

# Transcat, Inc.

2005 Annual Report

**TRANSCAT**<sup>®</sup>

CALIBRATION SERVICES • TEST & MEASUREMENT INSTRUMENTS



## A LETTER FROM OUR CHAIRMAN, PRESIDENT, AND CHIEF EXECUTIVE OFFICER

To Our Shareholders:

Fiscal year 2005 was pivotal for building our business and positioning ourselves for the future. The strategic initiatives we began implementing at the beginning of the fiscal year, the addition of new products and services, and a strengthening economy all contributed to our strong performance at the close of the fiscal year.

### **Excellent Business and Financial Results at the Close of Fiscal Year 2005**

Our net sales increased 3.7% to \$55.3 million and our operating income increased \$0.6 million to \$0.9 million in fiscal year 2005. Net income for fiscal year 2005 was \$0.3 million, or \$0.04 per diluted share, compared with net income of \$0.4 million, or \$0.05 per diluted share, in fiscal year 2004.

We are pleased with our performance in the fourth quarter of fiscal 2005, which was the result of an incremental building process that began at the beginning of the fiscal year in April, 2004.

- Net sales for the fiscal 2005 fourth quarter increased 1.8% to \$15.6 million from the fiscal 2004 fourth quarter.
- Operating income for the fiscal 2005 fourth quarter increased to \$0.7 million from \$0.1 million in the fiscal 2004 fourth quarter.
- Net income for the fiscal 2005 fourth quarter increased to \$0.5 million from \$0.04 million in the fiscal 2004 fourth quarter.
- Diluted earnings per share for the fiscal 2005 fourth quarter increased to \$0.07 from \$0.01 in the fiscal 2004 fourth quarter.

### **A Strategic Blueprint for Building Our Business**

Transcat provides significant value for our customers who procure vital test and measurement equipment and require calibration of these assets.

Our growth strategy is to become a technical core supplier, strategic ally, and single-source partner to our customers, serving both their calibration services and product needs, by having the right products and services available at the right time and the right price.

### **Building Our Calibration Services Business**

Calibration Services is a strategic core competency of our company. Transcat's ability to calibrate sophisticated equipment to manufacturers' specifications ensures that our customers' vital assets will perform within proper operating parameters to assure excellent manufacturing quality.

Our goal is to have Transcat Calibration Services become an integral component of a customer's strategic supplier network that supports and enhances their manufacturing, quality, and productivity programs.

During fiscal year 2005, we began to identify larger industrial customers who recognize the benefits of outsourcing their calibration services needs to an expert such as Transcat. We also made investments in laboratory assets, personnel, and systems technology in our Calibration Services business. We were rewarded, at the end of the fiscal year 2005 fourth quarter, with a strong 13.9% increase in sales principally as a result of new customers who chose to outsource their calibration services functions to Transcat. The growth in revenue increased the gross profit ratio 3.1 points to 32.1%.

We acquired these new customers as a result of our ability to offer a comprehensive program of value-added calibration services. These include our proprietary CalTrak<sup>®</sup> management system, our assurance of quality through laboratory accreditation, and the flexibility we offer by being able to meet our customer's calibration demands while not interrupting their manufacturing and operations schedules.

In April, after the beginning of the 2006 fiscal year, we acquired the fixed assets of Hilton Engineering's calibration services facility in San Juan, Puerto Rico. We then incorporated it into our North American network of Transcat Calibration Services Laboratories, expanding the network to 11 Transcat Calibration Centers of Excellence. Transcat can now provide the island's pharmaceutical and other industries with an enhanced level of calibration services, as well as access to Transcat's CalTrak<sup>®</sup> calibration quality program.

## Building Our Distribution Products Business

We were pleased with the performance of our Distribution Products business in fiscal year 2005, where the 4.7% growth in sales and 4.2 point improvement in the gross profit ratio were in line with our strategic plan.

Our targeted sales programs and increased direct mail efforts produced new customers, benefiting both our Distribution Products and Calibration Services businesses throughout the year. These efforts included two 48-page catalog supplements and several leading brand pieces. Importantly, we added over 100 pages of new products to our Master Catalog as part of our strategy to offer the best test and measurement products to our customers.

During fiscal year 2005, we were pleased to announce the addition of two world-class strategic partners that has enhanced our product offerings.

- In July, we announced our appointment as an Authorized North American distributor of Tektronix, a world leader in test, measurement, and monitoring products for computer, communications, and advanced electronics design; digital video; optical networking; and wireless communications. We are pleased to promote and distribute this leading family of oscilloscopes and general-purpose test equipment to our customers throughout the industrial marketplace.
- In March, near the close of the fiscal 2005 fourth quarter, we announced a partnership with GE Infrastructure Sensing to offer an expanded range of products, including respected product lines by Panametrics and Kaye, who are leading manufacturers of temperature, moisture, gas analysis, and flow instruments that are ideally suited for Transcat's customers in the pharmaceutical, utility, and electrical industries.

Establishing new relationships with leading manufacturers such as GE Infrastructure and Tektronix is consistent with our strategy to identify and secure new customers in targeted market segments by offering the best technologies and a comprehensive range of test and measurement instruments for the process, utility, and pharmaceutical industries.

## Looking Ahead

We successfully met the challenges of fiscal year 2005 and continued to strengthen our company through the dedicated efforts of the entire Transcat team.

As we look ahead to fiscal year 2006, we are confident that we have the strategies and resources in place that will win us greater recognition in our markets and generate increased demand for our services and products.

- In our **Calibration Services** business, our sales organization is focused on identifying companies that value quality and are looking to outsource their calibration service needs, as well as cross-selling to Distribution Products customers. Our capital investments, when appropriate, will be focused first on maintenance of laboratory equipment, followed by expansion to meet increased volume and improvements in efficiency.
- In our **Distribution Products** business, we will continue to use catalog supplement mailings and the distribution of the industry-recognized Transcat Master Catalog to identify new customers and cross-sell calibration services. We will also add new products to our catalog, as appropriate.

Our management team and our business strategies have built a good platform for continued progress in fiscal 2006 and beyond. With the ongoing support of our shareholders, our board of directors, and our dedicated staff, we are optimistic about the opportunities ahead for our company.

We thank you for your confidence, support and continued investment in Transcat.



Carl E. Sassano  
*Chairman, President, and Chief Executive Officer*

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

FORM 10-K

(Mark one)

  X   ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: March 26, 2005

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: 000-3905

**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**

*(Address of principal executive offices)*

**14624**

*(Zip Code)*

**(585) 352-7777**

*(Registrant's telephone number, including area code)*

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

None

**Securities registered pursuant to section 12(g) of the Act:**

**Common Stock, \$0.50 par value per share**

*(Title of class)*

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant on September 25, 2004 (the last business day of the registrant's most recently completed second quarter) was approximately \$18,323,000. The market value calculation was determined using the closing sale price of the Registrant's Common Stock on September 25, 2004, as reported on the NASDAQ SmallCap Market System.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The number of shares of Common Stock of the Registrant outstanding as of June 20, 2005 was 6,567,725.

## DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III, Items 10, 11, 12, 13 and 14, of this report, to the extent not set forth herein, is incorporated by reference from the Registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held on August 16, 2005, which definitive proxy statement will be filed with the Securities and Exchange Commission ("SEC") within 120 days after the end of the fiscal year to which this report relates.

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## **PART I.**

### **ITEM 1. BUSINESS**

#### ***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 and 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 may materially differ from those expressed or forecast in any such forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.*

#### ***INTRODUCTION***

Transcat is a leading global distributor of professional grade test, measurement, and calibration instruments and a provider of calibration and repair services primarily throughout the process, life science, and manufacturing industries. Our reportable business segments offer different products and services to the same customer base. We conduct our business through two segments: Distribution Products and Calibration Services.

Through our distribution products segment, we market and distribute national and proprietary brand instruments to approximately 12,000 global customers. Our catalog ("Master Catalog") offers access to more than 25,000 instruments, including: calibrators, deadweight testers, temperature devices, multimeters, oscilloscopes, pressure pumps, testers, recorders, and related accessories, from nearly 250 of the industry's leading manufacturers including Fluke, Hart Scientific, Agilent, Ametek, Tektronix and GE-Druck. In addition, we are the exclusive worldwide distributor for Altek and Transmation products. The majority of the instrumentation we sell requires expert calibration service to ensure that it maintains the most exacting measurements.

Through our calibration services segment, we offer precise, reliable, fast calibration services. We operate ten Calibration Centers of Excellence strategically located across the United States and Canada servicing approximately 8,000 customers. In April 2005, we added an additional Calibration Center of Excellence in Puerto Rico, primarily focused on expanding our services to pharmaceutical customers in the region. To support our customers' calibration service needs, we deliver the industry's highest quality calibration services and repairs. Each of our calibration laboratories is ISO-9001:2000 registered with Underwriter's Laboratories, Inc. and our scope of accreditation to ISO/IEC 17025 is the widest in the industry for the market segments we serve. See "Calibration Services Segment – Quality" below in Item 1 for more information.

CalTrak<sup>®</sup>, our proprietary documentation and asset management system, is used to manage the workflow at our Calibration Centers of Excellence. Additionally, CalTrak<sup>®</sup> provides calibration certificates, calibration data, and access to other key documents required in the calibration process. CalTrak<sup>®</sup> has been validated to 21CFR 820.75, which substantiates the validation of our process. This validation is especially significant in the life science industry, where federal regulations are especially stringent. See CalTrak<sup>®</sup> below in Item 1 for more information.

At Transcat, our attention to quality goes beyond the products and services we deliver. Our sales teams and customer service and support team stand ready to provide expert advice, application assistance and technical support wherever and whenever our customers need it.

Among our top 200 customers, representing approximately 34% of our consolidated sales, are Fortune 500/Global 500 companies, including Wyeth, Merck, DuPont, Exxon Mobil, AK Steel Holding, Johnson & Johnson, Dow Chemical, and Duke Energy. We believe these customers do business with us because of our commitment to quality service, our CalTrak<sup>®</sup> asset management system, and access to our product offerings.

Transcat has focused on the process and life science markets since its founding in 1964. We are the leading seller of calibrators into the process industry. We believe that our broad product offering and our commitment to quality calibration services is the foundation for deeper penetration into the process and life science markets.

Transcat’s Internet website address is [www.transcat.com](http://www.transcat.com). The information contained on our website is not a part of this Form 10-K. On our investor relations Internet web page, <http://www.transcat.com/AboutTranscat/InvestorRelations.asp>, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings on our investor relations web page are available free of charge.

An Ohio corporation founded in 1964, we are headquartered in Rochester, New York and employ more than 200 personnel. Our executive offices are located at 35 Vantage Point Drive, Rochester, New York 14624. Our telephone number is 585-352-7777.

**STRATEGY**

We are an accredited provider of calibration services and a distributor of test and measurement equipment. Our strategy is to focus on gaining business and market share in markets where companies value quality systems and/or operate in regulated environments. We will differentiate ourselves and build barriers to competitive entry by offering the best products and calibration services and integrating the two to benefit our customers’ operations and lower their cost.

**SEGMENTS**

We service our customers through two business segments: Distribution Products and Calibration Services. We serve approximately 16,000 customers with no customer or controlled group of customers accounting for 5% or more of our consolidated net sales from fiscal year 2003 to 2005. We are not dependent on any single customer, the loss of which would have a material adverse effect on our business, cash flows, balance sheet, or results of operations. Note 8 of our Consolidated Financial Statements in this Form 10-K presents financial information for these segments.

We market and sell to our customers through multiple sales channels consisting of direct catalog marketing, a direct field sales organization, proactive outbound sales, and an inbound call center. Our direct field sales team, outbound sales team, and inbound sales team are each staffed with technically trained personnel. Our domestic and international sales organization covers territories in North America, Latin America, Europe, Africa, Asia, and the Middle East. We concentrate on attracting new customers and increasing product and calibration sales (North America only) to existing customers. Sales efforts are also focused on cross selling. Approximately 28% of our customers utilize both segments of our business, which provides us with an opportunity to increase our average revenue per customer, adding to our value as a single source supplier. Our sales to customers during the periods indicated were as follows (calculated on dollars in millions):

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
United States .....	84%	84%	84%
Canada .....	9%	9%	9%
Other International .....	<u>7%</u>	<u>7%</u>	<u>7%</u>
Total .....	<u>100%</u>	<u>100%</u>	<u>100%</u>

We focus primarily on the process, life science, and manufacturing industries. Process manufacturing has been and continues to be the foundation of our core business competency. The process industry, in our definition, includes petroleum refining, chemical, water treatment, industrial power, steel, petrochemical, gas and pipeline, textile, pulp and paper, food and dairy, and utility companies. The life science industry, in our definition, includes

pharmaceutical and biotechnology companies, medical device manufacturers, and healthcare service providers. The approximate percentage of our business in these industry segments for our largest customers is as follows:

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Process .....	39%	38%	43%
Life Science .....	19%	20%	19%
Manufacturing .....	12%	11%	11%
Other .....	<u>30%</u>	<u>31%</u>	<u>27%</u>
Total .....	<u>100%</u>	<u>100%</u>	<u>100%</u>

***DISTRIBUTION PRODUCTS SEGMENT***

**Summary.** Our customers’ facilities in the process, life science, and manufacturing industries use test, measurement, and calibration equipment to calibrate and test their processes and ensure that their processes and/or end product(s) are within specification. Utilization of such diagnostic equipment also allows for continuous improvement processes to be in place, increasing the accuracies of their measurements. The industrial distribution products industry for test and measurement instrumentation, in the geographic markets in which we predominately operate, is characterized by national broad based distribution organizations and uniquely focused organizations such as Transcat.

Most industrial customers find that maintaining an in-house inventory of back-up test, measurement, and calibration equipment is cost prohibitive due to the large number of stock keeping units. As a result, the distribution of test and measurement instrumentation has traditionally been characterized by frequent, small quantity orders combined with a need for rapid, reliable, and substantially complete order fulfillment. The purchasing decision is generally made by plant engineers, quality managers, or their purchasing function. Products are generally purchased from more than one distributor.

The majority of our products are not consumables but are purchased as replacement, upgrades, or for expansion of manufacturing and research and development facilities. Our catalog and sales activities are designed to maintain a constant presence in front of the customer to ensure we receive the order when they are ready to purchase. As a result, we evaluate sales trends over at least a four quarter period as any individual months’ sales can be impacted by any number of factors.

We believe that a distribution product customer chooses a distributor based on a number of different criteria including the timing and accurate delivery of orders, consistent product quality, value added services, and price. Value added services include providing technical support to insure our customer receives the right product for his/her specific need through application knowledge and product compatibility. We also provide calibration of product purchases, on-line procurement, same day shipment of products for in-stock items, a variety of custom product offerings and training programs, and the operational efficiency of dealing with one distributor for our customer product needs.

Our distribution products segment accounted for approximately 67% of our revenue in our fiscal year ended March 26, 2005, referred to as fiscal year 2005, which we anticipate declining as a percentage of total sales as a result of the targeted higher growth rates in calibration. Within the distribution products segment, our routine business is comprised of customers who place orders to acquire or to replace specific instruments, which typically average \$1,200 per order.

**Marketing and Sales.** Through our comprehensive Master Catalog, supplemental catalogs, opt-in email newsletter, and other direct sales and marketing programs, we offer our customers a broad selection of highly recognized branded products at competitive prices. Approximately 10,000 instruments account for the majority of our sales. The instruments typically range in price from \$100 to over \$5,000 for large calibration test systems and are sold and marketed to approximately 12,000 customers in the process, life science, and manufacturing markets.

During fiscal year 2005, we distributed approximately 890,000 pieces of direct marketing materials including catalogs, brochures, supplements and other promotional materials to approximately 50,000 customer

contacts and 525,000 potential customer contacts. The number of catalogs and other direct marketing materials received by each customer depends upon a number of factors, including purchase history.

The majority of our product sales are derived from catalog marketing. Our Master Catalog consists of approximately 700 pages of products relevant to the process, life science, and manufacturing industries. We distribute our Master Catalog to approximately 85,000 existing and prospective customers in the United States and Canada approximately every 12 months. The Master Catalog provides standard make/model and related information and is also available in “CD” format upon request and on-line at our website: [www.transcat.com](http://www.transcat.com). Our new customer acquisition program utilizes smaller catalog supplements — which feature new products, promotions, or specific product categories. The catalog supplements are launched at varying periods throughout the year; each publication is mailed to over 250,000 targeted prospects.

The approximate percentage of our distribution products business by industry segment for our largest customers is as follows:

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Process .....	42%	40%	49%
Life Science .....	12%	15%	15%
Manufacturing .....	8%	7%	8%
Other .....	<u>38%</u>	<u>38%</u>	<u>28%</u>
Total .....	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Competition.** The markets we serve are highly competitive. Competition for sales in distribution products is quite fragmented and ranges from large national distributors and manufacturers to small local distribution organizations and service providers. Key competitive factors typically include customer service and support, quality, turn around time, inventory availability, product brand name, and price. To address our customers’ needs for technical support and product application assistance, and to differentiate ourselves from competitors, we employ a staff of highly trained technical application specialists. To maintain our competitive position with respect to such products and services, we must continually demonstrate our commitment to our customers and continue to compete effectively in the areas described above.

**Suppliers and Purchasing.** We believe that effective purchasing is a key element to maintaining and enhancing our position as a provider of high quality test and measurement equipment. We frequently evaluate our purchase requirements and suppliers’ price offerings to obtain products at the best possible cost. We obtain our products from about 250 suppliers of brand name and private labeled equipment. In fiscal year 2005 our top 10 vendors accounted for approximately 70% of our aggregate business. Approximately 30% of our product purchases on an annual basis are from Fluke Electronics Corporation (“Fluke”), which is not believed to be inconsistent with Fluke’s shares of the markets the Company services.

We plan our product mix, including stocked and non-stocked inventory items, to best serve the needs of our customers whose individual purchases vary in size. We can ship our customers our top selling products the same day they are ordered.

**Operations.** Our distribution operations take place within an approximate 27,000 square foot facility located in Rochester, New York. This location is our headquarters and also houses the customer service, sales, and administrative functions. Approximately 31,000 product orders are shipped from this facility annually with an average order size in fiscal year 2005 of approximately \$1,200 per order. This average is slightly higher than recent years.

**Distribution.** We distribute our products in the United States and internationally from our distribution center in Rochester, New York. Customers in Canada are serviced from our New York location as well as a re-distribution center in Eastern Canada. We maintain appropriate inventory levels in order to satisfy customer demand for prompt delivery and complete order fulfillment of their product needs. These inventory levels are managed on a daily basis with the aid of our sophisticated purchasing and stock management information system. Our automated freight manifesting and laser bar code scanning facilitates prompt and accurate order fulfillment.

We ship our United States orders predominantly by a worldwide express carrier. International orders are shipped by a number of different carriers.

**Distribution Agreement.** In late calendar year 2001, we sold our manufacturing business, Transmation Products Group (“TPG”), to Fluke. See footnote (2) under Item 6. Selected Financial Data. In fiscal year 2002, we entered into a distribution agreement (the “Distribution Agreement”) with Fluke to be the exclusive worldwide distributor of TPG products until December 31, 2006. Under the Distribution Agreement, we also agreed to purchase a pre-determined amount of inventory from Fluke.

