CKX LANDS, INC.
Form 10-K
March 21, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018

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 1-31905

CKX Lands, Inc.

(Exact name of registrant as specified in its Charter)

Louisiana (State or other jurisdiction of incorporation or organization)	**72-0144530** (I.R.S. Employer Identification Number)
One Lakeside Plaza, 4th Floor **Lake Charles, LA** (Address of principal executive offices)	**70601** (Zip Code)

Registrant's telephone number, including area code: **(337) 493-2399**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock with no par value	**NYSE American**
Title of each class	Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
			Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES NO

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 29, 2018 based on the closing price on that date of $10.73 was $15,311,948.

The number of shares of the registrant’s Common Stock outstanding as of March 15, 2019, was 1,942,495.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive Proxy Statement prepared in connection with the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the "Safe Harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements include, without limitation, the information contained under the heading "Outlook for Fiscal Year 2019" in Item 7 of this report, and any statements containing forward-looking terminology including "may," "should," "likely," "will," "believe," "expect," "anticipate," "estimate," "continue," "plan," "intend," "projects," or other similar words. These statements are not a guarantee of future performance and are subject to risks, uncertainties and other factors, some of which are set forth in "Item 1A. Risk Factors." Many risks are beyond our control and difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, the Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information may be contained in the Company's future reports periodically filed with the SEC.

The "Company", "we," "us," and "our," refer to CKX Lands, Inc.

PART I

ITEM 1. BUSINESS

Business Description

CKX Lands, Inc., a Louisiana corporation, began operations in 1930 under the name Calcasieu Real Estate & Oil Co., Inc. It was originally organized as a spin-off by a bank operating in southwest Louisiana. The purpose of the spin-off was to form an entity to hold non-producing mineral interests which regulatory authorities required the bank to dispose of. Over the years, as some of the mineral interests began producing, the Company used part of the proceeds to acquire land. In 1990, the Company made its largest acquisition when it was one of four purchasers that bought a fifty percent undivided interest in approximately 35,575 acres in southwest Louisiana.

Today the Company's income is derived from mineral royalties, timber sales and surface payments from its lands. CKX receives income from royalty interests and mineral leases related to oil and gas production, timber sales, and surface rents. Although CKX is active in the management of its land and planting and harvesting its timber, CKX is

passive in the production of income from oil and gas activities in that CKX does not explore for oil and gas or operate wells. These oil and gas activities are performed by unrelated third parties.

Oil and gas royalties are paid by the operators who own the wells. Timber income is paid by the highest bidder for the timber. There are several mills that compete for timber. Surface income is received for farming, right of ways or other surface land uses. The prices paid for oil, gas and timber depend on national and international market conditions. Prices paid for surface leases depend on regional and local market conditions.

The source of all raw materials for the Company is the land itself. All oil and gas from our lands will eventually deplete, but we have no access to this depletion information. Timber and agriculture are renewable resources. The Company’s three reportable business segments are oil and gas, timber, and surface. Segment revenue and related business segment financial information are included in the notes to financial statements.

The Company’s oil and gas income fluctuates as new oil and gas production is discovered on Company land and then ultimately depletes or becomes commercially uneconomical to produce. The volatility in the daily commodity pricing of a barrel of oil or a thousand cubic feet (“MCF”) of gas will also cause fluctuations in the Company’s oil and gas income. Oil and gas revenues were 49% of the Company’s total revenues in 2018 and 53% in 2017.

CKX has small royalty interests in 29 different producing oil and gas fields. The size of each royalty interest is determined by the Company’s net ownership in the acreage unit for the well. CKX’s royalty interests range from 0.0045% for the smallest to 7.62% for the largest. As the Company does not own or operate the wells, it does not have access to any reserve information.

Timber income is derived from sales of timber on Company lands. The timber income will fluctuate depending on our ability to secure stumpage agreements in the regional markets, timber stand age, and/or stumpage commodity prices. Timber is a renewable resource that the Company actively manages.

Surface income is earned from various recurring and non-recurring sources. Recurring surface income is earned from lease arrangements for farming, recreational and commercial uses. Non-recurring surface income can include such activities as pipeline right of ways, and temporary worksite rentals.

In managing its lands, the Company relies on and has established relationships with real estate, forestry, environmental and agriculture consultants as well as attorneys with legal expertise in general corporate matters, real estate, and minerals.

