)
Net Income					361			361
Balance as of June 30, 2012	7,905	$3,953	$10,932	$ 357	$14,755	499	$(2,194)	$27,803

See accompanying notes to consolidated financial statements.

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

NOTE 1 – GENERAL

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

Basis of Presentation: Transcat's unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company's management, all adjustments considered necessary for a fair presentation (consisting of normal recurring adjustments) have been included. The results for the interim periods are not necessarily indicative of what the results will be for the fiscal year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements as of and for the fiscal year ended March 31, 2012 ("fiscal year 2012") contained in the Company's 2012 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 are included as a component of other assets (non-current) on the Consolidated Balance Sheets, consist of mutual funds and are valued based on quoted market prices in active markets.

Stock-Based Compensation: The Company measures the cost of services received in exchange for all equity awards granted, including stock options and restricted stock, based on the fair market value of the award as of the grant date. The Company records compensation cost related to unvested stock awards by recognizing, on a straight-line basis, the unamortized grant date fair value over the remaining service period of each award. Excess tax benefits from the exercise of stock awards are presented in the Consolidated Statements of Cash Flows as a financing activity. Excess tax benefits are realized benefits from tax deductions for exercised awards in excess of the deferred tax asset attributable to stock-based compensation costs for such awards. The Company did not capitalize any stock-based compensation costs as part of an asset. The Company estimates forfeiture rates based on its historical experience. During the first quarter of the fiscal year ending March 30, 2013 ("fiscal year 2013") and fiscal year 2012, the Company recorded non-cash stock-based compensation cost of less than \$0.1 million and \$0.3 million, respectively, in the Consolidated Statements of Operations.

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

Transcat records foreign currency gains and losses on Canadian business transactions. The net foreign currency loss was less than $0.1 million in the first quarter of fiscal years 2013 and 2012. The Company utilizes foreign exchange forward contracts to reduce the risk that its earnings would be adversely affected by changes in currency exchange rates. The Company does not apply hedge accounting and therefore the change in the fair value of the contracts, which totaled less than $0.1 million during the first quarter of fiscal years 2013 and 2012, was recognized as a component of other expense in the Consolidated Statements of Operations. 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 June 30, 2012, the Company had a foreign exchange contract, which matured in July 2012, outstanding in the notional amount of $1.6 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 awards using the treasury stock method in periods in which they have a dilutive effect. In computing the per share effect of assumed conversion, funds which would have been received from the exercise of options and unvested restricted stock and the related tax benefits are considered to have been used to purchase shares of common stock at the average market prices during the period. The resulting net additional shares of common stock are included in the calculation of average shares of common stock outstanding.

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

	First Quarter Ended	
	June 30, 2012	June 25, 2011
Average Shares Outstanding – Basic	7,375	7,277
Effect of Dilutive Common Stock Equivalents	306	331
Average Shares Outstanding – Diluted	7,681	7,608
Anti-dilutive Common Stock Equivalents	428	475

Subsequent Event: On July 16, 2012, the Company acquired Anacor Compliance Services, Inc., a nationally-recognized provider of specialized analytical, calibration, compliance and validation services to the life sciences sector including biotechnology, medical device and pharmaceutical industries. The acquisition is not considered material.

NOTE 2 – DEBT

Description: Transcat, through its credit agreement (the “Credit Agreement”) which matures in January 2014, has a revolving credit facility in the amount of $15.0 million (the “Revolving Credit Facility”). As of June 30, 2012, $15.0 million was available under the Credit Agreement, of which $5.9 million was outstanding and included in long-term debt on the Consolidated Balance Sheet.

Interest and Other Costs: Interest on the Revolving Credit Facility accrues, at Transcat’s election, at either a base rate (the “Base Rate”), as defined in the Credit Agreement, or the London Interbank Offered Rate (“LIBOR”), in each case, plus a margin. Commitment fees accrue based on the average daily amount of unused credit available on the Revolving Credit Facility. Interest and commitment fees are adjusted on a quarterly basis based upon the Company’s calculated leverage ratio, as defined in the Credit Agreement. The Base Rate and the LIBOR as of June 30, 2012 were 3.3% and 0.2%, respectively. The Company’s interest rate for the first quarter of fiscal year 2013 ranged from 1.1% to 2.8%.