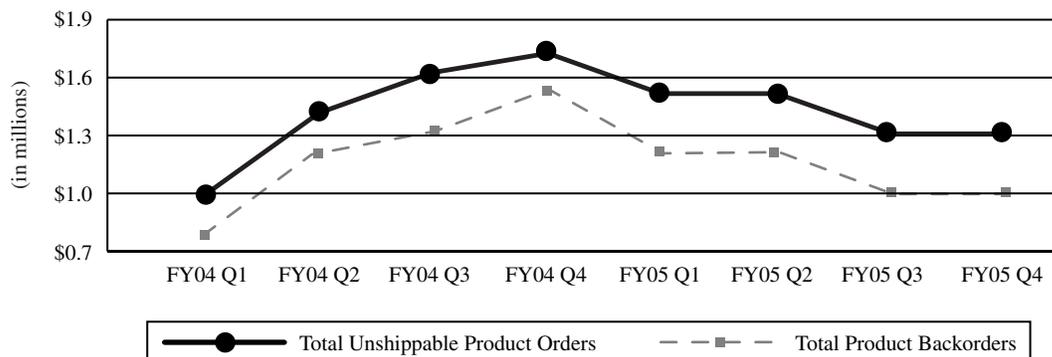
On October 31, 2002, with an effective date of September 1, 2002, we entered into a new distribution agreement (the “New Agreement”) with Fluke, which replaced the Distribution Agreement. The New Agreement ends on December 31, 2006. Under the terms of the New Agreement, among other items, we agreed to purchase a larger, pre-determined amount of inventory across a broader array of products and brands during each calendar year. Our purchases for calendar years 2002 through 2004 met our commitment under the New Agreement and we expect that our purchases for calendar year 2005 will also meet the commitment. We believe that this commitment to future purchases is consistent with our business needs and plans.

**Backlog.** Customer product orders include orders for products that we routinely stock in our inventory, as well as, customized products and other products ordered less frequently, which we do not stock.

Unshippable product orders are primarily backorders, but also include products that are requested to be calibrated in our calibration laboratories prior to shipment, orders required to be shipped complete, orders required to be shipped at a future date, and orders on credit hold/awaiting letters of credit.

At the end of fiscal year 2005, the value of our unshippable product orders was approximately \$1.3 million, compared to approximately \$1.7 million and \$1.4 million at the end of fiscal years 2004 and 2003, respectively. During fiscal year 2005, the month-end level of unshippable product orders varied between a low of \$1.2 million and a high of \$1.8 million. This variation is due primarily to seasonality, the economy, supplier delivery schedules, and variations in customer ordering patterns.

The following graph shows the trend of unshippable product orders and backorders for fiscal years 2004 through 2005, on a quarterly basis.



### CALIBRATION SERVICES SEGMENT

**Summary.** Calibration is the act of comparing a unit or instrument of unknown value to a standard of known value and reporting the result in some rigorously defined form. After the act of calibration has been completed, a decision is made, again based on rigorously defined parameters, on what is to be done to the unit. The decision may be to adjust, optimize, repair, limit its use, range or rating, scrap the unit, or leave as is. The purpose of calibration is to significantly reduce the risk of product or process failures caused by inaccurate measurements.

Transcat's calibration strategy encompasses either one of the two ways a company manages its calibration needs:

- 1) If a company wishes to outsource its calibration needs, an "Integrated Calibration Services Solution" provides a complete wrap-around service:
  - Program management;
  - Calibration;
  - Logistics; and,
  - Consultation services.
- 2) If a company has an in-house calibration operation, we can provide:
  - Calibration of primary standards;
  - Overflow capability either on-site or at one of our facilities during periods of high demand; and,
  - Consultation services.

In either case, we intend to have the broadest calibration offering to our targeted markets. This includes the broadest scope of accreditation, certification of our technicians to the American Society for Quality standards, complete calibration management encompassing the entire metrology function, and access to our products offering.

The billion-dollar commercial calibration services industry is extremely fragmented with an estimated 750 companies participating, ranging from national accredited organizations such as Transcat to one-person organizations, in addition to companies that do not currently outsource their calibrations. Our typical customer is a technically based individual who is employed in a quality, engineering, or manufacturing engineering position.

The calibration services industry has its origins in the military; approximately 60% of our calibration technicians and laboratory managers have calibration expertise with the military prior to joining Transcat.

Sourcing decisions are based on quality, customer service, turn-around time, documentation, price, and a one-source solution.

Our calibration services segment provides periodic calibration and repair services for our customers' test, measurement, and diagnostic instruments. We perform over 100,000 calibrations annually. These are performed at one of our ten Calibration Centers of Excellence, or at the customer's physical location. Calibration services accounted for approximately 33% of our total fiscal year 2005 revenue. During fiscal year 2006, we anticipate that calibration services sales will increase at a faster rate than product sales.

The calibration services segment of the market is critically aligned with our strategic focus on quality accreditations. Our calibration services are of the highest technical and quality levels, with broad ranges of accreditation and registration. Our quality systems are further detailed below in "Quality".

**Marketing and Sales.** Calibration allows for maximum productivity and efficiency by assuring accurate, reliable equipment and processes. Through our calibration services segment, we perform periodic calibrations on new and used equipment as well as repair services for our customers. Each of our ten Calibration Centers of Excellence provides accredited calibration in commonly used measurement parameters including electrical, physical, and dimensional.

Our calibration services are provided to our customers with a strategic focus in the highly regulated industries including process, life science, and manufacturing. Our quality process and standards are designed to meet the needs of companies that are highly regulated (e.g., by the Food and Drug Administration, or "FDA"), and/or have a strong commitment to quality and a comprehensive calibration program.

The approximate percentage of our calibration services business by industry segments for our largest customers for the periods indicated was as follows:

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Process .....	34%	33%	33%
Life Science .....	34%	30%	26%
Manufacturing .....	19%	18%	16%
Other .....	<u>13%</u>	<u>19%</u>	<u>25%</u>
Total .....	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Competition.** The calibration outsource industry is highly fragmented and is composed of companies ranging in size from non-accredited, sole proprietorships to internationally recognized and accredited corporations, such as Transcat, resulting in a tremendous range of service levels and capabilities. A large percentage of calibration companies are small businesses that provide only basic measurements and service markets in which quality requirements may not be as demanding as the markets that we strategically target. Very few of these companies are structured to compete on the same scale and level of quality as us.

**Quality.** The accreditation process is the only system currently in existence that assures measurement competence. Each laboratory is audited and reviewed by outside accreditation bodies proficient in the technical aspects of calibration, metrology, and physics, ensuring that measurements are properly made. Accreditation also requires that all standards used for accredited measurements have a fully documented path, known as the traceability chain, either directly or through other accredited laboratories, back to the national or international standard for that measurement parameter. This ensures proper measurement techniques throughout the process.

To ensure the quality and consistency of our calibrations to customers, we have sought and achieved several national levels of quality and accreditation. Our calibration laboratories are ISO 9001:2000 registered with Underwriters Laboratories, Inc. Our calibrations are also traceable to National Institute of Standards and Technology (“NIST”) or National Research Council of Canada (“NRC”) standards. Our laboratories, except those in Puerto Rico for which we expect to initiate the accreditation process, are accredited by American Association for Laboratory Accreditation (“A2LA”) to ISO/IEC 17025 and ANSI/NCSL Z540-1-1994, who provides an objective, third party, and internationally accepted evaluation of the quality and consistency of our calibration process and competency.

To provide the widest range of service to our customers in our target markets, our A2LA accreditations extend across a wide range of technical disciplines, each requiring and meeting separate and unique accreditation standards. The following table represents Transcat’s capabilities (accredited and/or non-accredited) for each Center of Excellence:

	<b>Working-level Capabilities</b>									
	<b>Electrical Metrology Disciplines</b>				<b>Physical Metrology Disciplines</b>					
	<u>DC/ACLF</u>	<u>HF/UHF</u>	<u>RF/ Microwave</u>	<u>Luminance/ Illuminance</u>	<u>Flow</u>	<u>Chemical/ Biological</u>	<u>Particle Counters</u>	<u>Force</u>	<u>Gas Analysis</u>	
Boston .....	x	x				x				
Charlotte .....	x	x				x		x	x	
Dayton .....	x	x				x		x		
Houston .....	x	x	x			x				
Los Angeles .....	x	x	x			x		x		
Ottawa .....	x	x	x					x		
Philadelphia .....	x	x	x	x	x	x		x	x	
Rochester .....	x	x	x			x		x		
San Francisco .....	x	x								
San Juan, PR .....	x									
St. Louis .....	x	x				x	x	x		

	Physical Metrology Disciplines, Continued						Dimensional Disciplines		
	Relative Humidity	Mass Weight	Pressure, Vacuum	Temperature	Torque	RPM, Speed	Vibration, Acceleration	Length	Optics
Boston .....		X	X	X	X	X		X	
Charlotte .....		X	X	X	X	X		X	X
Dayton .....	X	X	X	X	X	X		X	
Houston .....		X	X	X	X	X		X	X
Los Angeles .....	X	X	X	X	X	X		X	X
Ottawa .....	X	X	X	X	X	X		X	
Philadelphia .....	X	X	X	X	X	X	X	X	X
Rochester .....	X	X	X	X	X	X		X	
San Francisco .....				X				X	
San Juan, PR .....	X	X	X	X					
St. Louis .....	X	X	X		X	X		X	

### Reference-level Capabilities

	Dimensional Standards	Electrical Standards	Humidity Standards	Mass Standards	Pressure Standards	Temperature Standards
Charlotte .....	X					
Houston .....		X			X	
Philadelphia .....				X		X
Rochester .....			X			
San Francisco .....						X

**CalTrak®.** CalTrak® and CalTrak-Online is our proprietary metrology management system that provides a comprehensive calibration quality program. Many of our customers have unique calibration service requirements to which we have tailored specific services. CalTrak® allows our customers to track calibration cycles via the Internet and provides the customer with safe and secure off-site archive of calibration records that can be accessed 24 hours a day. Access to records data is managed through our secure password protected website. Calibration assets are tracked with records that are automatically cross-referenced to the equipment that was used to calibrate. CalTrak® has also been validated to meet the most stringent requirements within the industry.

### CUSTOMER SERVICE AND SUPPORT

Our breadth of distribution products and calibration services along with our strong commitment to customer sales, service, and support enable us to satisfy our customer needs through convenient selection and ordering, rapid, accurate, and complete order fulfillment and on-time delivery.

A key element of our customer service approach is our technically trained direct field sales team, outbound sales team, inbound sales team, and customer service organization. Most customer orders are placed through our customer service organization who often provides technical assistance to our customers to facilitate the purchasing decision. To ensure the quality of service provided, we frequently monitor our customer service through customer surveys, interpersonal communication, and daily statistical reports.

Customers may place orders by:

- Mail at Transcat, Inc., 35 Vantage Point Drive, Rochester, NY 14624;
- Fax at 1-800-395-0543;
- Telephone at 1-800-828-1470;
- Email at [sales@transcat.com](mailto:sales@transcat.com); or,
- Our website at [www.transcat.com](http://www.transcat.com).

### INFORMATION REGARDING EXPORT SALES

Approximately 16% of our sales in fiscal years 2005, 2004, and 2003, resulted from sales to customers outside the United States (calculated on dollars in millions). Our percentage of foreign sales is impacted by the

strength of the United States dollar in relation to other currencies. When the United States dollar is stronger than foreign currencies, we have historically had weaker foreign sales.

In addition, our revenues are subject to the customary risks of operating in an international environment, including the potential imposition of trade or foreign exchange restrictions, tariff and other tax increases, fluctuations in exchange rates and unstable political situations, any one or more of which could have a material adverse effect on our business, cash flows, balance sheet or results of operations.

### ***INFORMATION SYSTEMS***

We utilize a basic software platform, Application Plus, to manage our business and operations segments. We also utilize a turnkey enterprise software solution. This software includes a suite of fully integrated modules to manage our business functions, including customer service, warehouse management, inventory management, financial management, customer management, and business intelligence. This solution is a fully mature business package with over 20 years of refinement and currently supports over 1,200 organizations to run their mission critical operations.

### ***SEASONALITY***

We believe that our line of business has certain historical seasonal factors. Our fiscal second quarter is generally weaker and the fiscal fourth quarter historically stronger due to typical industrial operating cycles.

### ***ENVIRONMENTAL MATTERS***

We believe that compliance with federal, state, or local provisions relating to the protection of the environment will not have any material effect on our capital expenditures, earnings, or competitive position.

### ***EMPLOYEES***

At the end of fiscal year 2005, we had 209 employees, compared to 213 and 222 employees at the end of fiscal years 2004 and 2003, respectively.

### ***EXECUTIVE OFFICERS***

The following table sets forth certain information regarding our executive officers and certain key employees as of March 26, 2005:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Carl E. Sassano . . . . .	55	Chairman, President and Chief Executive Officer
Charles P. Hadeed . . . . .	55	Chief Operating Officer, Chief Financial Officer and Vice President of Finance
John A. De Voldre . . . . .	56	Vice President of Human Resources
Robert C. Maddamma . . . . .	62	Vice President of Customer Satisfaction
Jay F. Woychick . . . . .	48	Vice President of Marketing
Michael M. Mercurio . . . . .	56	Vice President of Sales
Joanne B. Hand . . . . .	31	Corporate Controller

**ITEM 2. PROPERTIES**

We lease the following properties:

<u>Property</u>	<u>Location</u>	<u>Approximate Square Footage</u>
Corporate Headquarters and Calibration Laboratory	Rochester, NY	27,250
Calibration Laboratory .....	Boston, MA	4,000
Calibration Laboratory .....	Charlotte, NC	4,860
Calibration Laboratory .....	Philadelphia, NJ	8,550
Calibration Laboratory .....	Houston, TX	4,645
Calibration Laboratory .....	Los Angeles, CA	3,060
Calibration Laboratory .....	Ottawa, ON	4,159
Calibration Laboratory .....	San Francisco, CA	3,540
Calibration Laboratory .....	St. Louis, MO	4,000
Calibration Laboratory .....	Dayton, OH	3,417

We also lease storage space in Chicago, Illinois and office space in Shanghai, China. We added a calibration laboratory in Puerto Rico in the first quarter of fiscal year 2006 in which we lease space. We believe that our properties are generally in good condition, are well maintained, and are generally suitable and adequate to carry on our business.

**ITEM 3. LEGAL PROCEEDINGS**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our stockholders during the quarter ended March 26, 2005.

**PART II.****ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our Common Stock is traded on the NASDAQ SmallCap Market under the symbol "TRNS." As of March 26, 2005, we had approximately 700 shareholders of record.

**PRICE RANGE OF COMMON STOCK**

The following table sets forth, on a per share basis, for the periods indicated, the high and low reported sales prices of our Common Stock as reported on the NASDAQ SmallCap Market System for each quarterly period in fiscal years 2005 and 2004.

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Fiscal Year 2005:				
High .....	\$3.26	\$3.05	\$3.38	\$4.00
Low .....	\$2.05	\$2.46	\$2.52	\$3.15
Fiscal Year 2004:				
High .....	\$1.64	\$2.90	\$3.40	\$3.15
Low .....	\$1.23	\$1.49	\$2.20	\$2.40

**DIVIDENDS**

We have not declared any cash dividends since our inception and do not intend to pay any dividends for the foreseeable future.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table provides selected financial data for the current fiscal year and the previous five fiscal years (in thousands, except per share data):

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003(1)</u>	<u>FY 2002(2)</u>	<u>FY 2001(2)</u>
Statements of Operations Data:					
Net Sales . . . . .	\$55,307	\$53,317	\$57,172	\$66,782	\$76,881
Cost of Sales . . . . .	<u>41,415</u>	<u>39,919</u>	<u>43,853</u>	<u>48,706</u>	<u>53,671</u>
Gross Profit . . . . .	13,892	13,398	13,319	18,076	23,210
Operating Expenses . . . . .	<u>12,993</u>	<u>13,091</u>	<u>12,850</u>	<u>24,081</u>	<u>20,258</u>
Operating Income (Loss) . . . . .	899	307	469	(6,005)	2,952
Interest Expense . . . . .	350	434	657	1,432	2,523
Gain on Extinguishment of Debt . . . . .	—	—	(1,593)	—	—
Other Expense (Income) . . . . .	<u>293</u>	<u>(288)</u>	<u>56</u>	<u>(206)</u>	<u>—</u>
Income (Loss) Before Income Taxes	256	161	1,349	(7,231)	429
Benefit for Income Taxes . . . . .	<u>—</u>	<u>(192)</u>	<u>(408)</u>	<u>(600)</u>	<u>(84)</u>
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle . . . . .	256	353	1,757	(6,631)	513
Cumulative Effect of a Change in Accounting Principle . . . . .	<u>—</u>	<u>—</u>	<u>(6,472)</u>	<u>—</u>	<u>—</u>
Net Income (Loss) . . . . .	<u>\$ 256</u>	<u>\$ 353</u>	<u>\$ (4,715)</u>	<u>\$ (6,631)</u>	<u>\$ 513</u>
Share Data:					
Basic Earnings Per Share Before Cumulative Effect of a Change in Accounting Principle . . . . .	\$ 0.04	\$ 0.06	\$ 0.29	\$ (1.08)	\$ 0.09
Basic Average Shares Outstanding . .	6,396	6,252	6,147	6,103	6,030
Diluted Earnings Per Share Before Cumulative Effect of a Change in Accounting Principle . . . . .	\$ 0.04	\$ 0.05	\$ 0.29	\$ (1.08)	\$ 0.09
Diluted Average Shares Outstanding	6,966	6,808	6,147	6,103	6,030
Closing Price Per Share . . . . .	\$ 3.80	\$ 2.40	\$ 1.40	\$ 1.13	\$ 1.62
	<b>As of or For The Fiscal Years Ended March</b>				
	<u>26, 2005</u>	<u>27, 2004</u>	<u>31, 2003(1)</u>	<u>31, 2002(2)</u>	<u>31, 2001(2)</u>
Balance Sheets and Working Capital Data:					
Inventory, net . . . . .	\$ 5,902	\$ 3,736	\$ 2,842	\$ 3,869	\$ 8,399
Properties, net . . . . .	1,984	2,025	2,556	3,911	5,747
Goodwill . . . . .	2,524	2,524	2,524	8,996	19,916
Total Assets . . . . .	20,112	18,385	16,758	27,624	47,722
Depreciation and Amortization . . . . .	1,486	1,299	2,047	4,086	4,546
Capital Expenditures . . . . .	866	459	291	1,364	1,393
Revolving Line of Credit . . . . .	5,498	6,441	5,248	6,817	9,104
Term Loan, current portion . . . . .	758	668	666	1,016	3,980
Term Loan, less current portion . . . . .	1,020	—	668	2,080	12,120
Shareholders' Equity . . . . .	4,314	3,428	2,698	6,764	13,329

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- (1) In fiscal year 2003, we recorded a \$6.5 million impairment from the implementation of Statement of Financial Accounting Standard (“SFAS”) No. 142, “Goodwill and Other Intangible Assets,” as a change in accounting principle. See Note 1 and Note 3 of our Consolidated Financial Statements for further disclosure.
  - (2) On December 26, 2001, we sold TPG, which produces instruments used to calibrate, measure, and test physical parameters to Fluke for \$11.0 million. On January 18, 2002, we completed the sale of our Measurement and Control unit to Hughes Corporation for \$2.9 million and reported a loss of \$4.5 million on the sale.

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **RECLASSIFICATION OF AMOUNTS**

Certain reclassifications of prior fiscal quarters’ financial information have been made to conform with current fiscal quarter presentation.

### **OVERVIEW**

**Operational Overview.** We are a leading distributor of professional grade test, measurement, and calibration equipment and provider of nationally recognized and accredited calibration services across a wide array of measurement disciplines.

We operate our business through two reportable business segments that offer different products and services to the same customer base. Those two segments are Distribution Products and Calibration Services.

In our distribution segment, our Master Catalog is widely recognized by both original equipment manufacturers and customers as the ultimate source for test and measurement equipment. Additionally, because we specialize in test and measurement equipment, as opposed to a wide array of industrial products, our sales and customer service personnel can provide value added technical assistance to our customers to assist them in determining what product best meets their particular application requirements.

Our strength in our calibration services segment is based upon our wide range of disciplines and our investment in the quality systems that are required in our targeted market segments. Our services range from the calibration of a single unit to managing a customer’s entire calibration program.