The Company actively searches for additional real estate for purchase in Louisiana with a focus on southwest Louisiana. When evaluating unimproved real estate for purchase, the Company will consider numerous characteristics including but not limited to timber fitness, agriculture fitness, future development opportunities and/or mineral potential. When evaluating improved real estate for purchase, the Company will consider characteristics including but not limited to geographic location, quality of existing revenue streams, and/or quality of the improvements. CKX owns a 100% interest in 7,500 acres and undivided interests ranging from 1.660% to 77.778% in 43,514 acres, resulting in an ownership of approximately 13,991 net acres.

CKX does not perform or cause to be performed oil and gas producing activities inasmuch as: (1) we do not search for crude oil or natural gas in their natural states; (2) we do not acquire property for the purpose of exploration or the removing of oil and gas; and (3) we are not involved in construction, drilling and/or production activities necessary to retrieve oil and gas.

The Company does not spend any money on research and development.

Employees

The Company has one employee, who is part-time. The Company is not subject to union contracts nor does the Company have any medical benefit, pension, profit sharing, option or deferred compensation programs.

Customers

The Company's customers are those who have mineral leases on Company lands, purchase timber in competitive bids or execute surface leases for farming, hunting, right of ways or other purposes. During 2018, the Company received

approximately 46.41% of its total revenues from the following customers:

Customer	Revenue Type	% of Total Revenue
Louisiana Timber Procurement	Timber	21.26 %
Pintail Oil & Gas, LLC	Oil & Gas	13.13 %
Texegy Operating Company, LLC	Oil & Gas	7.83 %
Universal Timber Services	Timber	7.83 %

Loss of cash receipts from any of these customers or revenue streams would have a material adverse effect on the Company.

Environmental and Other Governmental Regulations

The Company does not need government approval of its principal products or services except that the State of Louisiana must permit the size and location of all oil and gas producing units. The operator of the oil and gas units is responsible for this permitting process.

The operators of the wells are responsible for complying with environmental and other governmental regulations. However, should an operator abandon a well located on Company land without following prescribed procedures, the land owners could possibly be held responsible. The Company does not believe this would have a material effect on its financial condition.

ITEM 1A. RISK FACTORS

Significant Risk Factors

In addition to the other information set forth in this report, you should carefully consider the following risks, which could materially affect our business, financial condition, or results of operations in future periods. The risks described below are not the only risks facing our Company. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or results of operations in future periods.

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A significant portion of our revenues is derived from oil and gas activities on our lands. We rely on third parties to conduct that activity.

We rely on third parties to conduct oil and gas exploration and production activity on our lands. If we are not successful in attracting third parties to conduct that activity or if there is any significant interruption in existing activity on our lands, our results of operations, financial condition and cash flows, would be adversely affected. Additionally, our ability to generate future earnings depends on third parties finding new production on our land to replace present production as it is depleted. Oil and gas prices, as well as new technology, will affect the possibility of replacing present production.

Our revenues could be negatively impacted by declines in commodity prices for oil, natural gas, and timber, among others.

We earn a significant portion of our operating income from the sale of commodities produced from our lands: oil and gas, and timber. Fluctuations in the prices for these commodities will directly impact our cash flow, net income and financial condition.

Additionally, because certain of our lands are leased to farmers, declines in the commodity prices for the crops they grow may impact their ability to make lease payments, and therefore could adversely affect our cash flow, results of operations and financial condition.

Our operations and properties could be adversely affected by hurricanes or other adverse weather events, natural disasters, or other significant disruptions.

Our properties are located principally in southwest Louisiana, where major hurricanes and flooding have occurred. Depending on where any hurricane makes landfall or flooding occurs, our properties could be significantly damaged, and income-producing activities on our properties could be disrupted. In addition, the occurrence and frequency of hurricanes and flooding in Louisiana could also negatively impact demand for the use of our real estate assets because of perceptions of hurricane and flooding risks. In addition to hurricanes, the occurrence of other natural disasters and climate conditions in Louisiana, such as tornadoes, fires, unusually heavy or prolonged rain, droughts, and heat waves, could have an adverse effect on our ability to use our properties or realize income from our properties.