Covenants: The Credit Agreement has certain covenants with which the Company has to comply, including a fixed charge ratio covenant and a leverage ratio covenant. The Company was in compliance with all loan covenants and requirements throughout the first quarter of fiscal year 2013.

Other Terms: The Company has pledged all of its U.S. tangible and intangible personal property and a majority of the common stock of its wholly-owned subsidiary, Transmation (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 and stock options to directors, officers and key employees at the fair market value at the date of grant. At June 30, 2012, the number of shares available for future grant under the 2003 Plan totaled 0.1 million.

Restricted Stock: The Company grants performance-based restricted stock awards as a primary component of executive compensation. The awards 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 these performance-based restricted stock awards will equal the grant date fair market value of the award that coincides with the actual outcome of the performance conditions. On an interim basis, the Company records compensation cost based on an assessment of the probability of achieving the performance conditions. The Company achieved 75% of the target level for the performance-based restricted stock awards granted in the fiscal year ended March 27, 2010 ("fiscal year 2010") and as a result, issued 52 thousand shares of common stock to executive officers during the first quarter of fiscal year 2013. At June 30, 2012, the Company estimated the probability of achievement for the awards granted in fiscal years 2013 and 2012 to be 100% of the target levels and 75% of the target levels for the awards granted in the fiscal year ended March 26, 2011 ("fiscal year 2011"). Total expense relating to performance-based restricted stock awards, based on grant date fair value and the estimated probability of achievement, was less than $0.1 million in the first quarter of fiscal years 2013 and 2012. Unearned compensation totaled $0.8 million as of June 30, 2012.

On April 4, 2011, the Company granted restricted stock awards, which vested immediately, to its officers and certain key employees. Total expense related to these restricted stock awards, based on grant date fair value, was $0.1 million in the first quarter of fiscal year 2012.

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.

The following table summarizes the Company’s options as of and for the first quarter ended June 30, 2012:

	Number Of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of March 31, 2012	597	$ 5.94		
Granted	-	-		
Exercised	(10)	4.03		
Cancelled/Forfeited	(20)	6.65		
Outstanding as of June 30, 2012	567	5.95	4	$ 516
Exercisable as of June 30, 2012	560	5.94	4	516

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 first quarter of fiscal year 2013 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 June 30, 2012. The amount of aggregate intrinsic value will change based on the fair market value of the Company’s stock.

Total unrecognized compensation cost related to non-vested stock options as of June 30, 2012 was less than $0.1 million, which is expected to be recognized over a weighted average period of less than one year. The aggregate intrinsic value of stock options exercised in the first quarter of fiscal year 2013 was less than $0.1 million. Cash received from the exercise of options in the first quarter of fiscal year 2013 was less than $0.1 million.

NOTE 4 – SEGMENT INFORMATION

Transcat has two reportable segments: Distribution Products ("Product") and Calibration Services ("Service"). The Company has no inter-segment sales. The following table presents segment information for the first quarters ended June 30, 2012 and June 25, 2011:

	First Quarter Ended	
	June 30, 2012	June 25, 2011
Net Revenue:		
Product Sales	$16,365	$17,182
Service Revenue	8,732	8,423
Total	25,097	25,605
Gross Profit:		
Product	4,210	4,268
Service	1,997	2,030
Total	6,207	6,298
Operating Expenses:		
Product (1)	3,358	3,447
Service (1)	2,255	2,281
Total	5,613	5,728
Operating Income	594	570
Unallocated Amounts:		
Interest and Other Expense, net	47	45
Provision for Income Taxes	186	200
Total	233	245
Net Income	$361	$325

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

NOTE 5 – ACQUISITIONS

In connection with certain of its business acquisitions, the Company entered into earn out agreements with the former owners of the acquired businesses. These agreements entitle the former owners to receive earn out payments subject to continued employment and certain post-closing financial targets, as defined in the agreements. During the first quarter of fiscal year 2012, payments totaling $0.1 million were earned and recorded as compensation expense in the Consolidated Statements of Operations. There were no amounts earned in the first quarter of fiscal year 2013. Earn out consideration unpaid as of June 30, 2012 totaled less than $0.1 million and was included in other current liabilities in the Consolidated Balance Sheet.