Our revenue in our distribution products segment can be heavily impacted by changes in the economic environment. As industrial customers increase or curtail capital and discretionary spending, our product sales will typically be directly impacted. Absent significant economic volatility, we do not see this segment of our business as high growth. The majority of our products are not consumables but are purchased as replacements, upgrades, or for expansion of manufacturing and research and development facilities. Year over year sales growth in any one quarter can be impacted by a number of factors including the addition of new product lines or channels of distribution.

We believe our calibration services segment offers considerable growth opportunity and the potential for continuing revenue from established customers from what is typically an annual calibration cycle.

We evaluate sales growth in both of our business segments against a four quarter trend analysis, not by analyzing any single quarter.

**Financial Overview.** Our distribution products segment benefited in fiscal year 2005 from a stronger economy; and, year over year sales growth was stronger in the first half of the year due to weaker prior year comparisons. Calibration service sales continued to improve in comparison to the prior year, as the year progressed, as our sales organization identified and closed new business.

Our gross margin overall was consistent with the prior year. Our distribution products segment gross margin declined approximately four points over the first six months of the year, compared to the prior year, as a result of prior year initiatives of selling into new low margin market segments increased promotional and pricing activity.

Over the last six months of fiscal year 2005 our product gross profit increased approximately three points as we decreased our use of promotional pricing in response to the strengthened economy.

We are pleased with our consistent calibration services gross profit margin resulting from our focus on expense control and productivity improvements. Calibration sales growth offers significant leverage on gross profit due to the relatively fixed nature of a calibration laboratory cost structure, as evidenced by our fourth quarter results.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Financial Reporting Release No. 60 requires all companies to include a discussion of critical accounting principles or methods used in the preparation of financial statements. Note 1 of our Consolidated Financial Statements includes a complete discussion of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements. A summary of our most critical accounting policies follows:

**Use of Estimates:** The preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States (“GAAP”) requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to, allowance for doubtful accounts and returns, depreciable lives of assets, estimated lives of our Master Catalog, and tax valuation allowances. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Actual results could differ from those estimates.

The following table summarizes the more significant charges in the Consolidated Statements of Operations that require management estimates, which are described below (in millions):

	<b>For the Years Ended</b>		
	<b>March 26, 2005</b>	<b>March 27, 2004</b>	<b>March 31, 2003</b>
Provision for doubtful accounts receivables and returns . . . . .	\$ —	\$(0.1)	\$(0.2)
Depreciation of property, plant, and equipment . . . . .	\$1.0	\$ 1.0	\$ 1.6
Amortization of Master Catalog costs . . . . .	\$0.5	\$ 0.3	\$ 0.4
Deferred tax valuation allowance provisions . . . . .	\$ —	\$ 0.1	\$ 1.1

**Changes in Estimates:** In the ordinary course of accounting for items discussed above, we make changes in estimates as appropriate, and as we become aware of circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to our Consolidated Financial Statements.

**Revenue Recognition:** Sales are recorded when products are shipped or services are rendered to customers, as we generally have no significant post delivery obligations. Our prices are fixed and determinable, collection of the resulting receivable is probable, and returns are reasonably estimated. Provisions for customer returns are provided for in the period the related sales are recorded based upon historical data. We recognize the majority of our service revenue based upon when the calibration or repair activity is performed then shipped and/or delivered to the customer. Some of our service revenue is generated from managing customers’ calibration programs in which we recognize revenue in equal amounts at fixed intervals. Our shipments are generally free on board shipping point and our customers are generally invoiced for freight, shipping, and handling charges.

**Accounts Receivable:** Accounts receivable represent receivables 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 specific 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 sales over a specific timeframe. The returns reserve will increase or decrease as a result of changes in the level of sales and/or the historical rate of returns.

**Inventories:** Inventories consist of finished goods and are valued at the lower of cost or market. Costs are determined using the average cost method of inventory valuation. Inventories are reduced by a reserve for items not saleable at or above standard cost. We reserve specifically for certain items of our inventory and, for other items, we apply a specific loss factor, based on historical experience, to specific categories of our inventory. We evaluate the adequacy of the reserve on a regular basis.

**Properties, Depreciation, and Amortization:** Properties are stated at cost. Depreciation and amortization is computed primarily under the straight-line method with useful lives of 3 to 10 years for the following major classifications: machinery, equipment, software, and furniture and fixtures. Properties determined to have no value are written off at their then remaining net book value. We account for software costs in accordance with Statement of Position (“FSP”) No. 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use”. Leasehold improvements are amortized under the straight-line method over the estimated useful life or the lease term, whichever is shorter. Maintenance and repairs are expensed as incurred. See Note 2 of our Consolidated Financial Statements for further disclosure.

**Goodwill:** We estimate the fair value of our reporting units in accordance with SFAS No. 142, “Goodwill and Other Tangible Assets”, using the fair market value measurement requirement, rather than the undiscounted cash flows approach. We test our goodwill for impairment on an annual basis, or immediately if conditions indicate that such impairment could exist. In the first quarter of fiscal year 2003, the Company recorded an impairment from the implementation of SFAS No. 142 as a \$6.5 million change in accounting principle based upon our determination of the fair market value of the reporting units. The evaluation of our reporting units on a fair value basis indicated that no additional impairment existed as of March 26, 2005, March 27, 2004, and March 31, 2003.

**Deferred Catalog Costs:** We amortize the cost of each Master Catalog mailed over such catalog’s estimated productive life. We review response results from catalog mailings on a continuous basis; and if warranted, modify the period over which costs are recognized. We amortize the cost of each Master Catalog over an eighteen month period and amortize the cost of each catalog supplement over a three month period. Total deferred catalog costs were \$0.4 million at March 26, 2005 and March 27, 2004.

**Deferred Gain on TPG:** As a result of certain post divestiture commitments, we are unable to recognize the gain of \$1.5 million on the divestiture of TPG, which took place in fiscal year 2002, until those commitments expire in fiscal year 2007. See Note 9 of our Consolidated Financial Statements for further disclosure.

**Deferred Taxes:** We account for certain income and expense items differently for financial reporting purposes than for income tax reporting purposes. Deferred taxes are provided in recognition of these temporary differences. A valuation allowance on deferred tax assets is provided for items for which it is more likely than not that the benefit of such items will not be realized, in accordance with the provisions of SFAS No. 109, “Accounting for Income Taxes”. SFAS No. 109 requires an assessment of both positive and negative evidence when measuring the need for a deferred tax valuation allowance. See Note 5 of our Consolidated Financial Statements for further disclosure.

**Stock Options:** We follow the provisions of Accounting Practice Board (“APB”) No. 25, “Accounting for Stock Issued to Employees”, which does not require compensation costs related to stock options to be recorded in net income, as all options granted under the stock option plan had on exercise prices equal to the market value of the underlying Common Stock at grant date. See Note 7 of our Consolidated Financial Statements for further disclosure.

**Off-Balance Sheet Arrangements:** We do not maintain any off-balance sheet arrangements.

## RESULTS OF OPERATIONS

The following table sets forth, for the prior three fiscal years, the components of our Consolidated Statements of Operations (calculated on dollars in thousands).

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
<i>Gross Profit Percentage:</i>			
Product Gross Profit .....	23.7%	23.9%	26.9%
Service Gross Profit .....	28.1%	27.5%	15.9%
Total Gross Profit .....	25.1%	25.1%	23.3%
<i>As a Percentage of Net Sales:</i>			
Product Sales .....	67.1%	66.4%	67.1%
Service Sales .....	<u>32.9%</u>	<u>33.6%</u>	<u>32.9%</u>
Net Sales .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Selling, Marketing, and Warehouse Expenses .....	14.4%	16.0%	14.5%
Administrative Expenses .....	<u>9.1%</u>	<u>8.5%</u>	<u>7.9%</u>
Total Operating Expenses .....	<u>23.5%</u>	<u>24.5%</u>	<u>22.4%</u>
Operating Income .....	1.6%	0.6%	0.8%
Interest Expense .....	0.6%	0.8%	1.1%
Gain on Extinguishment of Debt .....	—%	—%	(2.8)%
Other Expense (Income) .....	<u>0.5%</u>	<u>(0.5)%</u>	<u>0.1%</u>
Total Other Expense (Income) .....	<u>1.1%</u>	<u>0.3%</u>	<u>(1.6)%</u>
Income Before Income Taxes .....	0.5%	0.3%	2.4%
Benefit for Income Taxes .....	<u>—%</u>	<u>(0.4)%</u>	<u>(0.7)%</u>
Income Before Cumulative Effect of a Change in Accounting Principle .....	0.5%	0.7%	3.1%
Cumulative Effect of a Change in Accounting Principle .....	<u>—%</u>	<u>—%</u>	<u>(11.3)%</u>
Net Income (Loss) .....	<u><u>0.5%</u></u>	<u><u>0.7%</u></u>	<u><u>(8.2)%</u></u>

**FISCAL YEAR ENDED MARCH 26, 2005 COMPARED TO FISCAL YEAR ENDED MARCH 27, 2004  
(DOLLARS IN MILLIONS):**

**Sales:**

	<u>For the Years Ended</u>	
	<u>March 26, 2005</u>	<u>March 27, 2004</u>
Net Sales:		
Product .....	\$37.1	\$35.4
Service .....	<u>18.2</u>	<u>17.9</u>
Total .....	<u>\$55.3</u>	<u>\$53.3</u>

Net sales increased \$2.0 million, or 3.8% from fiscal year 2004 to 2005.

Our product sales results, which accounted for 67.1% of our sales in fiscal year 2005 and 66.4% of our sales in fiscal year 2004, have positively reflected the impact of what we believe is an improved year over year economy, and customer response to our marketing programs. Our fiscal years 2005 and 2004 product sales trend in relation to prior fiscal year quarter comparisons, is as follows (calculated on dollars in millions):

	<u>FY 2005</u>				<u>FY 2004</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Product Growth (Decline) .....	(2.9)%	6.5%	9.2%	11.3%	15.6%	(7.0)%	(22.4)%	(15.8)%

The following table provides the percent of net sales and approximate gross profit percentage for significant product distribution channels (calculated on dollars in thousands):

	<u>FY 2005</u>		<u>FY 2004</u>	
	<u>Percent of Net Sales</u>	<u>Gross Profit % (1)</u>	<u>Percent of Net Sales</u>	<u>Gross Profit % (1)</u>
Core .....	94.2%	23.6%	94.5%	23.7%
Government .....	2.3%	2.4%	2.6%	0.0%
Other .....	<u>3.5%</u>	12.4%	<u>2.9%</u>	9.9%
Total .....	<u>100.0%</u>	22.7%	<u>100.0%</u>	22.7%

(1) Calculated at net sales less purchase costs.

Customer product orders include orders for products that we routinely stock in our inventory, as well as customized products and other products ordered less frequently, which we do not stock. Unshippable product orders are primarily backorders, but also include products that are requested to be calibrated in our calibration laboratories prior to shipment, orders required to be shipped complete, orders required to be shipped at a future date, and orders on credit hold and/or awaiting letters of credit. Our total unshippable orders decreased by approximately \$0.4 million, or 23.5% from fiscal year 2004 to 2005. We believe that the decrease is primarily attributed to our suppliers shipping inventory to us on a more timely basis and improvement in inventory demand planning. The following table reflects our historical trend of product orders that are unshippable at the end of each fiscal quarter and the percentage of these orders that are backorders (calculated on dollars in millions):

	<u>FY 2005</u>				<u>FY 2004</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Total Unshippable Orders .....	\$1.3	\$1.3	\$1.5	\$1.5	\$1.7	\$1.6	\$1.4	\$1.0
% of Unshippable Orders that are Backorders .....	76.9%	76.9%	80.0%	80.2%	85.7%	82.5%	83.6%	83.8%

Calibration services sales increased \$0.3 million, or 1.7%, from fiscal year 2004 to 2005. This increase, and in particular, our year over year fourth quarter growth, is attributable to both new customer acquisition and concerted customer service efforts to retain existing customers. Within any quarter, there is typically a netting of

new customers against existing customers whose calibrations may not repeat for any number of factors. Among those factors are the timing of customer periodic calibrations on equipment as well as repair services, customer capital expenditure budgets, and customer outsourcing decisions. The rate of change in our 2005 and 2004 calibration services sales in relation to the prior fiscal year quarter is as follows (calculated on dollars in millions):

	FY 2005				FY 2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Calibration Service Growth (Decline) . . . .	14.6%	0.0%	(2.3)%	(4.3)%	(2.0)%	(7.3)%	(7.3)%	(3.2)%

**Gross Profit:**

	For the Years Ended	
	March 26, 2005	March 27, 2004
Product . . . . .	\$ 8.8	\$ 8.5
Service . . . . .	5.1	4.9
Total . . . . .	<u>\$13.9</u>	<u>\$13.4</u>

Gross profit, as a percent of net sales, remained constant at 25.1% in fiscal year 2005 in comparison to fiscal year 2004. Product gross profit increased \$0.3 million from the prior fiscal year to the current fiscal year, however decreasing by 0.3 points. As is evidenced by the chart below, gross profit ratios were impacted mid-fiscal year 2004 as a result of our aggressive targeting of new channels of distribution that typically do not support the margins of our core customer base and an increased level of allowances to stimulate product sales. In fiscal year 2005, as the business climate improved, we targeted a reduction in those allowances. In addition, our product gross profit ratio to sales can be impacted by a number of factors that can impact quarterly and annual comparisons. Among those factors are sales to certain channels that do not support the margins of our core customer base, periodic rebates on purchases and cooperative advertising received from suppliers and reported as a reduction of cost of sales in accordance with Emerging Issues Task Force (“EITF”) 02-16 (see Note 1 to our Consolidated Financial Statements). The following table reflects the quarterly historical trend of our product gross profit as a percent of net sales (calculated on dollars in millions):

	FY 2005				FY 2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Product GM %(1) . . . . .	22.7%	23.7%	22.0%	21.8%	20.6%	20.7%	24.0%	25.3%
Other Income (Cost) %(2) . . . . .	3.5%	(0.5)%	(0.3)%	0.7%	0.6%	0.8%	4.9%	1.0%
Gross Profit % . . . . .	25.7%	23.2%	21.7%	22.5%	21.2%	21.5%	28.9%	26.3%

(1) Calculated at net sales less purchase costs.

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

Calibration service gross profit increased \$0.2 million, or 0.6 points. This increase is a result of a modest increase in service sales and improving laboratory efficiency. The following table reflects the quarterly historical trend of our calibration service gross profit as a percent of net sales (calculated on dollars in millions):

	FY 2005				FY 2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Calibration Service Gross Profit . . . . .	32.7%	28.6%	26.2%	25.0%	29.2%	26.2%	30.2%	23.9%

**Operating Expenses:**

	<u>For the Years Ended</u>	
	<u>March 26, 2005</u>	<u>March 27, 2004</u>
Operating Expenses:		
Selling, Marketing, and Warehouse .....	\$ 7.9	\$ 8.5
Administrative .....	<u>5.0</u>	<u>4.6</u>
Total .....	<u>\$12.9</u>	<u>\$13.1</u>

Operating expenses decreased \$0.2 million, or 1.5%, from fiscal year 2004 to 2005. In the current fiscal year, selling, marketing, and warehouse expenses decreased \$0.6 million attributed to a reduction in selling payroll expenses and related costs and more efficient product marketing initiatives. Administrative expenses increased \$0.4 primarily resulting from the issuance of stock to certain officers and other compensation costs.

**Other Expense:**

	<u>For the Years Ended</u>	
	<u>March 26, 2005</u>	<u>March 27, 2004</u>
Other Expense:		
Interest Expense .....	\$0.4	\$ 0.4
Other Expense (Income) .....	<u>0.3</u>	<u>(0.3)</u>
Total .....	<u>\$0.7</u>	<u>\$ 0.1</u>

Interest expense remained constant with the prior year as debt levels and interest rates remained relatively unchanged. The other expense increase in fiscal year 2005 was primarily attributable to a net loss in Canadian currency transactions in comparison to net gains in fiscal year 2004.

**Taxes:**

	<u>For the Years Ended</u>	
	<u>March 26, 2005</u>	<u>March 27, 2004</u>
Benefit for Income Taxes .....	\$—	\$(0.2)

We have not recognized any provision for income taxes in fiscal year 2005 as pretax income was offset by a reduction in our deferred tax asset valuation reserve. When calculating income tax expense or benefit, we recognize valuation allowances for deferred tax assets, which may not be realized using a “more likely than not” approach, which is more fully described in Note 5 to our Consolidated Financial Statements.

The benefit for income taxes in fiscal year 2004 recognizes the benefit derived from the utilization of net operating loss and foreign tax credit carry backs.

**FISCAL YEAR ENDED MARCH 27, 2004 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2003  
(DOLLARS IN MILLIONS):**

**Sales:**

	<u>For the Years Ended</u>	
	<u>March 27, 2004</u>	<u>March 31, 2003</u>
Net Sales:		
Product .....	\$35.4	\$38.4
Service .....	<u>17.9</u>	<u>18.8</u>
Total .....	<u>\$53.3</u>	<u>\$57.2</u>

Net sales decreased \$3.9 million, or 6.8%, from fiscal year 2003 to 2004.

Our product sales results, which accounted for 66.4% of our sales in fiscal year 2004 and 67.1% of our sales in fiscal year 2003, have positively reflected the impact of what we believe is an improved economic outlook, targeted sales efforts in new distribution channels, and customer response to our marketing programs. Our product sales have improved (declined) in relation to prior fiscal year quarter comparisons, as follows (calculated on dollars in millions):

	<u>FY 2004</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Product Growth (Decline) .....	15.6%	(7.0)%	(22.4)%	(15.8)%

The following table provides the percent of net sales and approximate gross profit percentage for significant product distribution channels (calculated on dollars in thousands):

	<u>FY 2004</u>		<u>FY 2003</u>	
	<u>Percent of Net Sales</u>	<u>Gross Profit %<sup>(1)</sup></u>	<u>Percent of Net Sales</u>	<u>Gross Profit %<sup>(1)</sup></u>
Core .....	94.5%	23.7%	98.9%	27.4%
Government .....	2.6%	0.0%	0.0%	0.0%
Other .....	<u>2.9%</u>	9.9%	<u>1.1%</u>	14.8%
Total .....	<u>100.0%</u>	22.7%	<u>100.0%</u>	27.2%

(1) Calculated at net sales less purchase costs.

Customer product orders include orders for products that we routinely stock in our inventory, as well as, customized products and other products ordered less frequently, which we do not stock. Unshippable product orders are primarily backorders, but also include products that are requested to be calibrated in our calibration laboratories prior to shipment, orders required to be shipped complete, orders required to be shipped at a future date, and orders on credit hold and/or awaiting letters of credit. Our total unshippable orders increased by approximately \$0.3 million, or 21.4% from fiscal year 2003 to 2004. We believe that the increase is primarily attributed to the increase in sales order volume in the fiscal fourth quarter and product order mix. The following table reflects our historical trend of product orders that are unshippable at the end of each fiscal quarter and the percentage of these orders that are backorders (calculated on dollars in millions):

	<u>FY 2004</u>				<u>FY 2003</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Total Unshippable Orders .....	\$1.7	\$1.6	\$1.4	\$1.0	\$1.4	\$1.0	\$1.5	\$1.0
% of Unshippable Orders that are Backorders .....	85.7%	82.5%	83.6%	83.8%	76.9%	82.0%	76.7%	78.0%

Calibration services sales declined \$0.9 million, or 4.8%, from fiscal year 2003 to 2004. The decline in calibration service sales is primarily attributable to calibrations previously conducted at three customer on site

(“on-sites”) locations that were not renewed by these customers. We believe that such non-renewals resulted from, among other things, factors, such as the adverse economic circumstances in one such customers’ respective industry (telecommunications) and corporate sourcing decisions. As reported, our calibration service sales have declined in relation to the prior fiscal year quarter as follows (calculated on dollars in millions):

	<u>FY 2004</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Calibration Service Growth (Decline) .....	(2.0)%	(7.3)%	(7.3)%	(3.2)%

Excluding these on-sites, and inclusive of the consolidation of four calibration laboratories into existing facilities in fiscal year 2003, our calibration service sales increased 3.6% from fiscal year 2003 to 2004 and have improved in relation to the prior fiscal year quarter as follows (calculated on dollars in millions):

	<u>FY 2004</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Calibration Service Growth .....	3.7%	3.3%	1.5%	2.8%

**Gross Profit:**

	<u>For the Years Ended</u>	
	<u>March 27, 2004</u>	<u>March 31, 2003</u>
Gross Profit:		
Product .....	\$ 8.5	\$10.3
Service .....	<u>4.9</u>	<u>3.0</u>
Total .....	<u>\$13.4</u>	<u>\$13.3</u>

Gross profit increased as a percent of net sales from 23.3% in fiscal year 2003 to 25.1% in fiscal year 2004. This increase is solely attributable to the significant improvement in calibration service gross profit, and was constrained by the reduction in product gross profit.