We have approximately 10,601 net acres of timberland in various stages of growth or age classes. A typical pine timber stand will be harvested after 30 to 35 years of growth with some thinning occurring during this time. A

hardwood stand will be harvested after 45 to 50 years of growth. A natural disaster can have a material adverse effect on timber growth, reducing its value. Natural disasters that could affect our timber lands include a hurricane, tornado, high winds, heavy rains and flooding, and/or fire caused by lightning or other sources.

If any of the events described above occurs, we may experience disruptions to our operations and damage to our properties, which could have an adverse effect on our business, our financial condition, our results of operations, and our cash flows.

Our land holdings are concentrated in southwest Louisiana, and we therefore may suffer economic harm because of adverse conditions in that region.

Our land holdings are located principally in southwest Louisiana. Due to the concentration of our properties in this area, our performance is dependent on local economic conditions. This area has experienced periods of economic decline in the past and may do so in the future.

We rely on third party managers for day-to-day property management of certain of our properties.

We rely on local third-party managers for the day-to-day management of our timberland properties. The cash flows from our timberland properties may be adversely affected if the property manager fails to provide quality services. These third-party managers may fail to manage our properties effectively or in accordance with the terms of our agreement with them. If any of these events occur, we could incur losses or face liabilities from the loss or injury to our property or to persons at our properties. In addition, disputes may arise between us and third-party managers, and we may incur significant expenses to resolve those disputes or terminate the relevant agreement with the third parties and locate and engage competent and cost-effective alternative service providers to manage the relevant properties. Additionally, third party managers may manage and own other properties that may compete with our properties, which may result in conflicts of interest and decisions regarding the operation of our properties that are not in our best interests.

Potential environmental liabilities could result in substantial costs to us or cause our land to lose value.

Under federal, state, and local environmental laws, ordinances and regulations, we may be required to investigate and clean up the effects of releases of hazardous substances or petroleum products on our properties because of current or past ownership or operation of oil and gas activities on our lands. If previously unidentified environmental problems arise, we may have to make substantial payments, which could adversely affect our cash flow. As an owner of properties, we may have to pay for property damage and for investigation and cleanup costs incurred in connection with a contamination. The law typically imposes cleanup responsibility and liability regardless of whether an owner knew of or caused the contamination. Changes in environmental regulations or the discovery of environmental damage on our lands may cause the value of our lands to decline, may impact the development potential of our undeveloped land or could increase operating costs due to the cost of complying with new regulations.

Our overall business is subject to risks associated with the real estate industry.

We are subject to all risks related to investment in real estate, many of which relate to the general lack of liquidity of real estate investments, including, but not limited to:

- changes in general or local economic conditions where our properties are located;
- lack of availability of financing at favorable rates (or at all) that may render the purchase, sale or refinancing of a property more difficult or unattractive;
- changes in real estate and zoning laws; and
- increases in real estate taxes and insurance costs.

Our common stock may not have an active, liquid, and orderly trading market, and our stock price may be volatile.

Our common stock may not have an active, liquid, and orderly trading market. Active, liquid, and orderly trading markets usually result in less price volatility and more efficiency in carrying out purchase and sale orders. The trading volume in our common stock may fluctuate and cause price variations to occur.

The market price of our common stock could also vary significantly because of a number of other factors, some of which are beyond our control, including the following:

- actual or anticipated variations in our quarterly operating results or dividends;

- changes in our results of operations or cash flows;
- publication of research reports about us or the real estate industry;
- changes in market valuations of similar companies;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this annual report;
- the extent of investor interest in our common stock;
- our underlying asset value;
- investor confidence in the stock and bond markets, generally;
- changes in tax laws; and
- general market and economic conditions.

If the per share trading price of our common stock declines significantly, stockholders may be unable to resell their shares at or above the price paid for them. We cannot assure stockholders that the per share trading price of our common stock will not fluctuate or decline significantly in the future.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have an adverse effect on our financial condition, results of operations, cash flows and our ability to pay dividends on, and the per share trading price of, our common stock.

Our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2018.

Our principal executive and financial officer evaluated our internal control over financial reporting as of December 31, 2018, and concluded that as of that date, they were not effective due to material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. In addition, as a result of the material weaknesses, our principal executive and financial officer concluded that, as of December 31, 2018, our disclosure controls and procedures were not effective. Until our disclosure controls and procedures and internal control over financial reporting are remediated, they could lead to errors in our financial results and other public filings, which could have an adverse effect on our business, our financial condition, our results of operations, and our cash flows.