In addition, certain of these business acquisitions contain holdback provisions, as defined in the respective purchase agreements. The Company accrues contingent consideration relating to the holdback provisions based on their estimated fair value as of the date of acquisition. During the first quarter of fiscal years 2013 and 2012, the Company paid less than $0.1 million in contingent consideration. There was no unpaid contingent consideration as of June 30, 2012.

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

Forward-Looking Statements: This report and, in particular, the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report, contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These include statements concerning expectations, estimates, and projections about the industry, management beliefs and assumptions of Transcat, Inc. ("Transcat", "we", "us", or "our"). Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates", and variations of such wo similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Therefore, our actual results and outcomes may materially differ from those expressed or forecasted in any such forward-looking statements. When considering these risks, uncertainties and assumptions, you should keep in mind the cautionary statements contained elsewhere in this report and in any documents incorporated herein by reference. New risks and uncertainties arise from time to time and we cannot predict those events or how they may affect us. For a more detailed discussion of the risks and uncertainties that may affect Transcat's operating and financial results and its ability to achieve its financial objectives, interested parties should review the "Risk Factors" sections in Transcat's reports filed with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended March 31, 2012. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Accounts Receivable: Accounts receivable represent amounts due from customers in the ordinary course of business. These amounts are recorded net of the allowance for doubtful accounts and returns in the Consolidated Balance Sheets. The allowance for doubtful accounts is based upon the expected collectibility of accounts receivable. We apply a specific formula to our accounts receivable aging, which may be adjusted on a specific account basis where the formula may not appropriately reserve for loss exposure. After all attempts to collect a receivable have failed, the receivable is written-off against the allowance for doubtful accounts. The returns reserve is calculated based upon the historical rate of returns applied to revenues over a specific timeframe. The returns reserve will increase or decrease as a result of changes in the level of revenues and/or the historical rate of returns.

Stock-Based Compensation: We measure the cost of services received in exchange for all equity awards granted, including stock options and restricted stock, based on the fair market value of the award as of the grant date. We record compensation cost related to unvested stock awards by recognizing, on a straight-line basis, the unamortized grant date fair value over the remaining service period of each award. Excess tax benefits from the exercise of stock awards are presented in the Consolidated Statements of Cash Flows as a financing activity. Excess tax benefits are realized benefits from tax deductions for exercised awards in excess of the deferred tax asset attributable to stock-based compensation costs for such awards. We did not capitalize any stock-based compensation costs as part of an asset. We estimate forfeiture rates based on our historical experience.

We grant performance-based restricted stock awards as a primary component of executive compensation. The awards 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 these performance-based restricted stock awards will equal the grant-date fair market value of the award that coincides with the actual outcome of the performance conditions. On an interim basis, we record compensation cost based on an assessment of the probability of achieving the performance conditions. We achieved 75% of the target level for the performance-based restricted stock awards granted in fiscal year 2010 and as a result, issued 52 thousand shares of common stock to executive officers during the first quarter of fiscal year 2013. At June 30, 2012, we estimated the probability of achievement for the awards granted in fiscal years 2013 and 2012 to be 100% of the target levels and 75% of the target levels for the awards granted in fiscal year 2011.

Revenue Recognition: Product sales are recorded when a product's title and risk of loss transfer to the customer. We recognize the majority of our service revenue based upon when the calibration or other activity is performed and then shipped and/or delivered to the customer. Some service revenue is generated from managing customers' calibration programs in which we recognize revenue in equal amounts at fixed intervals. We generally invoice our customers for freight, shipping, and handling charges. Provisions for customer returns are provided for in the period the related revenues are recorded based upon historical data.