Product gross profit decreased \$1.8 million from the prior fiscal year to the current fiscal year, or 2.8 points. Contributing factors to this 2.8 point decrease included our aggressive targeting of new channels of distribution that typically do not support the margins of our core customer base and an increased level of allowances to stimulate product sales. Our product gross profit ratio to sales can be impacted by a number of factors that can impact quarterly and annual comparisons. Among those factors are sales to certain channels that do not support the margins of our core customer base, periodic rebates on purchases and cooperative advertising received from suppliers and reported as a reduction of cost of sales in accordance with EITF 02-16 (see Note 1 to our Consolidated Financial Statements). The following table reflects the quarterly historical trend of our product gross profit as a percent of net sales (calculated on dollars in millions):

	<u>FY 2004</u>				<u>FY 2003</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Product Gross Profit .....	21.2%	21.5%	28.9%	26.3%	27.8%	27.0%	26.5%	26.3%

Calibration service gross profit increased \$1.9 million, or 11.4 points. This increase is a direct result of the laboratory consolidation implemented in fiscal year 2003 and improving laboratory efficiency. The following table reflects the quarterly historical trend of our calibration service gross profit as a percent of net sales (calculated on dollars in millions):

	<u>FY 2004</u>				<u>FY 2003</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
Calibration Service Gross Profit .....	29.2%	26.2%	30.2%	23.9%	18.4%	15.6%	15.2%	14.9%

**Operating Expenses:**

	<u>For the Years Ended</u>	
	<u>March 27, 2004</u>	<u>March 31, 2003</u>
Operating Expenses:		
Selling, Marketing, and Warehouse .....	\$ 8.5	\$ 8.3
Administrative .....	<u>4.6</u>	<u>4.5</u>
Total .....	<u>\$13.1</u>	<u>\$12.8</u>

Operating expenses increased \$0.3 million, or 2.3%, from fiscal year 2003 to 2004. Included in the current fiscal year's operating expenses are \$0.1 million of severance costs and a charge of \$0.2 million to settle, rather than further litigate, a lawsuit brought against us by our former chief financial officer. In the prior fiscal year, operating expenses included \$0.3 million in severance costs incurred as a result of certain employee terminations.

**Other Expense (Income):**

	<u>For the Years Ended</u>	
	<u>March 27, 2004</u>	<u>March 31, 2003</u>
Other Expense (Income):		
Interest Expense .....	\$ 0.4	\$ 0.6
Gain on Extinguishment of Debt .....	—	(1.6)
Other (Income) Expense .....	<u>(0.3)</u>	<u>0.1</u>
Total .....	<u>\$ 0.1</u>	<u>\$(0.9)</u>

Other income recorded in the prior fiscal year was primarily the net gain recognized as a result of the restructuring of our senior debt and execution of our Revolving Credit and Loan Agreement (the "Credit Agreement") in November 2002.

Interest expense in fiscal year 2004 was reduced 33.3% from the prior fiscal year as a result of lower debt levels.

**Taxes:**

	<u>For the Years Ended</u>	
	<u>March 27, 2004</u>	<u>March 31, 2003</u>
Benefit for Income Taxes .....	\$(0.2)	\$(0.4)

The benefit for income taxes recognizes the benefit derived from the utilization of net operating loss and foreign tax credit carry backs. We have not recognized any tax expense on income, net of certain small state payments. When calculating income tax expense or benefit, we recognize valuation allowances for deferred tax assets, which may not be realized using a "more likely than not" approach, which is more fully described in Note 5 to our Consolidated Financial Statements.

**Cumulative Effect of a Change in Accounting Principle:** In fiscal year 2003 we recorded a goodwill impairment charge of \$6.5 million upon the adoption of SFAS No. 142.

## LIQUIDITY AND CAPITAL RESOURCES

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

	<u>FY 2005</u>	<u>FY 2004</u>
Cash Provided by (Used in):		
Operating Activities.....	\$ (6)	\$ 208
Investing Activities.....	(866)	(459)
Financing Activities.....	268	516

**Operating Activities.** Cash used in operating activities was neutral for fiscal year 2005 and decreased \$0.2 million when compared to the \$0.2 million of cash provided by operating activities in fiscal year 2004. This change was primarily comprised of a \$0.6 million decrease in cash provided by working capital, an increase of \$0.5 million in non-cash charges and a decrease in net income of \$0.1 million. Significant working capital fluctuations were as follows:

- **Inventories/Accounts Payable:** Our inventories increased \$1.3 million more in fiscal year 2005 than in fiscal year 2004 as our fourth quarter product sales were somewhat below our expectations. A relatively modest increase in accounts payable when compared to the prior year resulted in a significant decline in our payables to inventory ratio, as the following table illustrates (dollars in millions):

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2002</u>
Inventory, net.....	\$ 5.9	\$ 3.7	\$ 2.8	\$ 3.8
Accounts Payable.....	\$ 4.5	\$ 4.1	\$ 3.7	\$ 6.3
Payables/Inventory Ratio.....	0.76	1.11	1.32	1.66

- **Receivables:** Our accounts receivable increased less from fiscal year end 2004 to 2005 when compared to the increase from fiscal year end 2003 to 2004, contributing \$0.6 million to working capital. Our collections of outstanding accounts receivable, reflected in our days sales outstanding, as the following table illustrates (dollars in millions) is excellent.

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Net Sales, for the last two fiscal months.....	\$11.9	\$11.9	\$9.2
Accounts Receivable, net.....	\$ 8.1	\$ 8.0	\$6.9
Days Sales Outstanding (based on 60 days).....	41	40	45

- A reduction in income tax refunds receivable as refunds were received.
- An increase in accrued compensation costs.

**Investing Activities.** The \$0.9 million and \$0.5 million of cash used in investing activities in fiscal years 2005 and 2004, respectively, resulted from capital expenditures, primarily for our calibration laboratories.

**Financing Activities.** Our debt has remained relatively constant from March 27, 2004 to March 26, 2005, as the table below illustrates (in millions). However, in conjunction with our third amendment to our Credit Agreement, we entered into a new term loan agreement, resulting in a reduction in our line of credit. See Note 4 to our Consolidated Financial Statements for further information regarding our debt.

	<u>March 26, 2005</u>	<u>March 27, 2004</u>	<u>March 31, 2003</u>
Term Debt.....	\$1.8	\$0.7	\$1.3
Revolving Line of Credit.....	\$5.5	\$6.4	\$5.2
Capital Lease Obligations.....	\$0.1	\$0.2	\$—
	<u>\$7.4</u>	<u>\$7.3</u>	<u>\$6.5</u>

### ***Refinancing of Debt.***

**Description.** On November 13, 2002, we entered into a Credit Agreement with GMAC Business Credit, LCC (“GMAC”). The Credit Agreement consisted of a term loan, a revolving line of credit (“LOC”), and certain material terms of which are as set forth below.

The Credit Agreement was amended on April 11, 2003 to address certain non-material post closing conditions.

The Credit Agreement was further amended on July 22, 2004 (“Second Amendment”) to waive compliance with our EBITDA covenant for the first quarter of fiscal year 2005, permanently waive a requirement relating to an inactive subsidiary that we had committed to dissolve by a specific date (that has been subsequently dissolved), and increase the Credit Agreement restriction on our Master Catalog spending.

We amended the Credit Agreement again on November 1, 2004 (“Third Amendment”). The Third Amendment consists of two term notes, a LOC, a capital expenditure loan if certain conditions are met, and certain material terms of which are as set forth below. The Third Amendment also waived compliance with our EBITDA (earnings before interest, income taxes, depreciation and amortization) covenant for the second quarter of fiscal year 2005 and extended the Credit Agreement expiration from November 13, 2005 to October 31, 2007.

**LOC.** The Credit Agreement requires both a subjective acceleration clause and a requirement to maintain a lock-box arrangement. These requirements resulted in a short-term classification of the LOC in accordance with EITF No. 95-22, “Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement.”

**Covenants.** The table below indicates our excess (shortage) EBITDA percentage for the periods indicated. The Second and Third Amendment to the Credit Agreement waived compliance with the EBITDA covenant for the first and second quarters of fiscal year 2005, respectively. The Third Amendment also reduced the EBITDA requirement for the third and fourth quarters of fiscal year 2005. We met our EBITDA covenant for the fourth quarter of fiscal year 2005 and expect to meet the covenant on an on-going basis.

	<u>FY 2005</u>				<u>FY 2004</u>			
	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>	<u>Q4</u>	<u>Q3</u>	<u>Q2</u>	<u>Q1</u>
% Excess (Shortage) EBITDA . . . . .	22%	17%	(20)%	(16)%	3%	12%	12%	23%

**Other Terms.** We have pledged certain property and fixtures in favor of GMAC, including inventory, equipment, and accounts receivable as collateral security for the loans made under the Credit Agreement.

See Note 4 of our Consolidated Financial Statements for more information on our debt. See Item 7a for our discussion of interest rates on our debt.

**Contractual Obligations and Commercial Commitments.** The schedule below contains aggregated information about contractual obligations and commercial commitments that we must make future payments under for contracts such as debt and lease agreements, purchase arrangements, and various operating requirements (in millions):

	Payments Due By Period				Total
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	
Term Loan . . . . .	\$ 0.8	\$ 1.0	\$ —	\$—	\$ 1.8
Revolving Line of Credit . . . . .	5.5	—	—	—	5.5
Operating Leases . . . . .	0.8	1.1	0.3	—	2.2
Capital Leases . . . . .	0.1	0.1	—	—	0.2
Unconditional Purchase Obligations (1) . . . . .	<u>12.9</u>	<u>10.3</u>	<u>—</u>	<u>—</u>	<u>23.2</u>
Total Contractual Cash Obligations . . . . .	<u>\$20.1</u>	<u>\$12.5</u>	<u>\$0.3</u>	<u>\$—</u>	<u>\$32.9</u>

(1) Relates to minimum inventory purchase commitment. Commitments are an annual dollar amount based on calendar years. This table estimates the commitment amount per fiscal year. See “Distribution Agreement” above in Item 1 for further information.

**NEW ACCOUNTING PRONOUNCEMENTS**

**FSP 109-2:** In October 2004, the Financial Accounting Standards Board (the “FASB”) issued FSP 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004”. FSP No. 109-2 provides guidance under SFAS 109, with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the “Jobs Act”) on enterprises’ income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. FSP 109-2 has no effect on the Company’s consolidated financial statements.

**SFAS 151:** In November 2004, FASB issued SFAS No. 151, “Inventory Costs — an amendment of ARB No. 43”. This Statement amends the guidance in ARB No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that “... under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges... .” This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal.” This Statement is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board toward development of a single set of high-quality accounting standards. This clarification has no effect on the Company’s consolidated financial statements.

**SFAS 123R:** On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment”. SFAS 123R replaces SFAS 123 and supersedes APB No. 25. SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, SFAS 123 permitted entities the option of continuing to apply the guidance in APB No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123R requires the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. SFAS 123R applies to all awards granted, modified, repurchased or cancelled after July 1, 2005, and unvested portions of previously issued and outstanding awards.

The SEC amended the effective date of SFAS 123R with a new rule issued on April 14, 2005 to amend the compliance date for SFAS 123R that allows companies to implement SFAS 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005, although early adoption is allowed. SFAS 123R permits companies to adopt its requirements using either a “modified prospective” method, or a “modified retrospective” method. Under the “modified prospective” method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the “modified retrospective” method, the requirements are the same as under the “modified prospective” method, but also permits entities to restate financial statements of previous periods based on proforma disclosures made in accordance with SFAS 123.

The Company currently expects to adopt SFAS 123R effective March 26, 2006; however, the Company has not yet determined which of the aforementioned adoption methods it will use. The Company has not changed any of the stock compensation plans as a result of the impending adoption of SFAS 123R but maintains the right to amend, suspend or terminate any plan at any time.

**SFAS 153:** On December 16, 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions*. The amendments made by SFAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company currently expects to adopt SFAS 153 effective on July 1, 2005 and does not expect that the adoption will have an effect on its consolidated financial statements.

### **EMPLOYEE STOCK OPTIONS**

We have a stock option program that is a broad based, long-term retention program intended to attract, incent, and retain key employees, thereby aligning stockholder and employee interests. In granting options, we are cognizant of balancing the plan’s objectives with potential incremental dilution. Stock options are currently outstanding under two plans. Under these plans, participants may be granted options to purchase shares of our Common Stock at the fair market value at the time of the grant.

The first plan, the Transcat, Inc. Amended and Restated Stock Option Plan, had been approved by shareholders and terminated in the first quarter of fiscal year 2004. Options granted under that plan expired no later than five years from the date of the grant and vest within four years, in equal increments. For the first four years after the grant date, options are exercisable only if our stock price attains a specific market value for a minimum specified number of trading days and certain stock ownership requirements are met. After four years, the stock price and duration requirements cease. No options were granted in fiscal year 2004 under this plan.

The second plan, the Transcat, Inc. 2003 Incentive Plan, was approved by shareholders in August 2003 and will terminate in June 2013. Options granted under this plan expire no later than ten years from the date of the grant and vest equally over a three-year period. This plan also provides for the granting of stock awards and performance awards.

Options granted to employees, including officers are summarized for the fiscal years 2001 to 2005 as follows (shares in thousands):

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2002</u>	<u>FY 2001</u>
Total Options Granted .....	86	147	502	55	317
Less: Options Forfeited .....	<u>(59)</u>	<u>(189)</u>	<u>(473)</u>	<u>(587)</u>	<u>(354)</u>
Net Options Granted .....	<u>27</u>	<u>(42)</u>	<u>29</u>	<u>(532)</u>	<u>(37)</u>

The following table provides additional information regarding stock options, and options granted and/or held by our Corporate Officers:

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2002</u>	<u>FY 2001</u>
Total Options Granted as a % of Total Shares Outstanding .....	1.3%	2.4%	8.0%	0.9%	5.1%
Total Options Outstanding as a % of Total Shares Outstanding .....	10.8%	14.1%	14.6%	14.2%	23.0%
Options Granted to Corporate Officers as a % of Total Options Granted .....	34.9%	34.0%	63.7%	0.0%	6.3%
Options Granted to Corporate Officers as a % of Total Shares Outstanding .....	0.5%	0.8%	5.1%	0.0%	0.3%
Cumulative Options Held by Corporate Officers as a % of Total Options Outstanding .....	55.2%	44.5%	42.7%	62.4%	74.5%
Cumulative Options Held by Corporate Officers as a % of Total Shares Outstanding .....	5.9%	6.3%	6.2%	8.9%	17.1%

In-the-money and out-of-the-money (have an exercise price equal to or above \$3.80 per share, the market price of Transcat Common Stock at March 26, 2005) option information as of March 26, 2005 is as follows (shares in thousands):

	<u>Exercisable</u>			<u>Unexercisable</u>			<u>Total</u>		
	<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Weighted Average Exercise Price Per Share</u>
In-the-Money .....	315	2.6	\$1.51	373	5.2	\$1.77	688	4.0	\$1.65
Out-of-the-Money ..	—	—	\$ —	—	—	\$ —	—	—	\$ —
Total .....	<u>315</u>	2.6	\$1.51	<u>373</u>	5.2	\$1.77	<u>688</u>	4.0	\$1.65

Options granted to our Corporate Officers as a group during fiscal year 2005 are as follows (in thousands, except per share amounts):

<u>Number of Securities Underlying Option Grants</u>	<u>% of Total Options Granted to Employees</u>	<u>Range of Exercise Price Per Share</u>	<u>Expiration Date</u>	<u>Potential Realization Value at Assumed Rate of Stock Price Appreciation For Option Term(1)</u>	
				<u>10%</u>	<u>25%</u>
30	34.9%	\$2.89	2014	\$97	\$261

(1) Represents gains that could accrue for these options, assuming that the market price of Transcat stock appreciates over a 5 year period at annualized rates of 10% and 25%. If the stock price does not increase above the exercise price, the realized value of these options would be zero.

Our Corporate Officers did not exercise any options during fiscal year 2005. The options held by these officers as a group as of March 26, 2005 are as follows (in thousands):

<u>Number of Shares Underlying Unexercised Options</u>		<u>Values of Unexercised In-the-Money Options(2)</u>	
<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
197	223	\$501	\$532

(2) These amounts represent the difference between the exercise price and \$3.80, the market price of our Common Stock at March 26, 2005 for all in-the-money options held by the listed officers.

All stock option grants are reviewed and approved by the Compensation Committee of the Board of Directors. All members of the Compensation Committee are independent directors, as defined in the applicable rules for issuers traded on The NASDAQ Stock Market.

For additional information regarding stock option plan activity for fiscal years 2005, 2004, and 2003, see the reconciliation of options outstanding in Note 7 of our Consolidated Financial Statements.

For purposes of the reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended, our CEO and CFO are considered our only reporting persons.

**EMPLOYEE STOCK PURCHASE PLAN**

The Transcat, Inc. Employees’ Stock Purchase Plan (“Plan”) has up to 200,000 shares of our Common Stock for issuance. Under the Plan, eligible employees may purchase stock at 85% of the fair market value of our Common Stock on the Investment Date, which is the second to last business day of each calendar month. Purchases are limited under certain circumstances to maintain Plan conformance to various regulations. Plan participation was approximately 18% of total employees, including those ineligible, during fiscal year 2005 and 19% and 22% during fiscal years 2004 and 2003, respectively. Shares purchased under the Plan were:

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Shares Purchased . . . . .	12,108	12,392	25,425

**OUTLOOK**

Fiscal year 2006 should continue the positive growth experienced in the last half of fiscal year 2005. Revenue growth should be in the high single digits, with gross margin improvement driven by increased volume. Operating expenses are targeted to grow in line with sales. Increases are planned in the following areas: marketing for prospecting and promotion; employee training on new products; customer satisfaction surveys; and infrastructure investments, mainly information technology.

Operating earnings are targeted to increase as a result of gross margin improvement and should increase as a percentage of sales. Manpower increases and capital expenditures are devoted primarily to calibration services and are tied to increased volume or replacement/improvement of equipment.

Distribution products should grow in the low single digits in a stable economy. Our growth in any quarter could be higher as a result of our sales of new product lines added in late fiscal year 2005 and early fiscal year 2006.

Calibration services revenues should grow in the high single digits as more companies outsource their total calibration management to Transcat. Growth in any quarter could be higher or lower based on the timing and size of the new business.