We may not have the personnel necessary to remediate our disclosure controls and procedures and internal control over financial reporting. We presently have one part-time employee, who is both our principal executive and financial officer. We cannot assure you that we will be able to develop and implement the necessary controls and procedures without hiring additional employees, incurring significant additional expense, or at all.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company owns approximately 13,991 net acres all located in Louisiana. The approximate gross and net acres located in each Louisiana parish are presented below.

Parish	Gross Acres	Net Acres	Segment(s)
Calcasieu	16,145	4,839	Oil and gas, timber and surface
Jefferson Davis	9,737	2,326	Oil and gas, timber and surface
Allen	8,148	2,483	Oil and gas, timber and surface
Beauregard	7,357	3,588	Oil and gas, timber and surface
Cameron	1,248	274	Oil and gas, surface
LaFourche	240	40	Oil and gas
Natchitoches	200	200	Timber
Vermilion	180	30	Oil and gas, surface
Rapides	129	129	Timber
St. Landry	80	32	Timber
Sabine	50	50	Timber
Total	43,514	13,991	

Included in the 13,991 net acres presented above, are approximately 7,500 acres owned 100% by the Company. The Louisiana parish location for these 100% owned lands is presented below:

Parish	Acres	Segment(s)
Beauregard	2,754	Oil and gas, timber and surface
Calcasieu	2,400	Oil and gas, timber and surface
Allen	1,121	Oil and gas, timber and surface
Jefferson Davis	684	Timber and surface
Natchitoches	200	Timber and surface
Cameron	162	None
Rapides	129	Timber
Sabine	50	Timber

1,646

Total	4,907	4,001
Operating Income (Loss)	451	(116)
Unallocated Amounts:		
Total Other Expense, net	7	29
Provision for (Benefit From) Income Taxes	166	(56)
Total	173	(27)
Net Income (Loss)	$ 278	$ (89)

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

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NOTE 5 ACQUISITIONS

On January 27, 2010, Transcat, through its wholly-owned subsidiary USEC Acquisition Corp., acquired United Scale & Engineering Corporation. At the date of purchase, the Company accrued contingent consideration in the amount of $0.2 million relating to certain holdback provisions under the terms of the purchase agreement. During the first quarter of fiscal year 2011, Transcat paid less than $0.1 million in partial satisfaction of this contingency. As of June 26, 2010, $0.2 million in contingent consideration remains accrued and is included in other current liabilities in the Consolidated Balance Sheet.

On August 14, 2008, Transcat acquired Westcon. At closing, Transcat and the sole shareholder of Westcon entered into an earn out agreement. This agreement provides that the sole shareholder may be entitled to certain contingent earn out payments subject to continued employment and achieving certain post-closing gross profit and revenue targets. During the first quarter of fiscal years 2011 and 2010, payments totaling less than $0.1 million were earned and recorded as compensation expense in the Consolidated Statement of Operations and Comprehensive Income (Loss). Total earn out consideration unpaid as of June 26, 2010 was $0.1 million and is included in other current liabilities in the Consolidated Balance Sheet.

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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 words 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 27, 2010. 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, warrants 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.

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.

During the first quarter of fiscal years 2011, 2010 and 2009, we granted performance-based restricted stock awards in place of options as a primary component of executive compensation. The performance-based restricted stock awards vest after three years subject to certain cumulative diluted earnings per share growth targets over the eligible three-year 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. At June 26, 2010 we estimated the probability of achievement for the performance-based awards granted in fiscal years 2011, 2010 and 2009 to be 100%, 75% and 0% of the target levels, respectively.

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.

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Reclassification of Amounts: Certain reclassifications of financial information for the prior fiscal year have been made to conform to the presentation for the current fiscal year.

RESULTS OF OPERATIONS

The following table presents, for the first quarter of fiscal years 2011 and 2010, the components of our Consolidated Statements of Operations.

