

GANNETT CO INC /DE/  
Form 4  
May 06, 2010

**FORM 4**

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

OMB APPROVAL

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**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
MCFARLAND DUNCAN M  
  
(Last) (First) (Middle)

2. Issuer Name and Ticker or Trading Symbol  
GANNETT CO INC /DE/ [GCI]

5. Relationship of Reporting Person(s) to Issuer  
  
(Check all applicable)

GANNETT CO., INC., 7950 JONES BRANCH DRIVE  
  
(Street)  
  
MCLEAN, VA 22107  
  
(City) (State) (Zip)

3. Date of Earliest Transaction  
(Month/Day/Year)  
05/04/2010

Director  10% Owner  
 Officer (give title below)  Other (specify below)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Beneficial Ownership (Instr. 4)
				(A) or (D) Code V Amount (D) Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. De...

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(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)	Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Phantom Stock	<u>(1)</u>	05/04/2010	A	2,986					<u>(2)</u>	<u>(2)</u>	Common Stock	2,986
Director Stock Option (Right to Buy)	\$ 16.58	05/04/2010	A	8,000					<u>(3)</u>	05/04/2018	Common Stock	8,000

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MCFARLAND DUNCAN M GANNETT CO., INC. 7950 JONES BRANCH DRIVE MCLEAN, VA 22107	X			

## Signatures

/s/ Todd A. Mayman,  
Attorney-in-Fact

05/06/2010

\*\*Signature of Reporting Person                      Date

## Explanation of Responses:

- \* If the form is filed by more than one reporting person, see Instruction 4(b)(v).
  - \*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Each share of phantom stock is the economic equivalent of one share of Gannett common stock.  
These shares of phantom stock vest in four equal quarterly installments beginning on August 1, 2010 and are payable in cash or stock, at
  - (2) the election of the reporting person, on various dates selected by the reporting person or as otherwise provided in the Issuer's Deferred Compensation Plan.
  - (3) The option vests in four equal annual installments beginning on May 4, 2011.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. text-indent: 0%; font-size: 10pt; font-family: 'Times New Roman', Times; color: #000000; background: #FFFFFF"> The following table presents certain information regarding our executive officers and certain key employees as of March 27, 2010:

Name	Age	Position
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Charles P. Hadeed	60	President, Chief Executive Officer and Chief Operating Officer
John J. Zimmer	51	Vice President of Finance and Chief Financial Officer
Michael P. Craig	56	Vice President of Human Resources
John P. Hennessy	61	Vice President of Sales and Marketing
Rainer Stellrecht	59	Vice President of Laboratory Operations
Lori L. Drescher	50	Vice President of Business Process Improvement and Training
David D. Goodhead	62	Vice President of Wind Energy Sales
Jay F. Woychick	53	Vice President of Wind Energy Commercial Operations and Vendor Relations
Derek C. Hurlburt	41	Corporate Controller

### AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, therefore, we file periodic reports, proxy statements and other information with the SEC. Such reports may be read and copied at the Public Reference Room of the SEC at 100 F Street NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (800) SEC-0330. Additionally, the SEC maintains a website ([sec.gov](http://sec.gov)) that contains reports, proxy statements and other information for registrants that file electronically.

We maintain an internet website at [transcat.com](http://transcat.com). On our website, we make available, free of charge, documents we file with the SEC, including our 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 with or furnished to the SEC. We make this information available as soon as reasonably practicable after we electronically file such materials with, or furnish such information to, the SEC. Our SEC reports can be accessed in the investor relations section of our website. The other information found on our website is not part of this or any other report we file with, or furnish to, the SEC.

We also post on our website our board of directors committee charters (audit committee, compensation committee and corporate governance and nominating committee), and Code of Ethics. Copies of such charters

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are available in print at no charge to any shareholder who makes a request. Such requests should be made to our corporate secretary at our corporate headquarters, 35 Vantage Point Drive, Rochester, New York 14624.

**ITEM 1A. RISK FACTORS**

You should consider carefully the following risks and all other information included in this report. The risks and uncertainties described below and elsewhere in this report are not the only ones facing our business. If any of the following risks were to 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.

***The Economic Recession Could Have A Negative Impact On Our Major Customers And Suppliers Which In Turn Could Materially Adversely Affect Our Results Of Operations And Liquidity.*** The economic recession has had a significant negative impact on businesses around the world. Although we believe that our cash provided by operations and available borrowing capacity under our current credit facility will provide us with sufficient liquidity through current economic conditions, the impact of this recession on our major customers and suppliers cannot be predicted and may be quite severe. The inability of major manufacturers to ship our products could impair our ability to meet the delivery date requirements of our customers. A disruption in the ability of our largest customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their future orders of our products and services and the inability or failure on their part to meet their payment obligations to us, any of which could have a negative effect on our results of operations and liquidity.