As previously disclosed, we have had a valuation allowance on our net deferred tax assets providing for items for which it is more likely than not that the benefit of such items will not be realized, in accordance with the provisions of SFAS No. 109. SFAS No. 109 requires an assessment of both positive and negative evidence when measuring the need for a deferred tax valuation allowance. The existence of cumulative losses in the most recent three-year fiscal period ending March 26, 2005 is sufficient negative evidence to maintain the valuation allowance under the provisions of SFAS No. 109. Our results over the most recent three-year period were heavily affected by such charges as: severance, restructuring, litigation, and directors’ compensation expenses. Although we believe that the Company today is much stronger, more profitable, and focused on operating a sound, profitable business model, we must maintain a valuation allowance until sufficient positive evidence exists to support its reduction or reversal.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### INTEREST RATES

Our exposure to changes in interest rates results from 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. On March 26, 2005 and March 27, 2004, we had no hedging arrangements in place to limit our exposure to upward movements in interest rates.

Under the Third Amendment described in Note 4 of our Consolidated Financial Statements, interest on the term loans and LOC were fixed at Tier 2 (see chart below) as of March 2005. The prime rate and the 30-day London Interbank Offered Rate ("LIBOR") as of March 26, 2005 were 5.75% and 2.72%, respectively. Interest on the term loans and LOC after March 2005, is adjusted on a quarterly basis based upon our calculated Fixed Charge Coverage Ratio, as defined in the Third Amendment, as follows:

Tier	Fixed Charge Coverage Ratio	Term Loan A	Term Loan B	LOC
1	1.249 or less	(a) Prime Rate plus .50% or (b) LIBOR plus 3.25%	Prime Rate plus .75%	(a) Prime Rate plus 0% or (b) LIBOR plus 2.75%
2	1.25 to 1.49	(a) Prime Rate plus .25% or (b) LIBOR plus 3.00%	Prime Rate plus .50%	(a) Prime Rate plus 0% or (b) LIBOR plus 2.50%
3	1.50 or greater	(a) Prime Rate plus 0% or (b) LIBOR plus 2.75%	Prime Rate plus .25%	(a) Prime Rate plus 0% or (b) LIBOR plus 2.25%

Our interest rate for the first quarter of fiscal year 2006 will be at Tier 3.

### FOREIGN CURRENCY

Approximately 91% of our sales were denominated in United States dollars with the remainder denominated in Canadian dollars for the three months and twelve months ended March 26, 2005. A 10% change in the value of the Canadian dollar to the United States dollar would impact our revenues by approximately 1%. We monitor the relationship between the United States 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. On March 26, 2005 and March 27, 2004, we had no hedging arrangements in place to limit our exposure to foreign currency fluctuations.

### RISK FACTORS

You should consider carefully the following risks and all other information included in this Form 10-K. The risks and uncertainties described below and elsewhere in this Form 10-K are not the only ones facing our business. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could fall and you could lose all or part of your investment.

**General Economic Conditions.** The electronic instrumentation distribution industry is affected by changes in economic conditions, which are outside our control. We cannot assure you that economic slowdowns, adverse economic conditions or cyclical trends in certain customer markets will not have a material adverse effect on our operating results, financial condition, or our ability to meet our commitments.

**Dependence on Manufacturers.** A significant amount of our inventory purchases are made from one vendor group. Our reliance on this vendor group leaves us vulnerable to having an inadequate supply of required products, price increases, late deliveries, and poor product quality. Like other distributors in our industry, we occasionally experience supply shortages and are unable to purchase our desired volume of products. If we are unable to enter into and maintain satisfactory distribution arrangements with leading manufacturers, if we are unable to maintain an adequate supply of products, or if manufacturers do not regularly invest in, introduce to us, and/or make available to us for distribution new products, our sales could suffer considerably. Finally, we cannot provide any assurance that particular products, or product lines, will be available to us, or available in quantities

sufficient to meet customer demand. This is of particular significance to our business because the products we sell are often only available from one source. Any limits to product access could materially and adversely affect our business.

***Indebtedness.*** In November 2004, we entered a third amendment to our existing agreement with our secured credit facility. This amendment resulted in two additional term loans, in addition to our revolving line of credit. As of March 26, 2005, we owed \$7.3 million to our secured creditor. We are required to meet financial tests on a quarterly basis and comply with other covenants customary in secured financings. Although we believe that we will continue to be in compliance with such covenants, if we do not remain in compliance with such covenants, our lenders may demand immediate repayment of amounts outstanding. Changes in interest rates may have a significant effect on our monthly payment obligations and operating results. Furthermore, we are dependent on credit from manufacturers of our products to fund our inventory purchases. If our debt burden increases to high levels, such manufacturers may restrict our credit. Our cash requirements will depend on numerous factors, including the rate of growth of our sales, the timing and levels of products purchased, payment terms, and credit limits from manufacturers, the timing and level of our accounts receivable collections and our ability to manage our business profitably. Our ability to satisfy our existing obligations, whether or not under our secured credit facility, will depend upon our future operating performance, which may be impacted by prevailing economic conditions and financial, business, and other factors described in this Form 10-K, many of which are beyond our control.

***If Existing Shareholders Sell Large Numbers Of Shares Of Our Common Stock, Our Stock Price Could Decline.*** The market price of our Common Stock could decline as a result of sales by our existing shareholders or holders of stock options of a large number of shares of our Common Stock in the public market or the perception that these sales could occur.

***Our Stock Price Has Been, And May Continue To Be, Volatile.*** The stock market from time to time, has experienced significant price and volume fluctuations that are both related and unrelated to the operating performance of companies. As our stock may be affected by market volatility, as well as by our own performance, the following factors, among others, may have a significant effect on the market price of our Common Stock:

- Developments in our relationships with current or future manufacturers of products we distribute;
- Announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- Litigation or governmental proceedings or announcements involving us or our industry;
- Economic and other external factors, such as disasters or other crises;
- Sales of our Common Stock or other securities in the open market;
- Period-to-period fluctuations in our operating results; and
- Our ability to satisfy our debt obligations.

***We Expect That Our Quarterly Results Of Operations Will Fluctuate. Such Fluctuation Could Cause Our Stock Price To Decline.*** A large portion of our expenses for calibration services, including expenses for facilities, equipment and personnel, are relatively fixed, as is our commitment to purchase a predetermined amount of inventory. Accordingly, if revenues decline or do not grow as we anticipate, we may not be able to correspondingly reduce our operating expenses in any particular quarter. Our quarterly revenue and operating results have fluctuated in the past and are likely to do so in the future. If our operating results in some quarters fail to meet the expectations of stock market analysts and investors, our stock price would likely decline. Some of the factors that could cause our revenue and operating results to fluctuate include:

- Fluctuations in industrial demand for products we sell and/or services we provide; and
- Fluctuations in geographic conditions, including currency and other economic conditions.

***If We Fail To Attract And Retain Qualified Personnel, We May Not Be Able To Achieve Our Stated Corporate Objectives.*** Our ability to manage our anticipated growth, if realized, effectively depends on our ability to attract and retain highly qualified executive officers and technical personnel. If we fail to attract and retain qualified individuals, we will not be able to achieve our stated corporate objectives.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Transcat, Inc.  
Rochester, New York

We have audited the accompanying consolidated balance sheet of Transcat, Inc and its subsidiaries as of March 26, 2005 and the related consolidated statements of operations, stockholders' equity, and cash flows for the fiscal year then ended. We have also audited the schedule listed in the accompanying index for the fiscal year ended March 26, 2005. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transcat, Inc. and its subsidiaries at March 26, 2005, and the results of their operations and their cash flows for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedule presents fairly, in all material respects, the information set forth therein for the fiscal year ended March 26, 2005.

/s/ BDO Seidman, LLP

**BDO Seidman, LLP**

New York, New York  
May 17, 2005

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of Transcat, Inc.

In our opinion, the consolidated balance sheet as of March 27, 2004 and the related consolidated statements of operations and comprehensive income (loss), of cash flows and of changes in stockholders' equity for each of the two years in the period ended March 27, 2004 present fairly, in all material respects, the financial position, results of operations and cash flows of Transcat, Inc. and its subsidiaries at March 27, 2004 and for each of the two years in the period ended March 27, 2004, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index for each of the two years in the period ended March 27, 2004 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, on April 1, 2002.

/s/ PricewaterhouseCoopers LLP

Rochester, New York  
June 17, 2004

**TRANSCAT, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**(In Thousands, Except Per Share Amounts)**

	For the Years Ended		
	March 26, 2005	March 27, 2004	March 31, 2003
Product Sales .....	\$37,086	\$35,423	\$38,359
Service Sales .....	18,221	17,894	18,813
Net Sales .....	<u>55,307</u>	<u>53,317</u>	<u>57,172</u>
Cost of Products Sold .....	28,307	26,948	28,033
Cost of Services Sold .....	13,108	12,971	15,820
Total Cost of Products and Services Sold .....	<u>41,415</u>	<u>39,919</u>	<u>43,853</u>
Gross Profit .....	<u>13,892</u>	<u>13,398</u>	<u>13,319</u>
Selling, Marketing, and Warehouse Expenses .....	7,948	8,540	8,311
Administrative Expenses .....	<u>5,045</u>	<u>4,551</u>	<u>4,539</u>
Total Operating Expenses .....	<u>12,993</u>	<u>13,091</u>	<u>12,850</u>
Operating Income .....	<u>899</u>	<u>307</u>	<u>469</u>
Interest Expense .....	350	434	657
Gain on Extinguishment of Debt .....	—	—	(1,593)
Other Expense (Income) .....	<u>293</u>	<u>(288)</u>	<u>56</u>
Total Other Expense (Income) .....	<u>643</u>	<u>146</u>	<u>(880)</u>
Income Before Income Taxes and Cumulative Effect of a Change in Accounting Principle .....	256	161	1,349
Benefit for Income Taxes .....	<u>—</u>	<u>(192)</u>	<u>(408)</u>
Income Before Cumulative Effect of a Change in Accounting Principle . . .	256	353	1,757
Cumulative Effect of a Change in Accounting Principle .....	<u>—</u>	<u>—</u>	<u>(6,472)</u>
Net Income (Loss) .....	256	353	(4,715)
Other Comprehensive Income:			
Currency Translation Adjustment .....	<u>163</u>	<u>168</u>	<u>91</u>
Comprehensive Income (Loss) .....	<u>\$ 419</u>	<u>\$ 521</u>	<u>\$ (4,624)</u>
Basic Earnings (Loss) Per Share:			
Before Cumulative Effect of a Change in Accounting Principle .....	\$ 0.04	\$ 0.06	\$ 0.29
From Cumulative Effect of a Change in Accounting Principle .....	<u>—</u>	<u>—</u>	<u>(1.05)</u>
Total Basic Earnings (Loss) Per Share .....	<u>\$ 0.04</u>	<u>\$ 0.06</u>	<u>\$ (0.76)</u>
Average Shares Outstanding (in thousands) .....	6,396	6,252	6,147
Diluted Earnings (Loss) Per Share:			
Before Cumulative Effect of a Change in Accounting Principle .....	\$ 0.04	\$ 0.05	\$ 0.29
From Cumulative Effect of a Change in Accounting Principle .....	<u>—</u>	<u>—</u>	<u>(1.05)</u>
Total Diluted Earnings (Loss) Per Share .....	<u>\$ 0.04</u>	<u>\$ 0.05</u>	<u>\$ (0.76)</u>
Average Shares Outstanding (in thousands) .....	6,966	6,808	6,147

See accompanying notes to consolidated financial statements.

**TRANSCAT, INC.**

**CONSOLIDATED BALANCE SHEETS**  
(In Thousands, Except Share and Per Share Amounts)

	<u>March 26, 2005</u>	<u>March 27, 2004</u>
<b>ASSETS</b>		
Current Assets:		
Cash .....	\$ 106	\$ 547
Accounts Receivable, less allowance for doubtful accounts of \$56 and \$51 as of March 26, 2005 and March 27, 2004, respectively .....	8,089	8,044
Other Receivables .....	313	64
Finished Goods Inventory, net .....	5,902	3,736
Income Taxes Receivable .....	—	144
Prepaid Expenses and Deferred Charges .....	630	696
Total Current Assets .....	<u>15,040</u>	<u>13,231</u>
Property, Plant and Equipment, net .....	1,984	2,025
Capital Leases, net .....	115	181
Goodwill .....	2,524	2,524
Prepaid Expenses and Deferred Charges .....	188	171
Other Assets .....	261	253
Total Assets .....	<u>\$20,112</u>	<u>\$18,385</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts Payable .....	\$ 4,544	\$ 4,139
Accrued Payrolls, Commissions and Other .....	1,993	1,620
Income Taxes Payable .....	100	100
Deposits .....	38	57
Current Portion of Term Loan .....	758	668
Current Portion of Capital Lease Obligations .....	66	49
Revolving Line of Credit .....	5,498	6,441
Total Current Liabilities .....	<u>12,997</u>	<u>13,074</u>
Term Loan, less current portion .....	1,020	—
Long-Term Capital Lease Obligations, less current portion .....	56	134
Deferred Compensation .....	181	205
Deferred Gain on TPG Divestiture .....	1,544	1,544
Total Liabilities .....	<u>15,798</u>	<u>14,957</u>
Stockholders' Equity:		
Common Stock, par value \$0.50 per share, 30,000,000 shares authorized; 6,700,505 and 6,352,968 shares issued as of March 26, 2005 and March 27, 2004, respectively; 6,453,241 and 6,233,610 shares outstanding as of March 26, 2005 and March 27, 2004, respectively .....	3,350	3,176
Capital in Excess of Par Value .....	3,995	3,235
Warrants .....	430	518
Unearned Compensation .....	(17)	(23)
Accumulated Other Comprehensive Gain (Loss) .....	96	(67)
Accumulated Deficit .....	(2,702)	(2,958)
Less: Treasury Stock, at cost, 247,264 shares and 119,358 shares as of March 26, 2005 and March 27, 2004, respectively .....	(838)	(453)
Total Stockholders' Equity .....	<u>4,314</u>	<u>3,428</u>
Total Liabilities and Stockholders' Equity .....	<u>\$20,112</u>	<u>\$18,385</u>

See accompanying notes to consolidated financial statements.

TRANSCAT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Thousands)

	For the Years Ended		
	March 26, 2005	March 27, 2004	March 31, 2003
Cash Flows from Operating Activities:			
Net Income (Loss).....	\$ 256	\$ 353	\$(4,715)
Cumulative Effect of a Change in Accounting Principle .....	—	—	6,472
Net Income Before Cumulative Effect of a Change in Accounting Principle .....	256	353	1,757
Adjustments to Reconcile Net Income Before Cumulative Effect of a Change in Accounting Principle to Net Cash (Used in) Provided by Operating Activities:			
Loss on Disposal of Assets .....	16	—	63
Gain on Extinguishment of Debt .....	—	—	(1,593)
Depreciation and Amortization .....	1,486	1,299	2,047
Provision for Doubtful Accounts Receivable .....	69	(63)	(117)
Provision for Returns .....	(32)	(80)	(93)
Provision for Slow Moving or Obsolete Inventory .....	13	20	—
Deferred Revenue — MAC .....	—	—	(179)
Common Stock Expense .....	170	110	40
Amortization of Unearned Compensation .....	135	99	—
Other .....	—	(19)	(10)
Changes in Assets and Liabilities:			
Accounts Receivable and Other Receivables .....	(331)	(927)	1,320
MAC Escrow and Holdback .....	—	—	225
Inventories .....	(2,179)	(914)	1,027
Income Taxes Receivable/Payable .....	144	655	(91)
Prepaid Expenses, Deferred Charges, and Other .....	(488)	(512)	(225)
Accounts Payable .....	405	401	(2,602)
Accrued Payrolls, Commissions, and Other .....	373	(242)	(186)
Deposits .....	(19)	(7)	(384)
Deferred Compensation .....	(24)	35	(62)
Net Cash (Used in) Provided by Operating Activities .....	(6)	208	937
Cash Flows from Investing Activities:			
Purchase of Property, Plant and Equipment .....	(866)	(459)	(291)
Net Cash Used in Investing Activities .....	(866)	(459)	(291)
Cash Flows from Financing Activities:			
Revolving Line of Credit, net .....	(943)	1,193	89
Payments on Term Loan .....	(890)	(666)	(8,333)
Proceeds from Term Loan Borrowings .....	2,000	—	7,113
Payments on Capital Leases .....	(61)	(11)	—
Issuance of Common Stock .....	162	—	—
Net Cash Provided by (Used in) Financing Activities .....	268	516	(1,131)
Effect of Exchange Rate Changes on Cash .....	163	168	91
Net (Decrease) Increase in Cash .....	(441)	433	(394)
Cash at Beginning of Period .....	547	114	508
Cash at End of Period .....	\$ 106	\$ 547	\$ 114
Cash Paid (Received) from Interest and Taxes:			
Interest Paid .....	\$ 316	\$ 293	\$ 645
Taxes Refunded .....	\$ (144)	\$ (872)	\$ (319)
Supplemental Disclosure of Non-Cash Financing Activity:			
Issuance of Warrants for Debt Retirement .....	\$ —	\$ —	\$ 518
Capital Lease Obligations .....	\$ —	\$ 194	\$ —
Expiration of Warrant from Debt Retirement .....	\$ 88	\$ —	\$ —
Treasury Stock Acquired in Cashless Exercise of Stock Options .....	\$ 385	\$ —	\$ —

See accompanying notes to consolidated financial statements.

**TRANSCAT, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(In Thousands)**

	Common Stock Outstanding \$0.50 Par Value		Capital In Excess of Par Value	War- rants	Un- earned Comp- ensation	Accum- ulated Other Compre- hensive Gain (Loss)	Accum- ulated Deficit	Treasury Stock Outstanding at Cost		Total
	Shares	Amount						Shares	Amount	
Balance as of March 31, 2002 . . . .	6,122	\$3,120	\$3,019	\$ —	\$ —	\$(326)	\$ 1,404	119	\$(453)	\$ 6,764
Issuance of Common Stock . . . . .	55	28	12							40
Issuance of Warrants . . . . .				518						518
Comprehensive Income:										
Currency Translation Adjustment						91				91
Net Loss . . . . .							(4,715)			(4,715)
Balance as of March 31, 2003 . . . .	6,177	\$3,148	\$3,031	\$518	\$ —	\$(235)	\$(3,311)	119	\$(453)	\$ 2,698
Issuance of Common Stock . . . . .	57	28	82							110
Restricted Stock:										
Issuance of Restricted Stock . . . .			122		(122)					—
Amortization of Unearned Compensation . . . . .					99					99
Comprehensive Income:										
Currency Translation Adjustment						168				168
Net Income . . . . .							353			353
Balance as of March 27, 2004 . . . .	6,234	\$3,176	\$3,235	\$518	\$ (23)	\$( 67)	\$(2,958)	119	\$(453)	\$ 3,428
Issuance of Common Stock . . . . .	124	126	577					128	(385)	318
Restricted Stock:										
Issuance of Restricted Stock . . . .	95	48	95		(129)					14
Amortization of Unearned Compensation . . . . .					135					135
Expired Warrants . . . . .			88	(88)						—
Comprehensive Income:										
Currency Translation Adjustment						163				163
Net Income . . . . .							256			256
Balance as of March 26, 2005 . . . .	<u>6,453</u>	<u>\$3,350</u>	<u>\$3,995</u>	<u>\$430</u>	<u>\$ (17)</u>	<u>\$ 96</u>	<u>\$(2,702)</u>	<u>247</u>	<u>\$(838)</u>	<u>\$ 4,314</u>

See accompanying notes to consolidated financial statements.

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In Thousands, Except Share and Per Share Amounts)**

**Note 1 — Nature of Business and Summary of Significant Accounting Policies**

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

**Principles of Consolidation:** The consolidated financial statements of Transcat include the accounts of Transcat, Inc. and all of the Company’s wholly owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

**Use of Estimates:** The preparation of Transcat’s Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States (“GAAP”) requires that the Company make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to, allowance for doubtful accounts and returns, depreciable lives of assets, estimated lives of major catalogs (“Master Catalog”), and tax valuation allowances. Future events and their effects cannot be predicted with certainty; accordingly, accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as operating environment changes. Actual results could differ from those estimates.