	(Unaudited) First Quarter Ended	
	June 26, 2010	**June 27, 2009**
Gross Profit Percentage:		
Product Gross Profit	27.0%	23.5%
Service Gross Profit	24.3%	20.8%
Total Gross Profit	26.0%	22.6%
As a Percentage of Total Net Revenue:		
Product Sales	62.9%	65.5%
Service Revenue	37.1%	34.5%
Total Net Revenue	100.0%	100.0%
Selling, Marketing and Warehouse Expenses	14.8%	14.8%
Administrative Expenses	9.0%	8.5%
Total Operating Expenses	23.8%	23.3%
Operating Income (Loss)	2.2%	(0.7)%
Interest Expense	0.1%	0.1%
Total Other Expense, net	0.0%	0.1%
Total Other Expense	0.1%	0.2%
Income (Loss) Before Income Taxes	2.1%	(0.9)%
Provision for (Benefit from) Income Taxes	0.8%	(0.3)%
Net Income (Loss)	1.3%	(0.6)%

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FIRST QUARTER ENDED JUNE 26, 2010 COMPARED TO FIRST QUARTER ENDED JUNE 27, 2009
(dollars in thousands):
Revenue:

	First Quarter Ended	
	June 26, 2010	June 27, 2009
Net Revenue:		
Product Sales	$ 12,975	$ 11,268
Service Revenue	7,653	5,940
Total	$ 20,628	$ 17,208

Net revenue increased $3.4 million or 19.9% from the first quarter of fiscal year 2010 to the first quarter of fiscal year 2011.

Our product net sales accounted for 62.9% of our total net revenue in the first quarter of fiscal year 2011 and 65.5% of our total net revenue in the first quarter of fiscal year 2010. For the first quarter of fiscal year 2011, product sales increased $1.7 million or 15.1% compared to the first quarter of fiscal year 2010. This growth was aided by a comparison to a depressed first quarter of fiscal year 2010 that was negatively impacted by the weaker economy and incremental products sales from United Scale & Engineering Corporation (United Scale), which we acquired during the fourth quarter of fiscal year 2010. Our fiscal years 2011 and 2010 product sales growth in relation to prior fiscal year quarter comparisons is as follows:

	FY 2011	FY 2010			
	Q1	Q4	Q3	Q2	Q1
Product Sales Growth (Decline)	15.1%	20.5%	8.5%	(7.6%)	(8.5%)

Our average product sales per business day increased to $203 in the first quarter of fiscal year 2011, compared with $176 in the first quarter of fiscal year 2010. Our product sales per business day for each fiscal quarter during the fiscal years 2011 and 2010 are as follows:

	FY 2011	FY 2010			
	Q1	Q4	Q3	Q2	Q1
Product Sales Per Business Day	$203	$230	$249	$190	$176

In the first quarter of fiscal year 2011, sales through our direct distribution channel increased 13.8% from the same period in the prior fiscal year. In addition to incremental revenue from United Scale, direct sales to our traditional U.S., International and Canadian markets all increased. These increases were partially offset by declining sales to wind energy industry customers. Wind energy product sales, which represented 3.3% and 10.6% of our total product net sales in the first quarter of fiscal years 2011 and 2010, respectively, declined due to the timing of projects. Sales to our reseller channel increased 19.2% from the first quarter of fiscal year 2010 to the first quarter of fiscal year 2011, mainly attributed to the improved economic conditions during the first quarter of fiscal year 2011. With somewhat constrained sales growth in our direct sales channel due to the declining wind energy sales, the mix of reseller sales as a percent of our total product net sales increased 80 basis points from the first quarter of fiscal year 2010 to the first quarter of fiscal year 2011. The following table presents the percent of net sales for the significant product distribution channels for each fiscal quarter during fiscal years 2011 and 2010:

	FY 2011	FY 2010			
	Q1	Q4	Q3	Q2	Q1
Percent of Net Sales:					

Direct	74.3%	75.2%	70.8%	77.5%	75.2%
Reseller	24.1%	23.2%	27.8%	21.1%	23.3%
Freight Billed to Customer	1.6%	1.6%	1.4%	1.4%	1.5%
	100.0%	100.0%	100.0%	100.0%	100.0%

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, and orders required to be shipped at a future date. Our total pending product shipments for the first quarter of fiscal year 2011 increased by $0.5 million, or 32.2%, from the first quarter of fiscal year 2010. This increase was primarily driven by an increase in backorders. As the economy improved and the demand in the marketplace increased, manufacturers were slower to respond, thus resulting in longer lead times for many of the products we sell. In addition, our backorders

included $0.3 million of incremental pending product shipments associated with United Scale. The following table presents the percentage of total pending product shipments that are backorders at the end of the first quarter of fiscal year 2011 and our historical trend of total pending product shipments:

	FY 2011	FY 2010			
	Q1	Q4	Q3	Q2	Q1
Total Pending Product Shipments	$1,911	$1,774	$2,351	$1,904	$1,445
% of Pending Product Shipments that are Backorders	78.6%	90.6%	82.8%	78.9%	72.2%

Service revenue increased $1.7 million, or 28.8%, from the first quarter of fiscal year 2010 to the first quarter of fiscal year 2011. The growth can be attributed to expansion of our existing customer base, incremental revenue associated with United Scale and increased third party vendor services provided to customers in the wind energy industry. Also, 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 factors. Among those factors 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 26, 2010 were $29.6 million, up 21.8% when compared with $24.3 million for the twelve months ended June 27, 2009. Our fiscal years 2011 and 2010 service revenue growth in relation to prior fiscal year quarter comparisons is as follows:

	FY 2011	FY 2010			
	Q1	Q4	Q3	Q2	Q1
Service Revenue Growth	28.8%	30.6%	10.7%	15.5%	7.2%

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 facilities, equipment and uniquely-trained personnel necessary to perform 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, we have historically outsourced 15% to 20% of Service segment revenue to third party vendors for calibration or services beyond our chosen scope of capabilities. In recent quarters, we have experienced a higher percentage of outsourced revenue above our historical norms due to specific services provided to wind energy customers, which fall outside our current scope of capabilities. We will continue to evaluate the need for capital investments that could provide more in-house capabilities for our staff of technicians and reduce the need for third party vendors in certain instances. The following table presents the source of our service segment revenue and the percent of service segment revenue for the first quarter of fiscal years 2011 and 2010:

	FY 2011	FY 2010			
	Q1	Q4	Q3	Q2	Q1
Percent of Service Revenue:					
Depot/Onsite	74.4%	75.9%	73.5%	77.3%	79.3%
Outsourced	23.3%	21.6%	24.0%	20.2%	18.2%
Freight Billed to Customers	2.3%	2.5%	2.5%	2.5%	2.5%
	100.0%	100.0%	100.0%	100.0%	100.0%

Gross Profit:

First Quarter Ended
June 27,

	June 26, 2010	2009
Gross Profit:		
Product	$ 3,501	$ 2,648
Service	1,857	1,237
Total	$ 5,358	$ 3,885

Total gross profit dollars in the first quarter of fiscal year 2011 increased $1.5 million, or 37.9%, from the first quarter of fiscal year 2010. As a percentage of total net revenue, total gross profit increased 340 basis points over the same time period.

We evaluate product gross profit from two perspectives. Channel gross profit includes net sales less the direct cost of inventory sold. Our total product gross profit includes channel gross profit as well as the impact of vendor rebates,

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cooperative advertising income, freight billed to customers, freight expenses and direct shipping costs. In general, our total product gross profit can vary based upon price discounting; the mix of sales to our reseller channel, which have lower margins than our direct customer base; and the timing of periodic vendor rebates and cooperative advertising income received from suppliers.

The channel gross profit percentage in our direct distribution channel improved 70 basis points from the first quarter of fiscal year 2010 to the first quarter of fiscal year 2011. As the economy has improved, we have seen an increase in the number of potential customers within the marketplace, thus lessening the competitive pricing structure experienced during the weaker economy and allowing us to reduce price discounting. Within the reseller channel, we maintained a relatively consistent quarter-over-quarter channel gross profit percentage as a result of our continued use of a volume-based pricing structure.