***We Depend On Manufacturers To Supply Our Inventory And Rely On One Vendor Group To Supply A Significant Amount Of Our Inventory Purchases. If They Fail To Provide Desired Products To Us, Increase Prices, Or Fail To Timely Deliver Products, Our Revenue and Gross Profit Could Suffer.*** A significant amount of our inventory purchases are made from one vendor, Fluke. Our reliance on this vendor 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 supplier 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 new products available to us for distribution, 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.

***Our Future Success May Be Affected By Future Indebtedness.*** Under our revolving credit facility, as of March 27, 2010, we owed \$2.5 million to our secured creditor. We may borrow additional funds in the future to support our growth and working capital needs. 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 lender may demand immediate repayment of amounts outstanding. Changes in interest rates may have a significant effect on our 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 revenues, 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 report, 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 if a large number of our shares are sold in the

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public market by our existing shareholders or holders of stock options or as a result of 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, and 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. 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 revenues 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 revenues 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.

***Changes In Accounting Standards, Legal Requirements And The NASDAQ Stock Market Listing Standards, Or Our Ability To Comply With Any Existing Requirements Or Standards, Could Adversely Affect Our Operating Results.*** Extensive reforms relating to public company financial reporting, corporate governance and ethics, the NASDAQ Stock Market listing standards and oversight of the accounting profession have been implemented over the past several years and continue to evolve. Compliance with these rules, regulations and standards that have resulted from such reforms has increased our accounting and legal costs and has required significant management time and attention. In the event that additional rules, regulations or standards are implemented or any of the existing rules, regulations or standards to which we are subject undergoes additional material modification, we could be forced to spend significant financial and management resources to ensure our continued compliance, which could have an adverse affect on our results of operations. In addition, although we believe we are in full compliance with all such existing rules, regulations and standards, should we be or become unable to comply with any of such rules, regulations and standards, as they presently exist or as they may exist in the future, our results of operations could be adversely effected and the market price of our common stock could decline.

***The Distribution Products Industry Is Highly Competitive, And We May Not Be Able To Compete Successfully.*** We compete with numerous companies, including several major manufacturers and distributors. Some of our competitors have greater financial and other resources than we do, which could allow them to compete more successfully. Most of our products are available from several sources and our customers tend to have relationships with several distributors. Competitors could obtain exclusive rights to market particular products, which we would then be unable to market. Manufacturers could also increase their efforts to sell directly to end-users and bypass distributors like us. Industry consolidation among product distributors, the unavailability of products, whether due to our inability to gain access to products or interruptions in supply from manufacturers, or the emergence of new competitors could also increase competition and adversely affect our business or results of operations. In the future,

we may be unable to compete successfully and competitive pressures may reduce our sales.

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***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.

***Our Revenue Depends On Retaining Capable Sales Personnel As Well As Our Relationships With Key Customers, Vendors And Manufacturers Of The Products That We Distribute.*** Our future operating results depend on our ability to maintain satisfactory relationships with qualified sales personnel who appreciate the value of our services as well as key customers, vendors and manufacturers. If we fail to maintain our existing relationships with such persons or fail to acquire relationships with such key persons in the future, our business and results of operations may be adversely affected.

***Our Future Success Is Substantially Dependent Upon Our Senior Management.*** Our future success is substantially dependent upon the efforts and abilities of members of our existing senior management. Competition for senior management is intense, and we may not be successful in attracting and retaining key personnel, the inability of which could have an adverse affect on our business and results of operations.

***Our Acquisitions Or Future Acquisition Efforts, Which Are Important To Our Growth, May Not Be Successful, Which May Limit Our Growth Or Adversely Affect Our Results Of Operations And Financial Condition.*** Acquisitions have been an important part of our development to date. During the fourth quarter of fiscal year 2010, we acquired United Scale. As part of our business strategy, we may make additional acquisitions of companies that could complement or expand our business, augment our market coverage, provide us with important relationships or otherwise offer us growth opportunities. If we identify an appropriate acquisition candidate, we may not be able to negotiate successfully the terms of or finance the acquisition. In addition, we cannot assure you that we will be able to integrate the operations of our acquisitions without encountering difficulties, including unanticipated costs, possible difficulty in retaining customers and supplier or manufacturing relationships, failure to retain key employees, the diversion of our management's attention or failure to integrate our information and accounting systems. As a result of our acquisition of United Scale and future acquisitions, we may not realize the revenues and cost savings that we expect to achieve or that would justify the investments, and we may incur costs in excess of what we anticipate. To effectively manage our expected future growth, we must continue to successfully manage our integration of the companies that we acquire and continue to improve our operational systems, internal procedures, accounts receivable and management, financial and operational controls. If we fail in any of these areas, our business growth and results of operations could be adversely affected.