The following table summarizes the more significant charges in the Consolidated Statements of Operations that require management estimates, which are described below (in millions):

	For the Years Ended		
	March 26, 2005	March 27, 2004	March 31, 2003
Provision for doubtful accounts receivables and returns . . . . .	\$ —	\$(0.1)	\$(0.2)
Depreciation of property, plant, and equipment . . . . .	\$1.0	\$ 1.0	\$ 1.6
Amortization of Master Catalog costs . . . . .	\$0.5	\$ 0.3	\$ 0.4
Deferred tax valuation allowance provisions . . . . .	\$ —	\$ 0.1	\$ 1.1

**Changes in Estimates:** In the ordinary course of accounting for items discussed above, Transcat makes changes in estimates as appropriate, and as the Company becomes aware of circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements.

**Fiscal Year:** Until April 1, 2003, Transcat operated within a conventional 52-week accounting fiscal year ending on March 31 of each year. As of April 1, 2003, the Company changed the fiscal year end from March 31 to a 52/53 week fiscal year end, ending the last Saturday in March. As a result of this change, in a 52-week fiscal year, each of the Company’s four quarters is a 13-week period, and the final month of each quarter is a 5-week period. This is not deemed a change in the Company’s fiscal year for purposes of reporting subject to Rule 13a-10 or 15d-10, as promulgated by the SEC, since the new fiscal year commenced with the end of the old fiscal year. Transcat estimated the fiscal year end change from March 31, 2004 to March 27, 2004 had an immaterial effect on the Consolidated Financial Statements when compared to the Consolidated Financial Statements for fiscal year 2003.

**Revenue Recognition:** Sales are recorded when products are shipped or services are rendered to customers, as the Company generally has no significant post delivery obligations. Prices are fixed and determinable, collection of the resulting receivable is probable, and returns are reasonably estimated. Provisions

## TRANSCAT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

for customer returns are provided for in the period the related sales are recorded based upon historical data. The Company recognizes the majority of service revenue based upon when the calibration or repair activity is performed then shipped and/or delivered to the customer. Some of the service revenue is generated from managing customers' calibration programs in which the Company recognizes revenue in equal amounts at fixed intervals. Shipments are generally free on board shipping point and customers are generally invoiced for freight, shipping, and handling charges.

**Shipping and Handling Costs:** Freight expense and direct shipping costs are included in cost of sales. These costs were approximately \$1.3 million, \$1.2 million, and \$1.7 million for fiscal years 2005, 2004, and 2003, respectively. Direct handling costs, which primarily represent direct compensation of employees who pick, pack, and otherwise prepare, if necessary, merchandise for shipment to customers are reflected in selling, marketing, and warehouse expenses. These costs were approximately \$0.3 million for fiscal years 2005 and 2004 and \$0.2 million for fiscal year 2003.

**Rebates:** Rebates are based on a specified cumulative level of purchases and are recorded as a reduction of cost of sales as the milestone is achieved.

**Cooperative Advertising Income:** Effective in fiscal year 2004, Transcat applied the provisions of the Emerging Issues Task Force ("EITF") Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor" which provides that cash consideration received from a vendor by a reseller be reported as a reduction of cost of sales as the related inventory is sold. Prior to the Company's adoption of EITF No. 02-16 and consistent with the Company's historical accounting practices, the Company reported cooperating advertising income as a reduction of advertising expense. The Company reclassified cooperative advertising income in fiscal year 2003 to conform with fiscal years 2004 and 2005.

**Comprehensive Income:** Transcat reports comprehensive income under Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income". Other comprehensive income is comprised of net income (loss) and currency translation adjustments.

**Currency Translation Adjustment:** The accounts of Transcat's Canadian subsidiary are maintained in the local currency and have been translated to United States dollars in accordance with SFAS No. 52, "Foreign Currency Translation". Accordingly, the amounts representing assets and liabilities, except for long-term intercompany and equity, have been translated at the period-end rates of exchange and related revenue and expense accounts have been translated at average rates of exchange during the period. Gains and losses arising from translation of the Company's subsidiary balance sheets into United States dollars are recorded directly to the accumulated comprehensive income component of stockholders' equity.

Currency gains and losses on business transactions are included in other expense (income) on the Consolidated Statements of Operations. The net loss in fiscal year 2005 was \$0.1 million. The net gain in fiscal year 2004 was \$0.2 million. The currency gains and losses in fiscal year 2003 were not significant.

**Earnings per Share:** Basic earnings per share of Common Stock are computed based on the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings per share of Common Stock reflect the assumed conversion of dilutive stock options, warrants, and non-vested restricted stock awards. In computing the per share effect of assumed conversion, funds which would have been received from the exercise of options, warrants, and non-vested restricted stock are considered to have been used to purchase shares of Common Stock at the average market prices during the period, and the resulting net additional shares of Common Stock are included in the calculation of average shares of Common Stock outstanding.

For fiscal year 2005, the net additional Common Stock equivalents had no effect on the calculation of dilutive earnings per share. For fiscal year 2004, the net additional Common Stock equivalents had a \$0.01 per share effect on the calculation of dilutive earnings per share. For fiscal year 2003, the net additional Common Stock equivalents had no effect on the calculation of dilutive earnings per share. The total number of dilutive and

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

anti-dilutive Common Stock equivalents resulting from stock options, warrants, and non-vested restricted stock are summarized as follows (shares in thousands, except per share amounts):

	For the Years Ended		
	March 26, 2005	March 27, 2004	March 31, 2003
Shares Outstanding:			
Dilutive .....	570	556	—
Anti-dilutive .....	683	978	1,522
Total .....	1,253	1,534	1,522
Range of Exercise Prices per Share:			
Options .....	\$0.80-\$2.92	\$0.80-\$3.00	\$0.80-\$8.50
Warrants .....	\$0.97-\$2.91	\$0.97-\$3.06	\$0.97-\$3.75

**Accounts Receivable:** Accounts receivable represent receivables 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. Transcat applies a specific formula to accounts receivable aging, which may be adjusted on a specific account basis where the specific 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 sales over a specific timeframe. The returns reserve will increase or decrease as a result of changes in the level of sales and/or the historical rate of returns.

**Inventories:** Inventories consist of finished goods and are valued at the lower of cost or market. Costs are determined using the average cost method of inventory valuation. Inventories are reduced by a reserve for items not saleable at or above standard cost. Transcat reserves specifically for certain items of inventory and, for other items, the Company applies a specific loss factor, based on historical experience, to specific categories of inventory. The Company evaluates the adequacy of the reserve on a regular basis.

**Properties, Depreciation, and Amortization:** Properties are stated at cost. Depreciation and amortization is computed primarily under the straight-line method with useful lives of 3 to 10 years for the following major classifications: machinery, equipment, software, and furniture and fixtures. Properties determined to have no value are written off at their then remaining net book value. Transcat accounts for software costs in accordance with Statement of Position (“FSP”) No. 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use”. Leasehold improvements are amortized under the straight-line method over the estimated useful life or the lease term, whichever is shorter. Maintenance and repairs are expensed as incurred. See Note 2 of the Consolidated Financial Statements for further disclosure.

**Goodwill:** Transcat estimates the fair value of the Company’s reporting units in accordance with SFAS No. 142, “Goodwill and Other Tangible Assets”, using the fair market value measurement requirement, rather than the undiscounted cash flows approach. See Note 3 of the Consolidated Financial Statements for further disclosure.

**Deferred Catalog Costs:** Transcat amortizes the cost of each Master Catalog mailed over such catalog’s estimated productive life. The Company reviews response results from catalog mailings on a continuous basis; and if warranted, modify the period over which costs are recognized. The Company amortizes the cost of each Master Catalog over an eighteen month period and amortizes the cost of each catalog supplement over a three month period. Total deferred catalog costs in prepaid expenses and deferred charges on the Consolidated Balance Sheets were \$0.4 million at March 26, 2005 and March 27, 2004.

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Deferred Compensation:** Previously, some of Transcat’s directors had elected to defer receipt of their non-discretionary awards of shares of Common Stock under the Amended and Restated Directors’ Stock Plan. Deferred shares were expensed at the market value of Common Stock at the date of award, and the associated liability is adjusted quarterly based on the quarter end market price of Common Stock. Directors voluntarily elected to cease deferring shares effective as of April 1, 2003. The fair market value of those deferred shares was \$0.1 million at March 26, 2005 and March 27, 2004.

In addition, the Company provides an annual benefit to a former president’s spouse and former executive under the terms of a deferred compensation agreement. The deferred compensation was less than \$0.1 million at March 26, 2005 and \$0.1 million at March 27, 2004.

**Deferred Gain on TPG:** As a result of certain post divestiture commitments, Transcat was unable to recognize the gain of \$1.5 million on the divestiture of Transmation Products Group (“TPG”), which took place in fiscal year 2002, until those commitments expire in fiscal year 2007. See Note 9 of the Consolidated Financial Statements for further disclosure.

**Deferred Taxes:** Transcat accounts for certain income and expense items differently for financial reporting purposes than for income tax reporting purposes. Deferred taxes are provided in recognition of these temporary differences. A valuation allowance on deferred tax assets is provided for items for which it is more likely than not that the benefit of such items will not be realized, in accordance with the provisions of SFAS No. 109, “Accounting for Income Taxes”. SFAS No. 109 requires an assessment of both positive and negative evidence when measuring the need for a deferred tax valuation allowance. See Note 5 of the Consolidated Financial Statements for further disclosure.

**Fair Value of Financial Instruments:** Transcat has determined the fair value of debt and other financial instruments using available market information and appropriate valuation methodologies as follows:

- Cash, Accounts Receivables, and Accounts Payables: The carrying amounts reported on the Consolidated Balance Sheets for cash, accounts receivables, and accounts payables approximate fair value, due to their short-term nature.
- Debt: The carrying amount of debt under the Credit Agreement approximates fair value due to variable interest rate pricing.

**Stock Options:** Transcat follows the provisions of Accounting Practice Board (“APB”) No. 25, “Accounting for Stock Issued to Employees”, which does not require compensation costs related to stock options to be recorded in net income, as all options granted under the stock option plan had exercise prices equal to the market value of the underlying Common Stock at grant date.

To calculate the fair value of the options awarded, the Company elected to use the Black-Scholes option-pricing model (“Pricing Model”), which produced a weighted average fair value of options granted of:

	<b>FY 2005</b>	<b>FY 2004</b>	<b>FY 2003</b>
Weighted average fair value of options awarded . . . . .	\$2.38	\$1.92	\$0.61

The following assumptions were used in the Pricing Model:

	<b>FY 2005</b>	<b>FY 2004</b>	<b>FY 2003</b>
Weighted average fair value of value of options life . . . . .	10 years	10 years	5 years
Annualized volatility rate . . . . .	76.9%	77.2%	92.7%
Weighted average risk-free rate of return . . . . .	4.2%	4.2%	4.4%
Dividend Rate . . . . .	0.0%	0.0%	0.0%

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company elected to account for terminations when they occur rather than include an attrition factor into the model.

Pro forma amounts are as follows (in thousands, except per share amounts):

	<u>For the Years Ended</u>		
	<u>March 26, 2005</u>	<u>March 27, 2004</u>	<u>March 31, 2003</u>
Net Income (Loss), as reported . . . . .	\$ 256	\$ 353	\$(4,715)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects . . . . .	232	99	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects . . . . .	<u>(456)</u>	<u>(341)</u>	<u>(205)</u>
Pro Forma Net Income (Loss) . . . . .	<u>\$ 32</u>	<u>\$ 111</u>	<u>\$(4,920)</u>
<b>Earnings (Loss) Per Share:</b>			
Basic — as reported . . . . .	\$ 0.04	\$ 0.06	\$ (0.76)
Basic — pro forma . . . . .	\$ 0.01	\$ 0.02	\$ (0.80)
Average Shares Outstanding (in thousands) . . . . .	6,396	6,252	6,147
Diluted — as reported . . . . .	\$ 0.04	\$ 0.05	\$ (0.76)
Diluted — pro forma . . . . .	\$ —	\$ 0.02	\$ (0.80)
Average Shares Outstanding (in thousands) . . . . .	6,966	6,808	6,147

The effect of applying the SFAS No. 123, “Accounting for Stock-Based Compensation” pro forma disclosure provisions in the current year is not representative of the effect on income for future years since each subsequent year will reflect expense for additional vesting, additional stock option grants, and updated assumptions.

See Note 7 of the Consolidated Financial Statements for further disclosure.

**Reclassification of Amounts:** Certain reclassifications of prior fiscal years’ financial information have been made to conform with current fiscal years’ presentation.

**New Accounting Pronouncements:**

**FSP 109-2:** In October 2004, the Financial Accounting Standards Board (the “FASB”) issued FSP No. 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004”. FSP No. 109-2 provides guidance under SFAS 109, with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the “Jobs Act”) on enterprises’ income tax expense and deferred tax liability. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. FSP 109-2 has no effect on the Company’s consolidated financial statements.

**SFAS 151:** In November 2004, the FASB issued SFAS No. 151, “Inventory Costs — an amendment of ARB No. 43”. This Statement amends the guidance in ARB No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that “. . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . .” This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal.” This Statement is the result of a broader

## TRANSCAT, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board toward development of a single set of high-quality accounting standards. This clarification has no effect on the Company's consolidated financial statements.

**SFAS 123R:** On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". SFAS 123R replaces SFAS 123 and supersedes APB No. 25. SFAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, SFAS 123 permitted entities the option of continuing to apply the guidance in APB No. 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. SFAS 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS 123R requires the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions.

The Securities and Exchange Commission amended the effective date of SFAS 123R with a new rule issued on April 14, 2005 to amend the compliance date for SFAS 123R that allows companies to implement SFAS 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005, although early adoption is allowed. SFAS 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but also permits entities to restate financial statements of previous periods based on proforma disclosures made in accordance with SFAS 123.

The Company currently expects to adopt SFAS 123R effective March 26, 2006; however, the Company has not yet determined which of the aforementioned adoption methods it will use. The Company has not changed any of the stock compensation plans as a result of the impending adoption of SFAS 123R but maintains the right to amend, suspend or terminate any plan at any time.

**SFAS 153:** On December 16, 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* ("SFAS 153"). The amendments made by SFAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company currently expects to adopt SFAS 153 effective on July 1, 2005 and does not expect that the adoption will have an effect on its consolidated financial statements.

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 2 — Properties**

Properties consist of (in thousands):

	<b>March 26, 2005</b>	<b>March 27, 2004</b>
Machinery, Equipment, and Software . . . . .	\$10,158	\$ 9,256
Furniture and Fixtures . . . . .	1,172	1,170
Leasehold Improvements . . . . .	326	325
Total Properties . . . . .	\$11,656	\$10,751
Less: Accumulated Depreciation and Amortization . . . . .	(9,672)	(8,726)
Total Properties, net . . . . .	<u>\$ 1,984</u>	<u>\$ 2,025</u>

Capital Leases consist of (in thousands):

	<b>March 26, 2005</b>	<b>March 27, 2004</b>
Capital Leases . . . . .	\$195	\$195
Less: Accumulated Amortization . . . . .	(80)	(14)
Total Capital Leases, net . . . . .	<u>\$115</u>	<u>\$181</u>

Total depreciation and amortization expense amounted to \$1.0 million, \$1.0 million, and \$1.6 million in fiscal years 2005, 2004, and 2003, respectively.

**Note 3 — Goodwill**

The Company tests goodwill for impairment on an annual basis, or immediately if conditions indicate that such impairment could exist. In the first quarter of fiscal year 2003, the Company recorded an impairment from the implementation of SFAS No. 142 as a \$6.5 million change in accounting principle based upon the Company's determination of the fair market value of the reporting units. The evaluation of the Company's reporting units on a fair value basis indicated that no additional impairment existed as of March 26, 2005, March 27, 2004, and March 31, 2003.

**Note 4 — Debt**

**Description.** On November 13, 2002, Transcat entered into a Revolving Credit and Loan Agreement (the "Credit Agreement") with GMAC Business Credit, LCC ("GMAC"). The Credit Agreement consisted of a term loan, a revolving line of credit ("LOC"), and certain material terms of which are as set forth below.

The Credit Agreement was amended on April 11, 2003 to address certain non-material post closing conditions.

The Credit Agreement was further amended on July 22, 2004 ("Second Amendment") to waive compliance with an EBITDA (earnings before interest, income taxes, depreciation and amortization) covenant for the first quarter of fiscal year 2005, permanently waive a requirement relating to an inactive subsidiary that the Company had committed to dissolve by a specific date (that has been subsequently dissolved), and increase the Credit Agreement restriction on Master Catalog spending.

Transcat amended the Credit Agreement again on November 1, 2004 ("Third Amendment"). The Third Amendment consists of two term notes, a LOC, a capital expenditure loan if certain conditions are met, and certain material terms of which are as set forth below. The Third Amendment also waived compliance with the Company's EBITDA (earnings before interest, income taxes, depreciation and amortization) covenant for the

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

second quarter of fiscal year 2005 and extended the Credit Agreement expiration from November 13, 2005 to October 31, 2007.

**Term Loans.** As of March 27, 2004, Transcat had a term loan balance in the amount of \$0.7 million in favor of GMAC. This term loan required annual payments totaling \$0.5 million, payable in equal monthly installments, commencing on December 1, 2002, and was repaid in full on November 1, 2004.

Under the Third Amendment, the Company made two term loans, Term Loan A and Term Loan B, in the amounts of \$1.5 million and \$0.5 million, respectively. These term notes require annual payments of \$0.5 million and \$0.2 million, respectively, payable over three years in equal monthly installments, commencing on December 1, 2004. As of March 26, 2005, the Third Amendment requires the Company to make the following principal payments on combined term loans, before giving effect to any excess cash flow payments to be made (in thousands):

	<b>Before Giving Effect to Excess Cash Flow Payments</b>		
	<b>Term Loan A</b>	<b>Term Loan B</b>	<b>Total</b>
Fiscal Year 2006 .....	\$ 500	\$167	\$ 667
Fiscal Year 2007 .....	500	167	667
Fiscal Year 2008 .....	333	111	444
Total .....	\$1,333	\$445	\$1,778

The Company is further required to reduce the term loans on an annual basis by a percentage of excess cash flow, as defined in the Third Amendment. Term Loan B will be reduced by the lesser of the balance owed on Term Loan B or 50% of the Company's excess cash flow payable in three monthly installments. Once Term Loan B has been repaid, the excess cash flow payment required against Term Loan A is 20% of the Company's excess cash flow, not to exceed \$0.2 million, annually. After giving effect to the excess cash flow payments to be made attributable to excess cash flow for fiscal year 2005 as required under the Third Amendment, the following are the future combined term loan payments as of March 26, 2005 (in thousands):

	<b>After Giving Effect to Excess Cash Flow Payments</b>		
	<b>Term Loan A</b>	<b>Term Loan B</b>	<b>Total</b>
Fiscal Year 2006 .....	\$ 500	\$258	\$ 758
Fiscal Year 2007 .....	500	167	667
Fiscal Year 2008 .....	333	20	353
Total .....	\$1,333	\$445	\$1,778

**LOC.** Under the Third Amendment, the maximum amount available under the LOC portion is \$9.0 million. As of March 26, 2005, the Company was eligible to borrow up to \$9.0 million based on assets and borrowed \$5.5 million. Availability under the LOC is determined by a formula based on eligible accounts receivable (85%) and inventory (50%).

The Credit Agreement requires both a subjective acceleration clause and a requirement to maintain a lock-box arrangement. These requirements resulted in a short-term classification of the LOC in accordance with EITF No. 95-22, "Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement."