Total product gross profit in the first quarter of fiscal year 2011 was 27.0% of total product sales and improved 350 basis points when compared with 23.5% of total product sales in the first quarter of fiscal year 2010. Product gross profit improved $0.9 million in the first quarter of fiscal year 2011 compared to the first quarter of fiscal year 2010, which was the result of increased volume, $0.1 million in additional cooperative advertising income and $0.2 million in vendor point-of-sale rebates. Vendor point-of-sale rebates are based on year-over-year growth in product segment sales. We did not qualify for this type of rebate in the first quarter of fiscal year 2010. The following table reflects the quarterly historical trend of our product gross profit as a percent of total product sales:

		FY 2011	**FY 2010**			
		Q1	**Q4**	**Q3**	**Q2**	**Q1**
Channel Gross Profit %	Direct (1)	25.0%	24.7%	23.1%	23.2%	24.3%
Channel Gross Profit %	Reseller (1)	16.9%	16.0%	15.0%	15.6%	17.0%
Channel Gross Profit %	Combined (2)	23.0%	22.6%	20.8%	21.6%	22.6%
Other Items % (3)		4.0%	3.1%	1.2%	0.7%	0.9%
Total Product Gross Profit %		27.0%	25.7%	22.0%	22.3%	23.5%

(1) Channel gross profit % is calculated as net sales less purchase costs divided by net sales.

(2) Represents aggregate gross profit % for direct and reseller channels, calculated as net sales less purchase costs divided by net sales.

(3) Includes vendor rebates, cooperative advertising income, freight billed to customers, freight expenses, and direct shipping costs.

Calibration service gross profit increased $0.6 million, or 50.1%, from the first quarter of fiscal year 2010 to the first quarter of fiscal year 2011. As a percent of Service revenue, calibration service gross profit increased 350 basis points over the same time period. This is indicative of the margin expansion opportunities within the Service segment as many of the costs within this segment are fixed. Despite the significant increase in gross profit, margin expansion was somewhat constrained as third party vendor calibrations and services contributed a significant portion of the revenue growth in the wind energy industry and the incremental revenue from United Scale was mostly offset by associated incremental service costs. The following table reflects our calibration services gross profit growth in relation to prior fiscal year quarters:

	FY 2011		**FY 2010**		
	Q1	**Q4**	**Q3**	**Q2**	**Q1**
Service Gross Profit Dollar Growth	50.1%	25.4%	15.0%	25.5%	2.9%

Operating Expenses:

	First Quarter Ended	
	June 26, 2010	**June 27, 2009**
Operating Expenses:		
Selling, Marketing and Warehouse	$ 3,049	$ 2,539
Administrative	1,858	1,462
Total	$ 4,907	$ 4,001

Operating expenses increased $0.9 million, or 22.6%, from the first quarter of fiscal year 2010 to the first quarter of fiscal year 2011. As a percentage of net revenue, operating expenses in the current period were 23.8%, up from 23.3% in the prior year period, primarily due to $0.3 million in incremental operating expenses associated with United Scale. Selling, marketing and warehouse expenses increased $0.5 million, or 20.1%, to $3.0 million in the first quarter of fiscal 2011

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compared with the first quarter of fiscal 2010. This increase mirrors our revenue growth for the quarter and is due to incremental United Scale costs, increased investments in sales personnel and other direct marketing efforts to gain market share and to further mine our existing customer base. Administrative expenses increased $0.4 million, or 27.1%, in the first quarter of fiscal 2011 as a result of higher employee-related expenses and expenses related to United Scale.

Taxes:

	First Quarter Ended	
	June 26, 2010	June 27, 2009
Provision for (Benefit from) Income Taxes	$166	$(56)

Our effective tax rates for the first quarter of fiscal years 2011 and 2010 were 37.4% and 38.6%, respectively. 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

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.

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

	First Quarter Ended	
	June 26, 2010	June 27, 2009
Cash (Used in) Provided by:		
Operating Activities	$(211)	$ 1,549
Investing Activities	(215)	(290)
Financing Activities	389	(1,282)

Operating Activities: Net cash used in operations was $0.2 million for the first quarter of fiscal year 2011 compared to $1.5 million of cash provided by operating activities in the first quarter of fiscal year 2010. Significant working capital fluctuations were as follows:

Inventory/Accounts Payable: Our inventory balance at June 26, 2010 was $7.0 million, an increase of $1.1 million when compared to $5.9 million on-hand on March 27, 2010. The increase was primarily due to our strategic decision to maintain higher inventory levels of specific, higher-volume products, in support of greater sales growth and in response to increased lead times from manufacturers. During the first quarter of fiscal year 2010, we decreased inventory levels by $0.6 million in response to recessionary economic conditions. In general, our accounts payable balance increases or decreases with inventory levels. However, this correlation may vary at a quarter-end due to the timing of vendor payments for inventory receipts and inventory shipped directly to customers, as well as the timing of product sales.