RESULTS OF OPERATIONS

The following table presents, for the first quarter of fiscal years 2013 and 2012, the components of our Consolidated Statements of Operations:

	(Unaudited) First Quarter Ended			
	June 30, 2012		June 25, 2011	
Gross Profit Percentage:				
Product Gross Profit	25.7	%	24.8	%
Service Gross Profit	22.9	%	24.1	%
Total Gross Profit	24.7	%	24.6	%
As a Percentage of Total Net Revenue:				
Product Sales	65.2	%	67.1	%
Service Revenue	34.8	%	32.9	%
Total Net Revenue	100.0	%	100.0	%
Selling, Marketing and Warehouse Expenses	13.7	%	14.2	%
Administrative Expenses	8.7	%	8.2	%
Total Operating Expenses	22.3	%	22.4	%
Operating Income	2.4	%	2.2	%
Interest and Other Expense, net	0.2	%	0.1	%
Income Before Income Taxes	2.2	%	2.1	%
Provision for Income Taxes	0.8	%	0.8	%
Net Income	1.4	%	1.3	%

FIRST QUARTER ENDED JUNE 30, 2012 COMPARED TO FIRST QUARTER ENDED JUNE 25, 2011 (dollars in thousands):

Revenue:

	First Quarter Ended	
	June 30, 2012	June 25, 2011
Net Revenue:		
Product Sales	$16,365	$17,182
Service Revenue	8,732	8,423
Total	$25,097	$25,605

Net revenue decreased $0.5 million, or 2.0%, from the first quarter of fiscal year 2012 to the first quarter of fiscal year 2013.

Our product net sales accounted for 65.2% of our total net revenue in the first quarter of fiscal year 2013 and 67.1% of our total net revenue in the first quarter of fiscal year 2012. Product segment sales decreased $0.8 million, or 4.8%, in the first quarter of fiscal year 2013, primarily due to sluggish economic conditions and compared with unusually strong product sales in the first quarter of fiscal year 2012. Direct sales to end users and sales to resellers were down in the first quarter of fiscal year 2013. Our fiscal years 2013 and 2012 product sales growth in relation to prior fiscal year quarter comparisons is as follows:

	FY 2013	FY 2012			
	Q1	Q4	Q3	Q2	Q1
Product Sales (Decline) Growth	(4.8%)	19.2%	17.0%	26.0%	32.4%

Our average product sales per business day decreased to $260 in the first quarter of fiscal year 2013 compared with $268 in the first quarter of fiscal year 2012. Our product sales per business day for each quarter during the fiscal years 2013 and 2012 are as follows:

	FY 2013	FY 2012			
	Q1	Q4	Q3	Q2	Q1
Product Sales Per Business Day	$ 260	$ 295	$ 308	$ 269	$ 268

Customer product 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 laboratories 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. Our total pending product shipments for the first quarter of fiscal year 2013 decreased by $0.2 million, or 6.5%, from the first quarter of fiscal year 2012. This decrease was primarily driven by reduced backorders and fewer pending shipments requiring management review. Overall, 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. The following table presents the percentage of total pending product shipments that are backorders at the end of the first quarter of fiscal year 2013 and our historical trend of total pending product shipments:

	FY 2013	FY 2012			
	Q1	Q4	Q3	Q2	Q1
Total Pending Product Shipments	$ 2,806	$ 2,670	$ 3,572	$ 3,368	$ 3,002
% of Pending Product Shipments that are Backorders	68.8 %	70.9 %	65.6 %	73.6 %	67.9 %

Service revenue increased $0.3 million, or 3.7%, from the first quarter of fiscal year 2012 to the first quarter of fiscal year 2013. The growth can be attributed to incremental revenue associated with recent business acquisitions, partially offset by the loss of $0.3 million in low margin revenue from services we were outsourcing for a customer. The remainder of our organic Service segment revenue and volume were essentially flat when compared with the first quarter of fiscal 2012. Within any year, while we add new customers, we also have customers from the prior year whose calibrations may not repeat for any number of reasons. Among those reasons are variations in the timing of customer periodic calibrations on instruments and other services, customer capital expenditures and customer outsourcing decisions. Because the timing of calibration orders and segment expenses 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. Service segment revenue for the twelve months ended June 30, 2012 were $36.7 million, up 14.4% when compared with $32.1 million for the twelve months ended June 25, 2011. Our fiscal years 2013 and 2012 service revenue growth in relation to prior fiscal year quarter comparisons is as follows:

	FY 2013	FY 2012			
	Q1	Q4	Q3	Q2	Q1
Service Revenue Growth	3.7 %	20.1 %	24.0 %		