**Interest.** Under the Third Amendment, interest on the term loans and LOC is fixed at Tier 2 (see chart below) through March 2005. The prime rate and the 30-day London Interbank Offered Rate ("LIBOR") as of March 26, 2005 were 5.75% and 2.86%, respectively. Interest on the term loans and LOC after March 2005, is

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

adjusted on a quarterly basis based upon the Company's calculated Fixed Charge Coverage Ratio, as defined in the Third Amendment, as follows:

<u>Tier</u>	<u>Fixed Charge Coverage Ratio</u>	<u>Term Loan A</u>	<u>Term Loan B</u>	<u>LOC</u>
1	1.249 or less	(a) Prime Rate plus .50% or (b) LIBOR plus 3.25%	Prime Rate plus .75%	(a) Prime Rate plus 0% or (b) LIBOR plus 2.75%
2	1.25 to 1.49	(a) Prime Rate plus .25% or (b) LIBOR plus 3.00%	Prime Rate plus .50%	(a) Prime Rate plus 0% or (b) LIBOR plus 2.50%
3	1.50 or greater	(a) Prime Rate plus 0% or (b) LIBOR plus 2.75%	Prime Rate plus .25%	(a) Prime Rate plus 0% or (b) LIBOR plus 2.25%

**Covenants.** The Credit Agreement has certain covenants with which the Company has to comply, including a minimum EBITDA covenant, as well as restrictions on capital expenditures and Master Catalog spending. The Third Amendment includes a revised EBITDA covenant, a fixed charge coverage ratio covenant, as well as, revised restrictions on capital expenditures and Master Catalog spending. As previously indicated, the Third Amendment waived compliance with the Company's EBITDA covenant for the second quarter of fiscal year 2005. The Company was in compliance with all loan covenants and requirements for the fourth quarter of fiscal year 2005.

**Loan Costs.** In accordance with EITF 98-14, "Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements," any fees paid to GMAC, third party costs associated with the LOC of the Third Amendment, and unamortized costs remaining under the Credit Agreement, are amortized over the term of the Third Amendment.

**Other Terms.** The Credit Agreement requires an increase in the Company's borrowing rate of two percentage points should an event of default occur and a termination premium of 1% of the maximum available borrowing under the revolving line of credit plus the then outstanding balance owed under the term note if the Credit Agreement was terminated after November 13, 2003 and prior to November 13, 2005. Under the Third Amendment, if the agreement is terminated prior to its expiration date of October 31, 2007, a termination premium of 2% in year one, 1% in year two, and 0.5% in the third year of the advance limit, as defined in the agreement, will be incurred. The Third Amendment also reduced other certain recurring loan costs and fees.

Additionally, the Company has pledged certain property and fixtures in favor of GMAC, including inventory, equipment, and accounts receivable as collateral security for the loans made under the Credit Agreement.

The Third Amendment also provides for a capital expenditure loan ("Cap-x Loan"). If prior to September 30, 2005, the Company has achieved an EBITDA, as defined in the agreement, of \$2.4 million on a trailing twelve months basis, the Company may make a Cap-x Loan of up to \$1.0 million for qualifying capital expenditures. As of March 26, 2005, the Company has made this milestone, but has not borrowed any additional monies. The Cap-x Loan would be payable in equal monthly payments over a 36 month period with any residual balance resulting in a balloon payment at October 31, 2007. Interest is adjusted on a quarterly basis based upon the Company's calculated Fixed Charge Coverage Ratio with the same terms as Term Loan A (see chart above).

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 5 — Income Taxes**

Transcat's net income (loss) before income taxes and cumulative effect of a change in accounting principle on the Consolidated Statement of Operations is as follows (in thousands):

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
United States .....	\$272	\$ 292	\$1,524
Foreign .....	(16)	(131)	(175)
Total .....	<u>\$256</u>	<u>\$ 161</u>	<u>\$1,349</u>

The provisions for income taxes determined in accordance with SFAS No. 109 for fiscal years 2004, 2003, and 2002 are comprised of (in thousands):

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Federal .....	\$—	\$(205)	\$(418)
State .....	—	13	10
Total .....	<u>\$—</u>	<u>\$(192)</u>	<u>\$(408)</u>

The following table is a reconciliation of the "expected" federal income tax provision computed by applying the statutory United States federal income tax rate and the income tax provision reflected in the Consolidated Statements of Operations. The reconciliation does not include the \$6.5 million goodwill impairment charge from the implementation of SFAS No. 142 in fiscal year 2003. The \$6.5 million charge created a deferred tax asset of \$2.2 million, which is fully reserved for in the net deferred tax assets valuation allowance.

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Computed "Expected" Federal Income Tax .....	\$ 92	\$ 55	\$ 459
State Income Taxes .....	11	19	54
Book Expenses Not Deductible for Taxes .....	14	35	24
Valuation Allowance .....	9	65	(1,320)
Foreign Credits, Deductions, and Dividends .....	—	(213)	274
Other, net .....	(126)	(153)	101
Total .....	<u>\$ —</u>	<u>\$(192)</u>	<u>\$ (408)</u>

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The components of the net deferred tax assets are as follows:

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Deferred Tax Assets:			
Net Operating Loss Carryforward (1).....	\$ 714	\$ 484	\$ —
Reserves for Inventory Obsolescence .....	32	67	150
Gain on Sale of Business .....	587	587	587
Goodwill .....	1,561	1,921	2,282
Foreign Tax Credit (expires March 2008) .....	757	810	724
Other .....	537	477	426
Valuation Allowance(2) .....	<u>(3,802)</u>	<u>(3,793)</u>	<u>(3,728)</u>
Total Deferred Tax Assets .....	<u>\$ 386</u>	<u>\$ 553</u>	<u>\$ 441</u>
Deferred Tax Liabilities:			
Depreciation .....	\$ 363	\$ 514	\$ 409
Accelerated Catalog and Postage Write-offs .....	19	39	32
Other .....	<u>4</u>	<u>—</u>	<u>—</u>
Total Deferred Tax Liabilities .....	<u>\$ 386</u>	<u>\$ 553</u>	<u>\$ 441</u>
Net Deferred Tax Assets .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

(1) As of March 26, 2005, Transcat has net operating loss carryforwards of \$1.8 million, which is available to offset future federal taxable income through March 2025.

(2) Deferred taxes recognize the impact of temporary differences between the amounts of assets and liabilities recorded for financial statement purposes and such amounts measured in accordance with tax laws. In general, each deferred tax asset is reviewed for expected utilization, using a “more likely than not” approach, based on the character of the item (credit, loss, etc.), the relevant history for the particular item, the applicable expiration dates, operating projects that would impact utilization, and identified actions under the control of the Company in realizing the associated benefits. Additionally, the Company’s utilization of U.S. foreign tax credit carryforwards is dependent on related statutory limitations that involve numerous factors beyond overall positive income, all of which have been taken into account by the company in its evaluation. The Company assesses the available positive and negative evidence surrounding the recoverability of the deferred tax assets and applies its judgment in estimating the amount of valuation allowance necessary under the circumstances. For the years ended March 26, 2005, March 27, 2004, and March 31, 2003 the Company has determined that it is more likely than not that the benefits associated with the net deferred tax assets will not be realized. Accordingly, the Company has booked a full valuation allowance against its net deferred tax assets. The Company will continue to assess all available evidence, both positive and negative, to determine whether it is more likely than not that some portion or all of the deferred tax assets will be realized.

Deferred U.S. income taxes have not been recorded for basis differences related to the investments in the Company’s foreign subsidiary. These basis differences were approximately \$1.7 million at March 26, 2005 and consisted primarily of undistributed earnings. These earnings are considered permanently invested in the businesses. Determination of the deferred income tax liability on these unremitted earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

**Note 6 — Defined Contribution Plan**

All of Transcat’s United States employees are eligible to participate in a plan providing certain qualifications are met. Effective April 1, 1981, the Deferred Profit Sharing Plan was adopted. Effective April 1, 1987, this plan

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

was amended from a non-contributory to a contributory defined contribution plan and renamed the Long-Term Savings and Deferred Profit Sharing Plan (“Plan”).

In the Long-Term Savings portion of the Plan (“401K”), payments of benefits accrued for plan participants are made upon retirement or upon termination of employment prior to retirement providing certain conditions have been met by the employee prior to termination. The Company’s matching contributions to the 401K were \$0.2 million in each of the fiscal years 2005, 2004, and 2003.

In the Deferred Profit Sharing portion of the Plan, employer contributions are made at the discretion of the Board of Directors. The Company made no profit sharing contributions in fiscal years 2005, 2004, and 2003.

**Note 7 — Stock-Based Compensation**

**Stock Options:** In June 2003, the Company adopted the Transcat, Inc. 2003 Incentive Plan (“2003 Plan”) which replaced the Transcat, Inc. Amended and Restated 1993 Stock Option Plan (“1993 Plan”). The approximately 918,000 shares that were outstanding as of the termination of the 1993 Plan were reserved under the 2003 Plan. The 2003 Plan grants options to officers and key employees to purchase Common Stock at no less than the fair market value at the date of grant. Options generally vest over a period up to four years and expire up to ten years from the date of grant. The following table summarizes the Company’s options for fiscal years 2005, 2004, and 2003 (shares in thousands):

	FY 2005		FY 2004		FY 2003	
	Number of Shares	Weighted Average Price	Number of Shares	Weighted Average Price	Number of Shares	Weighted Average Price
Beginning of Year . . . . .	875	\$1.73	918	\$1.87	889	\$2.85
Add (Deduct):						
Granted . . . . .	86	2.89	147	2.32	502	1.03
Exercised . . . . .	(214)	2.40	(11)	1.05	—	—
Cancelled . . . . .	(59)	1.97	(179)	2.95	(473)	3.85
End of Year . . . . .	<u>688</u>	1.65	<u>875</u>	1.73	<u>918</u>	1.87
Exercisable, End of Year . . . . .	315	\$1.51	114	\$1.24	106	\$3.85
Available for Grant, End of Year . .	867		943		699	

In the third quarter of fiscal year 2005, the Company acquired treasury stock from a cashless stock option exercise, in which, a Board of Director immediately used shares acquired, by exercising a portion of an option, to exercise the remaining shares under the same option. As a result, the Company recognized \$0.1 million in compensation expense from the difference in the market value and exercise value of the immature shares in accordance with APB No. 25. This transaction resulted in an increase to Common Stock of 0.1 million shares, \$0.1 million, an increase to Capital in Excess of Par Value of \$0.5 million, and an increase in Treasury Stock of 0.1 million shares, and \$0.4 million.

The following table presents options outstanding or exercisable as of March 26, 2005 (shares in thousands, except per share amounts):

	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price per Share	Number of Shares	Weighted Average Exercise Price per Share
Range of Exercise Prices:					
\$0.80-\$1.94 . . . . .	399	2.1	\$1.04	203	\$1.06
\$2.00-\$3.00 . . . . .	<u>289</u>	6.7	\$2.49	<u>112</u>	\$2.33
Total . . . . .	<u>688</u>	4.0	\$1.65	<u>315</u>	\$1.51

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Warrants:** Under the Directors' Warrant Plan, as amended, warrants may be granted to non-employee directors to purchase Common Stock at the fair market value at the date of grant. Warrants generally vest over a period of four years and expire in five years from the date of grant. The following table summarizes warrants for fiscal years 2005, 2004, and 2003:

	<u>Number of Shares</u>	<u>Exercise Price Per Share</u>
Balance, March 31, 2002 .....	88,000	\$2.00-\$7.89
Granted .....	28,000	\$0.97
Cancelled and Expired .....	<u>(12,000)</u>	\$2.00-\$3.06
Balance, March 31, 2003 .....	104,000	\$0.97-\$3.75
Granted .....	32,000	\$2.31
Cancelled and Expired .....	<u>(12,000)</u>	\$3.75
Balance, March 27, 2004 .....	124,000	\$0.97-\$3.06
Granted .....	32,000	\$2.83
Cancelled and Expired .....	<u>(16,000)</u>	\$3.06
Balance, March 26, 2005 .....	<u>140,000</u>	\$0.97-\$2.91

The Company granted warrants to purchase 500,000 shares of Common Stock on November 13, 2002 to the Company's previous lenders, Key Bank, N.A. and Citizens Bank, in accordance with a Termination Agreement for refinancing the debt with GMAC. See Note 4 above for further disclosure regarding debt. 100,000 shares expired in the third quarter of fiscal year 2005. The following table summarizes warrants from the Termination Agreement that were originally granted and are outstanding as of March 26, 2005 (shares and dollars in thousands):

<u>As of 11/13/02</u>			<u>As of 3/26/05</u>	
<u>Number of Shares Outstanding</u>	<u>Pricing Model Valuation</u>	<u>Expiration Date</u>	<u>Number of Shares Outstanding</u>	<u>Pricing Model Valuation</u>
100	\$ 88	11/13/2004	—	\$ —
100	101	11/13/2005	100	101
<u>300</u>	<u>329</u>	11/13/2007	<u>300</u>	<u>329</u>
<u>500</u>	<u>\$518</u>		<u>400</u>	<u>\$430</u>

**Restricted Stock:** The 2003 Plan also allows the Company to grant stock awards. The stock awards granted vest over a period of one year. The following table summarizes stock awards for fiscal years 2005, 2004, and 2003:

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Awards Granted .....	50	70	—
Administrative Expenses, based on fair market value .....	\$278	\$109	\$—

Unearned compensation was less than \$0.1 million at March 26, 2005 and March 27, 2004.

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 8 — Segment and Geographic Data**

Transcat has two reportable segments: Distribution Products (“Product”) and Calibration Services (“Service”). The accounting policies of the reportable segments are the same as those described above in Note 1 of the Consolidated Financial Statements. The Company has no inter-segment sales. The following table presents segment and geographic data for fiscal years 2005, 2004, and 2003:

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Net Sales:			
Product .....	\$37,086	\$35,423	\$38,359
Service .....	<u>18,221</u>	<u>17,894</u>	<u>18,813</u>
Total .....	<u>55,307</u>	<u>53,317</u>	<u>57,172</u>
Gross Profit:			
Product .....	8,779	8,475	10,326
Service .....	<u>5,113</u>	<u>4,923</u>	<u>2,993</u>
Total .....	<u>13,892</u>	<u>13,398</u>	<u>13,319</u>
Operating Expenses:			
Product (1) .....	8,090	7,326	7,378
Service (1) .....	<u>4,903</u>	<u>5,765</u>	<u>5,472</u>
Total .....	<u>12,993</u>	<u>13,091</u>	<u>12,850</u>
Operating Income .....	<u>899</u>	<u>307</u>	<u>469</u>
Unallocated Amounts:			
Other Expense (Income) .....	643	146	(880)
Benefit for Income Taxes .....	—	(192)	(408)
Cumulative Effect of a Change in Accounting Principle .....	—	—	<u>6,472</u>
Total .....	<u>643</u>	<u>(46)</u>	<u>5,184</u>
Net Income (Loss) .....	<u>\$ 256</u>	<u>\$ 353</u>	<u>\$ (4,715)</u>
Total Assets (2):			
Product .....	\$12,690	\$10,441	\$ 9,753
Service .....	6,223	6,084	5,356
Unallocated .....	<u>1,199</u>	<u>1,860</u>	<u>1,650</u>
Total .....	<u>\$20,112</u>	<u>\$18,385</u>	<u>\$16,759</u>
Depreciation and Amortization:			
Product .....	\$ 634	\$ 296	\$ 633
Service .....	636	691	1,414
Unallocated .....	<u>216</u>	<u>\$ 312</u>	<u>—</u>
Total .....	<u>\$ 1,486</u>	<u>\$ 1,299</u>	<u>\$ 2,047</u>

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	<u>FY 2005</u>	<u>FY 2004</u>	<u>FY 2003</u>
Capital Expenditures:			
Product .....	\$ —	\$ —	\$ 22
Service .....	728	258	269
Unallocated .....	<u>138</u>	<u>201</u>	<u>—</u>
Total .....	<u>\$ 866</u>	<u>\$ 459</u>	<u>\$ 291</u>
Geographic Data:			
Net Sales to Unaffiliated Customers (3):			
United States .....	\$50,170	\$48,309	\$52,035
Canada .....	<u>5,137</u>	<u>5,008</u>	<u>5,146</u>
Total .....	<u>\$55,307</u>	<u>\$53,317</u>	<u>\$57,181</u>
Long-Lived Assets(4):			
United States .....	\$ 1,759	\$ 1,784	\$ 2,075
Canada .....	<u>340</u>	<u>422</u>	<u>481</u>
Total .....	<u>\$ 2,099</u>	<u>\$ 2,206</u>	<u>\$ 2,556</u>

- 
- (1) Operating expense allocations between segments were based on actual amounts, a percentage of sales, headcount, and management's estimates.
  - (2) Goodwill of \$2.5 million for fiscal years 2005, 2004, and 2003 was allocated based on the percentage of segment revenue acquired, 60% product and 40% service.
  - (3) Net sales are attributed to the countries based on the location of the subsidiary making the sale.
  - (4) Long-lived assets consist of property, plant, and equipment and capital leases and are entirely allocated to the United States with the exception of Canadian fixed assets.

Certain reclassifications of prior fiscal years' financial information have been made to conform with current fiscal years' presentation.

**Note 9 — Commitments**

**Leases:** Transcat leases facilities, equipment, and vehicles under non-cancelable operating leases. Total rental expense for fiscal years 2005, 2004, and 2003 was approximately \$0.9 million, \$0.9 million, and \$1.0 million, respectively. The Company leases certain computer equipment under non-cancelable capital leases. Capital lease expenses for fiscal years 2005 and 2004 were less than \$0.1 million in each year. The Company has

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

no capital lease obligations for fiscal year 2003. The minimum future annual rental payments under the non-cancelable leases at March 26, 2005 are as follows (in millions):

<u>Fiscal Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2006.....	\$0.1	\$0.8
2007.....	0.1	0.6
2008.....	—	0.4
2009.....	—	0.3
2010.....	—	—
Thereafter .....	<u>—</u>	<u>—</u>
Total minimum lease payments .....	0.2	<u>\$2.1</u>
Less: Amount representing interest .....	<u>—</u>	
Present value of net minimum lease payments .....	<u>\$0.2</u>	

**Unconditional Purchase Obligation:** In fiscal year 2002, the Company entered into a distribution agreement (the “Distribution Agreement”) with Fluke Electronics Corporation (“Fluke”) to be the exclusive worldwide distributor of TPG products until December 31, 2006. Under the Distribution Agreement, the Company also agreed to purchase a pre-determined amount of inventory from Fluke.

On October 31, 2002, with an effective date of September 1, 2002, the Company entered into a new distribution agreement (the “New Agreement”) with Fluke, which replaced the Distribution Agreement. The New Agreement ends on December 31, 2006. Under the terms of the New Agreement, among other items, the Company agreed to purchase a larger, pre-determined amount of inventory across a broader array of products and brands during each calendar year. The Company’s purchases for calendar years 2004 and 2003 exceeded the commitment under the New Agreement. The Company believes that this commitment to future purchases is consistent with Transcat’s business needs and plans.

**Note 10 — Litigation**

In May 2002, Transcat’s former Vice President of Finance sued the Company in New York State Supreme Court, Monroe County, alleging, among other items, that the Company breached the terms of his employment agreement with the Company when his employment was terminated. In November 2003, the Company settled the lawsuit for \$0.2 million in order to avoid ongoing litigation expenses. The \$0.2 million was reflected in the fiscal year 2004 Consolidated Statement of Operations as an administrative expense.

**Note 11 — MAC Escrow and Holdback**

On January 18, 2002, Transcat completed the sale of the Company’s Measurement and Controls (“MAC”) unit to Hughes Corporation for \$2.9 million and reported a lost of \$4.5 million on the sale. In accordance with the MAC divestiture, \$0.2 million was received upon completion of certain post-divestiture services that the Company substantially completed by March 31, 2003.