Receivables: We continue to maintain strong collections on our accounts receivable. The following table illustrates our days sales outstanding for the fiscal quarters ending in June 26, 2010 and June 27, 2009:

	June 26, 2010	June 27, 2009
Net Sales, for the last two fiscal months	$14,732	$12,394
Accounts Receivable, net	$ 8,738	$ 8,116
Days Sales Outstanding	36	39

Accrued Compensation and Other Liabilities: During the first quarter of fiscal year 2011, we used $1.0 million in cash to pay accrued compensation and other liabilities compared with $0.2 million in the first quarter of fiscal year 2010. This increase was primarily attributable to higher payments for employee profit sharing and

performance-based management bonuses.

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Investing Activities: The $0.2 million of cash used in investing activities in the first quarter of fiscal year 2011, a decrease of approximately $0.1 million when compared to the first quarter of fiscal year 2010, was used primarily for improvements to our proprietary calibration software program, additional service capabilities and information technology.

Financing Activities: During the first quarter of fiscal year 2011, financing activities provided approximately $0.4 million in cash, which was used to help reduce accounts payable and pay employee profit sharing and performance-based management bonuses. In the first quarter of fiscal year 2010, $1.3 million of cash from operations was used to reduce debt.

OUTLOOK

Our outlook remains unchanged. We expect a strong second quarter compared with the economic-challenged results of the prior year period and believe that the second half of fiscal year 2011 will return to a more normalized environment and be in line with our longer-term growth expectations. Additionally, we expect our bottom line to expand at a greater rate due to the operating leverage inherent in the Service segment.

Wind energy industry projects are expected to increase over the next 18 months and it is our expectation that we can continue to grow our market share in this field. However, the timing of these projects and the related demand for our products and services remain difficult to predict.

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 less than $0.1 million assuming our average-borrowing levels remained constant. As of June 26, 2010, $15.0 million was available under our credit facility, of which $2.9 million was outstanding and included in long-term debt on the Consolidated Balance Sheet. Under our credit facility, as described in Note 2 of our Consolidated Financial Statements, interest is adjusted on a quarterly basis based upon our calculated leverage ratio. We mitigate our interest rate risk by electing the lower of the base rate available under the credit facility or the London Interbank Offered Rate (LIBOR). As of June 26, 2010, the base rate and the LIBOR rate were 3.3% and 0.3%, respectively. Our interest rate for the first quarter of fiscal year 2011 ranged from 1.2% to 2.8%. On June 26, 2010, we had no hedging arrangements in place to limit our exposure to upward movements in interest rates.

FOREIGN CURRENCY

Over 90% of our net revenues for the first quarter of fiscal years 2011 and 2010 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 net revenue by less than 1%. We monitor the relationship between the U.S. and Canadian currencies on a continuous basis and adjust sales prices for products and services sold in Canadian dollars as we believe to be appropriate.

We periodically enter into foreign exchange forward contracts to reduce the risk that our earnings would be adversely affected by changes in currency exchange rates. We do 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 2011 and 2010, was recognized as a component of other expense in the Consolidated Statements of Operations and Comprehensive Income (Loss). 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 26, 2010, we had a foreign exchange contract, set to mature in July 2010, outstanding in the notional amount of $0.4 million. We do not use hedging arrangements for speculative purposes.

ITEM 4. CONTROLS AND PROCEDURES

(a) **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 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

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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.

(b) **Changes in Internal Controls 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 first fiscal quarter) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

See Index to Exhibits.

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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: August 9, 2010	/s/ Charles P. Hadeed
	Charles P. Hadeed President, Chief Executive Officer and Chief Operating Officer (Principal Executive Officer)
Date: August 9, 2010	/s/ John J. Zimmer
	John J. Zimmer Vice President of Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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INDEX TO EXHIBITS

(10) Material Contracts

10.1 Certain compensation information for Charles P. Hadeed, President, Chief Executive Officer and Chief Operating Officer of the Company is incorporated herein by reference from the Company s Current Report on Form 8-K dated April 5, 2010.

10.2 Certain compensation information for John J. Zimmer, Vice President of Finance and Chief Financial Officer of the Company is incorporated herein by reference from the Company s Current Report on Form 8-K dated May 20, 2010.

(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

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