***The Financing Of Any Future Acquisitions We Make May Result In Dilution To Your Stock Ownership And/Or Could Increase Our Leverage And Our Risk Of Defaulting On Our Bank Debt.*** Our business strategy includes expansion into new markets and enhancement of our position in existing markets, including through acquisitions. In order to successfully complete targeted acquisitions we may issue additional equity securities that could dilute your stock ownership. We may also incur additional debt if we acquire another company, which could significantly increase our leverage and our risk of default under our existing credit facility.

***Tax Legislation Initiatives Could Adversely Affect The Company's Net Earnings And Tax Liabilities.*** We are subject to the tax laws and regulations of the United States federal, state and local governments, as well as foreign jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect our tax positions. There can be no assurance that our effective tax rate will not be adversely affected by these initiatives. In addition, tax laws and regulations are extremely complex and subject to varying interpretations. Although we believe that our historical tax positions are sound and consistent with applicable laws, regulations and existing precedent, there can be no assurance that our tax positions will not be challenged by relevant tax authorities or that we would be successful in any such challenge.



**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

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We lease the following properties:

<b>Property</b>	<b>Location</b>	<b>Approximate Square Footage</b>
Corporate Headquarters, Product Distribution Center and Calibration Laboratory	Rochester, NY	37,250
Calibration Laboratory	Anaheim, CA	4,000
Calibration Laboratory	Boston, MA	4,000
Calibration Laboratory	Charlotte, NC	4,860
Calibration Laboratory	Cherry Hill, NJ	8,550
Calibration Laboratory	Dayton, OH	9,000
Calibration Laboratory(1)	Fort Wayne, IN	5,000
Calibration Laboratory	Houston, TX	8,780
Calibration Laboratory	Ottawa, ON	3,990
Calibration Laboratory and Product Distribution Center	Portland, OR	12,600
Calibration Laboratory	San Juan, PR	1,560
Calibration Laboratory	St. Louis, MO	4,000
Service and Distribution Center	New Berlin, WI	16,000
Service Center	Green Bay, WI	3,320
Service and Distribution Center	Madison, WI	7,670

(1) Subsequent to March 27, 2010, we have decided to move the operations of the Fort Wayne, IN calibration laboratory to our Houston, TX location.

We believe that our properties are generally in good condition, are well maintained, and are generally suitable and adequate to carry on our business in its current form.

**ITEM 3. LEGAL PROCEEDINGS**

None.

**ITEM 4. RESERVED****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the NASDAQ Capital Market under the symbol TRNS. As of June 16, 2010, we had approximately 643 shareholders of record.

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The following table presents, 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 Capital Market for each quarterly period in fiscal years 2010 and 2009.

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Fiscal Year 2010:				
High	\$ 6.20	\$ 7.87	\$ 7.21	\$ 8.55
Low	\$ 4.12	\$ 4.40	\$ 4.09	\$ 5.51
Fiscal Year 2009:				
High	\$ 7.00	\$ 8.96	\$ 9.24	\$ 8.90
Low	\$ 5.00	\$ 6.10	\$ 5.58	\$ 3.81

**DIVIDENDS**

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

**ITEM 6. SELECTED FINANCIAL DATA**

The following table provides selected financial data for fiscal year 2010 and the previous four fiscal years (in thousands, except per share data). Certain reclassifications of financial information for prior fiscal years have been made to conform to the presentation for the current fiscal year.

	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>FY 2006</b>
Statements of Operations Data:					
Net Revenues	\$ 81,061	\$ 75,419	\$ 70,453	\$ 66,473	\$ 60,471
Cost of Products and Services Sold	61,767	56,671	51,912	49,860	45,372
Gross Profit	19,294	18,748	18,541	16,613	15,099
Operating Expenses	16,913	16,062	15,258	14,264	13,581
Gain on TPG Divestiture(1)				(1,544)	
Operating Income	2,381	2,686	3,283	3,893	1,518
Interest Expense	63	100	101	334	427
Other Expense, net	35	67	437	283	162
Income Before Income Taxes	2,283	2,519	2,745	3,276	929
Provision for (Benefit from) Income Taxes	832	963	382	1,217	(2,648)
Net Income	\$ 1,451	\$ 1,556	\$ 2,363	\$ 2,059	\$ 3,577

Share Data:

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Basic Earnings Per Share	\$ 0.20	\$ 0.21	\$ 0.33	\$ 0.30	\$ 0.54
Basic Average Shares Outstanding	7,352	7,304	7,132	6,914	6,647
Diluted Earnings Per Share	\$ 0.19	\$ 0.21	\$ 0.32	\$ 0.28	\$ 0.50
Diluted Average Shares Outstanding	7,549	7,469	7,272	7,335	7,176
Closing Price Per Share	\$ 7.14	\$ 4.90	\$ 5.50	\$ 5.25	\$ 5.00