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 12 — Employee Termination Costs**

In accordance with the provisions of SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities”, the following table shows the amounts expensed and paid in fiscal years 2005, 2004, and 2003 for severance costs that were initially incurred and accrued in these years (in millions):

	<u>Balance at the Beginning of the Year</u>	<u>Accrued Costs</u>	<u>Actual Payments</u>	<u>Balance at the End of the Year</u>
Severance:				
FY 2005 .....	\$0.1	\$0.1	\$(0.2)	\$ —
FY 2004 .....	\$0.3	\$0.1	\$(0.3)	\$0.1
FY 2003 .....	\$ —	\$0.4	\$(0.1)	\$0.3

**Note 13 — Vendor Concentration**

Approximately 30% of Transcat’s product purchases on an annual basis are from Fluke, which is not believed to be inconsistent with Fluke’s share of the markets the Company services.

**TRANSCAT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 14 — Quarterly Data (Unaudited)**

The following table presents certain unaudited quarterly financial data for fiscal years 2005 and 2004 (in thousands, except per share amounts):

	<u>Net Sales</u>	<u>Gross Profit</u>	<u>Income (Loss) Before Cumulative Effect of a Change in Accounting Principle</u>	<u>Net Income (Loss)</u>	<u>Basic Earnings (Loss) Per Share</u>	<u>Diluted Earnings (Loss) Per Share</u>
FY 2005:						
Fourth Quarter . . . . .	\$15,557	\$ 4,339	\$ 504	\$ 504	\$ 0.08	\$ 0.07
Third Quarter . . . . .	14,040	3,518	272	272	0.04	0.04
Second Quarter . . . . .	12,488	2,909	(93)	(93)	(0.01)	(0.01)
First Quarter . . . . .	<u>13,222</u>	<u>3,126</u>	<u>(427)</u>	<u>(427)</u>	(0.07)	(0.07)
Total . . . . .	<u>\$55,307</u>	<u>\$13,892</u>	<u>\$ 256</u>	<u>\$ 256</u>	\$ 0.04	\$ 0.04
FY 2004:						
Fourth Quarter . . . . .	\$15,275	\$ 3,633	\$ 43	\$ 43	\$ 0.01	\$ 0.01
Third Quarter . . . . .	13,551	3,083	(220)	(220)	(0.03)	(0.03)
Second Quarter . . . . .	11,896	3,483	355	355	0.06	0.05
First Quarter . . . . .	<u>12,595</u>	<u>3,199</u>	<u>175</u>	<u>175</u>	0.03	0.03
Total . . . . .	<u>\$53,317</u>	<u>\$13,398</u>	<u>\$ 353</u>	<u>\$ 353</u>	\$ 0.06	\$ 0.05

Certain reclassifications of prior fiscal quarters' financial information have been made to conform with current fiscal quarters' presentation.

TRANSCAT, INC.

SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS  
(In Thousands)

	<u>Balance at the Beginning of the Year</u>	<u>Additions (Reductions) to Consolidated Statements of Operations</u>	<u>Additions (Reductions) to Consolidated Balance Sheets</u>	<u>Reductions due to Products Sold</u>	<u>Balance at the End of the Year</u>
Allowance for Doubtful Accounts:					
FY 2005 .....	\$ 51	\$ (64)	\$ 69	\$ —	\$ 56
FY 2004 .....	\$ 114	\$ —	\$ (63)	\$ —	\$ 51
FY 2003 .....	\$ 231	\$ —	\$(117)	\$ —	\$ 114
Reserve for Inventory Loss:					
FY 2005 .....	\$ 177	\$ 13	\$ —	\$ —	\$ 190
FY 2004 .....	\$ 395	\$ 20	\$ —	\$(238)	\$ 177
FY 2003 .....	\$1,030	\$ —	\$ —	\$(635)	\$ 395
Deferred Asset Valuation Allowance:					
FY 2005 .....	\$3,793	\$ 9	\$ —	\$ —	\$3,802
FY 2004 .....	\$3,728	\$ 65	\$ —	\$ —	\$3,793
FY 2003 .....	\$2,589	\$1,139	\$ —	\$ —	\$3,728

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) *Evaluation of Disclosure Controls and Procedures.* Our Chairman, President and Chief Executive Officer (our principal executive officer) and our Chief Operating Officer, Vice President of Finance and Chief Financial Officer (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 annual report. Based on this evaluation, our Chairman, President and Chief Executive Officer and our Chief Operating Officer, Vice President of Finance and Chief 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 annual report (our fourth fiscal quarter) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information required by this Item is hereby incorporated by reference to the information set forth under the caption “Executive Officers of the Registrant” in Part I of this Form 10-K and the information set forth under the captions “Election of Directors,” “Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance-Code of Ethics” in our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is hereby incorporated by reference to the information set forth under the caption “Executive Compensation” in our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item, with the exception of (d) below, is hereby incorporated by reference to the information set forth under the captions “Security Ownership of Certain Beneficial Owners” and “Security Ownership of Management” in our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A.

(d) Securities Authorized for Issuance Under Equity Compensation Plans as of March 26, 2005:

<b>Equity Compensation Plan Information</b>			
<b>(In Thousands, Except Per Share Amounts)</b>			
<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants, and non-vested restricted stock (a)</u>	<u>Weighted-average exercise price of outstanding options, warrants, and non-vested restricted stock (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</u>
Equity compensation plans approved by security holders .....	1,253	\$1.63	867
Equity compensation plans not approved by security holders .....	<u>—</u>	<u>\$ —</u>	<u>—</u>
Total .....	<u>1,253</u>	<u>\$1.63</u>	<u>867</u>

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this Item is hereby incorporated by reference to the information set forth under the caption “Certain Relationships and Related Transactions” in our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is hereby incorporated by reference to the information set forth under the caption “Ratification of Appointment of Independent Registered Public Accounting Firm” in our definitive 2005 Proxy Statement to be filed pursuant to Regulation 14A.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) See Index to Financial Statements included as Item 8 of this Form 10-K.
- (b) Exhibits.  
See Index to Exhibits beginning on page 62 of this Form 10-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: June 22, 2005

By:           /s/ CARL E. SASSANO            
Carl E. Sassano  
*Director, Chairman, President &  
Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Date</u>	<u>Signature</u>	<u>Title</u>
June 22, 2005	<u>          /s/ CARL E. SASSANO          </u> Carl E. Sassano	Director, Chairman, President & Chief Executive Officer (Principal Executive Officer)
June 22, 2005	<u>          /s/ CHARLES P. HADEED          </u> Charles P. Hadeed	COO, Vice President-Finance & CFO (Principal Financial Officer and Principal Accounting Officer)
June 22, 2005	<u>          /s/ FRANCIS R. BRADLEY          </u> Francis R. Bradley	Director
June 22, 2005	<u>          /s/ E. LEE GARELICK          </u> E. Lee Garelick	Director
June 22, 2005	<u>          /s/ RICHARD J. HARRISON          </u> Richard J. Harrison	Director
June 22, 2005	<u>          /s/ NANCY D. HESSLER          </u> Nancy D. Hessler	Director
June 22, 2005	<u>          /s/ ROBERT G. KLIMASEWSKI          </u> Robert G. Klimasewski	Director
June 22, 2005	<u>          /s/ PAUL D. MOORE          </u> Paul D. Moore	Director

<u>Date</u>	<u>Signature</u>	<u>Title</u>
June 22, 2005	<u>/s/ CORNELIUS J. MURPHY</u> Cornelius J. Murphy	Director
June 22, 2005	<u>/s/ HARVEY J. PALMER</u> Harvey J. Palmer	Director
June 22, 2005	<u>/s/ ALAN H. RESNICK</u> Alan H. Resnick	Director
June 22, 2005	<u>/s/ JOHN T. SMITH</u> John T. Smith	Director

## INDEX TO EXHIBITS

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession

Not applicable

(3) Articles of Incorporation and By-Laws

3.1 The Articles of Incorporation, as amended, are incorporated herein by reference to Exhibit 4(a) to the Company's Registration Statement on Form S-8 (Registration No. 33-61665) filed on August 8, 1995 and to Exhibit 3(i) to the Company's Form 10-Q for the quarter ended September 30, 1999.

3.2 By-Laws, as amended through August 18, 1987, are incorporated herein by reference to Exhibit (3) to the Company's Form 10-K for the year ended March 31, 1988. (SEC File No. 000-03905).

(4) Instruments defining the rights of security holders, including indentures

The documents listed under (3) are incorporated herein by reference.

(9) Voting trust agreement

Not Applicable.

(10) Material Contracts

#10.1 Transcat, Inc. Directors' Stock Plan is incorporated herein by reference to Exhibit 10(i) to the Company's Form 10-K for the fiscal year ended March 31, 1995.

#10.2 Transcat, Inc. Amended and Restated Directors' Warrant Plan is incorporated herein by reference to Exhibit 99(b) to the Company's Registration Statement on Form S-8 (Registration No. 33-61665) filed on August 8, 1995.

#10.3 Transcat, Inc. Amended and Restated 1993 Stock Option Plan is incorporated herein by reference to Exhibit 99(c) to the Company's Registration Statement on Form S-8 (Registration Statement No. 33-61665) filed on August 8, 1995.

#10.4 Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein to Exhibit 99(e) to the Company's Registration Statement on Form S-8 (Registration No. 33-61665) filed on August 8, 1995.

#10.5 Amendment No. 1 to the Transcat, Inc. Directors' Stock Plan is incorporated herein by reference to Exhibit 10(i) to the Company's Form 10-Q for the quarter ended September 30, 1995.

#10.6 Amendment No. 2 to the Transcat, Inc. Directors' Stock Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended March 31, 1996.

#10.7 Amendment No. 1 to the Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein by reference to Exhibit 10(b) to the Company's Form 10-K for the fiscal year ended March 31, 1996.

#10.8 Amendment No. 1 to Transcat, Inc. Amended and Restated Directors' Warrant Plan is incorporated herein by reference to Exhibit II to the Company's Form 10-Q for the quarter ended September 30, 1996.

#10.9 Amendments No. 1 and No. 2 to the Transcat, Inc. Amended and Restated 1993 Stock Option Plan are incorporated herein by reference to Exhibits III and IV to the Company's Form 10-Q for the quarter ended September 30, 1996.

#10.10 Amendment No. 2 to the Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein by reference to Exhibit V to the Company's Form 10-Q for the quarter ended September 30, 1996.

#10.11 Amendment No. 3 to the Transcat, Inc. Directors' Stock Plan is incorporated herein by reference to Exhibit 10(a) of the Company's Form 10-K for the year ended March 31, 1997.

#10.12 Amendment No. 2 to the Transcat, Inc. Amended and Restated Directors' Warrant Plan is incorporated herein by reference to Exhibit 10(i) to the Company's Form 10-Q for the quarter ended June 30, 1997.

#10.13 Amendments No. 3 and 4 to the Transcat, Inc. Amended and Restated 1993 Stock Option Plan are incorporated herein by reference to Exhibit 10(j) to the Company's Form 10-Q for the quarter ended September 30, 1997.

#10.14 Amendment No. 3 to the Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein by reference to Exhibit 10(K) to the Company's Form 10-Q for the quarter ended September 30, 1997.

#10.15 Amendment No. 5 to the Transcat, Inc. Directors' Stock Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended March 31, 1998.

#10.16 Amendments No. 3 and 4 to the Transcat, Inc. Amended and Restated Directors' Warrant Plan are incorporated herein by reference to the Company's definitive proxy statement filed on July 7, 1998 in connection with the 1998 Annual Meeting of Shareholders.

#10.17 Amendment No. 4 to the Transcat, Inc. Directors' Stock Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-Q for the quarter ended December 31, 1998 and supercedes Exhibit 10(b) to the Company's Form 10-Q for the quarter ended June 30, 1997.

#10.18 Amendment No. 5 to the Transcat, Inc. Amended and Restated 1993 Stock Option Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended March 31, 1999.

#10.19 Amendment No. 6 to the Transcat, Inc. Amended and Restated 1993 Stock Option Plan is incorporated herein by reference to Appendix A to the Company's preliminary proxy statement filed on June 21, 1999 in connection with the 1999 Annual Meeting of Shareholders.

#10.20 Amendment No. 5 to the Transcat, Inc. Amended and Restated Directors' Warrant Plan is incorporated herein by reference to Appendix B to the Company's 1999 preliminary proxy statement filed on June 21, 1999 in connection with the 1999 Annual Meeting of Shareholders.

#10.21 Amendment No. 7 to the Transcat, Inc. Amended and Restated 1993 Stock Option Plan is incorporated herein by reference to Exhibit 10(b) to the Company's Form 10-K for the fiscal year ended March 31, 2000.

#10.22 Amendment No. 6 to the Transcat, Inc. Directors' Stock Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-Q for the quarter ended September 30, 2000.

#10.23 Amendment No. 8 to the Transcat, inc. Amended and Restated 1993 Stock Option Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended March 31, 2001.

#10.24 Amendment No. 4 to the Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-Q for the quarter ended September 30, 2001.

#10.25 Amendment No. 8 to the Transcat, Inc. Amended and Restated Directors' Stock Plan is incorporated herein by reference to Exhibit 10(b) to the Company's Form 10-Q for the quarter ended September 30, 2001.

#10.26 Amendment No. 7 to the Transcat, Inc. Directors' Stock Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-Q for the quarter ended December 31, 2001.

10.27 Stock Purchase Agreement dated as of December 26, 2001 by and among the Company, Altek Industries Corp. and Fluke Electronics Corp. is incorporated herein by reference to Exhibit 2(a) to the Company's Current Report on Form 8-K dated January 10, 2002.

+10.28 Distributor Agreement dated December 26, 2001 by and between the Company and Fluke Electronics Corporation is incorporated herein by reference to Exhibit 99(a) to the Company's Current Report on Form 8-K dated January 10, 2002 and Exhibit 99(a) to the Company's Current Report on Form 8-K/A dated June 5, 2002.

10.29 Asset Purchase Agreement dated as of January 18, 2002 by and between the Company and Hughes Corporation is incorporated herein by reference to Exhibit 2(a) to the Company's Current Report on Form 8-K dated January 22, 2002.

#10.30 Amendment No. 9 to the Transcat, Inc. Amended and Restated 1993 Stock Option Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended March 31, 2002.

+10.31 Fluke Distribution Agreement, as amended, is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-Q for the quarter ended September 30, 2002.

10.32 Loan and Security Agreement dated November 12, 2002 by and among GMAC Business Credit, LLC, Transcat, Inc. and Transmation (Canada) Inc. is incorporated herein by reference to Exhibit 4(a) to the Company's Form 10-Q for the quarter ended December 31, 2002.

10.33 First Amendment to Loan and Security Agreement dated April 11, 2003 by GMAC Commercial Finance LLC (successor by merger to GMAC Business Credit, LLC), Transcat, Inc. and Transmation (Canada) Inc. is incorporated herein by reference to Exhibit 4(a) to the Company's Form 10-K for the year ended March 31, 2003.

#10.34 Amendment No. 10 to the Transcat, Inc. Amended and Restated 1993 Stock Option Plan is incorporated herein by reference to Exhibit 10(a) to the Company's Form 10-K for the year ended March 31, 2003.

#10.35 Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference to Appendix A to the Company's 2003 definitive proxy statement filed on July 18, 2003 in connection with the 2003 Annual Meeting of Shareholders.

#10.36 Form of Agreement for Severance Upon Change in Control for Carl E. Sassano and Charles P. Hadeed is incorporated herein by reference Exhibit 10(a) to the Company's Form 10-K for the fiscal year ended March 27, 2004.

10.37 Second Amendment to Loan and Security Agreement dated July 22, 2004 by GMAC Commercial Finance LLC (successor by merger to GMAC Business Credit, LLC), Transcat, Inc. and Transmation (Canada) Inc. is incorporated herein by reference to Exhibit 4.4 to the Company's Form 10-Q for the quarter ended June 26, 2004.

10.38 Third Amendment to Loan and Security Agreement between Transcat, Inc., Transmation (Canada) Inc. and GMAC Commercial Finance LLC dated November 1, 2004 is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 1, 2004.

#10.39 Form of Award Notice for Incentive Stock Options granted under the Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended December 25, 2004.

#10.40 Form of Award Notice for Restricted Stock granted under the Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference to Exhibit 10.2 the Company's Form 10-Q for the quarter ended December 25, 2004.

#10.41 Performance Incentive Plan is incorporated herein by reference to the Company's Current Report on Form 8-K dated April 27, 2005.

\*#10.42 Form of Warrant Certificate representing warrants granted under the Amended and Restated Directors' Warrant Plan.

(11) Statement re computation of per share earnings

Computation can be clearly determined from the Consolidated Statements of Operations and Comprehensive Income (Loss) included herein as Item 8.

(12) Statement re computation of ratios

Not applicable.

(13) Annual report to security holders, Form 10-Q or quarterly report to security holders

Not applicable.

(16) Letter re change in certifying accountant

Not applicable.

(18) Letter re change in accounting principles

Not applicable.

(21) Subsidiaries of the registrant

\*21.1 Subsidiaries of the Registrant

(22) Published report regarding matters submitted to vote of security holders

Not applicable.

(23) Consents of Experts and Counsel

\*23.1 Consent of BDO Seidman, LLP

\*23.2 Consent of PricewaterhouseCoopers LLP

(24) Power of Attorney

Not applicable.

(31) Rule 13a-14(a)/15d-14(a) Certifications

\*31.1 Certification of Chief Executive Officer

\*31.2 Certification of Chief Financial Officer

(32) Section 1350 Certifications

\*32.1 Section 1350 Certifications

(99) Additional Exhibits

Not applicable.

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\* Exhibits filed with this report.

# Management contract or compensatory plan.

+ The Company has requested confidential treatment of certain information contained in this Exhibit. Such information has been filed separately with the Securities and Exchange Commission pursuant to the Company's application for confidential treatment under 17 C.F.R. § 200.80(b)(4) and § 240.24b-2.



### *Corporate Officers*

**Carl E. Sassano**

Chairman, President and Chief Executive Officer

**Charles P. Hadeed**

Chief Operating Officer, Vice President of Finance and Chief Financial Officer, Secretary/Treasurer

**John A. DeVoldre**

Vice President of Human Resources and Assistant Secretary

**Robert C. Maddamma**

Vice President of Customer Satisfaction

**Jay F. Woychick**

Vice President of Marketing

**Michael Mercurio**

Vice President of Sales

**Joanne B. Hand**

Corporate Controller

### *Independent Registered Public Accounting Firm*

**BDO Seidman, LLP**

New York, New York

### *General Counsel*

**Harter, Secrest & Emery LLP**

Rochester, New York

### *Investor Relations*

**Van Negriss & Company, Inc.**

New York, New York

Telephone: (212) 626-6730

### *Registrar & Transfer Agent*

**National City Bank**

Cleveland, Ohio

Shareholder Services: (800) 622-6757

### *2005 Annual Meeting Information*

Tuesday, August 16, 2005, 12:00 Noon EST

Corporate Offices

35 Vantage Point Drive

Rochester, New York 14624

### *Board of Directors*

**Francis R. Bradley**

Retired, E.I. DuPont de Nemours & Co., Inc.  
Executive Associate, Sullivan Engineering Company

**E. Lee Garelick**

Retired, Altek Industries Corp.

**Richard J. Harrison**

Senior Retail Banking and Lending Officer  
National Bank of Geneva

**Nancy D. Hessler**

Vice President, Integrated People Solutions

**Robert G. Klimasewski**

Retired, Transcat, Inc.

**Paul D. Moore**

Senior Vice President, Senior Credit Officer  
M&T Bank Corporation

**Cornelius J. Murphy**

Principal, CJM & Associates

**Dr. Harvey J. Palmer**

Dean, Kate Gleason College of Engineering  
Rochester Institute of Technology

**Alan H. Resnick**

President, Janal Capital Management LLC

**Carl E. Sassano**

Chairman, President and Chief Executive Officer,  
Transcat, Inc.

**John T. Smith**

Lead Director

Chairman and Chief Executive Officer

Brite Computers, Inc.

# **TRANSCAT®**

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