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	<b>As of or for the Fiscal Years Ended March</b>				
	<b>27, 2010</b>	<b>28, 2009</b>	<b>29, 2008</b>	<b>31, 2007</b>	<b>25, 2006</b>
<b>Balance Sheets and Working Capital Data:</b>					
Inventory, net	\$ 5,906	\$ 4,887	\$ 5,442	\$ 4,336	\$ 3,952
Property and Equipment, net	4,163	4,174	3,211	2,814	2,637
Goodwill	10,038	7,923	2,967	2,967	2,967
Total Assets	35,713	29,391	24,344	22,422	21,488
Depreciation and Amortization	2,080	1,897	1,761	1,622	1,401
Capital Expenditures	1,128	1,775	1,505	1,194	914
Long-Term Debt	2,532	3,559	302	2,900	4,272
Shareholders' Equity	20,257	18,619	15,117	11,229	8,647

(1) In fiscal year 2007, we recognized a previously deferred pre-tax gain of \$1.5 million from the sale of Transmation Products Group to Fluke in March 2002.

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

### **OVERVIEW**

**Operational Overview.** We are a leading global distributor of professional grade handheld test and measurement instruments and accredited provider of calibration, repair and weighing system 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 Product segment, our Master Catalog is widely recognized by both original equipment manufacturers and customers as the ultimate source for test and measurement instruments. Additionally, because we specialize in handheld test and measurement instruments, 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 aid them in determining what product best meets their particular application requirements.

Sales in our Product segment can be heavily impacted by changes in the economic environment. As customers increase or decrease capital and discretionary spending, our product sales will typically be directly impacted. 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.

Our strength in our Service 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 and repair of a single unit to managing a customer's entire calibration program. We believe our Service segment offers an opportunity for long-term growth and the potential for continuing revenue from established customers with regular calibration cycles.

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

**Financial Overview.** In evaluating our results for fiscal year 2010, the following factors should be taken into account:

Fiscal year 2010 operating results include those of United Scale, a Wisconsin based supplier and servicer of industrial scales and weighing systems, from the date of acquisition on January 27, 2010.

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Fiscal year 2010 operating results include a full year of operations from Westcon, whereas, fiscal year 2009 operating results include those of Westcon from the date of acquisition on August 14, 2008.

Fiscal year 2008 net income includes a \$0.8 million reversal of a deferred tax asset valuation allowance. We reversed the allowance after an evaluation of the status of our foreign tax credits and the likelihood that these credits would be utilized prior to their expiration.

Net revenue for fiscal year 2010 was \$81.1 million, a 7.5% increase compared with net revenue of \$75.4 million for fiscal year 2009. Product segment sales increased 3.2% to \$53.1 million, or 65.6% of total net revenue, in fiscal year 2010. Of our Product segment sales in fiscal year 2010, 75% were sold directly to end-user customers while 24% were to resellers compared with 74% and 25%, respectively, in fiscal year 2009. Domestic sales comprised 90% of the total Product segment sales in fiscal year 2010, while 7% were to Canada and 3% were to other international markets.

Service segment revenue increased 16.6% to \$27.9 million, or 34.4% of total net revenue, in fiscal year 2010. Of our Service segment revenue in fiscal year 2010, 76% was generated by our Calibration Centers of Excellence while 21% was generated through subcontracted third party vendors, compared with 80% and 17%, respectively, in fiscal year 2009.

Gross margin for fiscal year 2010 was 23.8%, a 110 basis point decline compared with gross margin of 24.9% in fiscal year 2009. Product segment gross margin was 23.4% in fiscal year 2010 compared with 25.4% in fiscal year 2009, while Service segment gross margin improved to 24.5% in fiscal year 2010 compared with 23.7% in fiscal year 2009.

Operating expenses were \$16.9 million, or 20.9% of total net revenue, in fiscal year 2010 compared with \$16.1 million, or 21.3% of total net revenue, in fiscal year 2009. Operating income was \$2.4 million in fiscal year 2010 compared with \$2.7 million in fiscal year 2009.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The following is a summary of our most critical accounting policies. See Note 1 of our Consolidated Financial Statements for a complete discussion of the significant accounting policies and methods used in the preparation of our Consolidated Financial Statements.

***Use of Estimates.*** The preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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 fixed assets, estimated lives of our major catalogs and intangible assets, and deferred tax asset 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. 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.

***Accounts Receivable.*** Accounts receivable represent amounts due from customers in the ordinary course of business. These amounts are recorded net of the allowance for doubtful accounts and returns in the Consolidated Balance Sheets. The allowance for doubtful accounts is based upon the expected collectability of accounts receivable. We

apply a specific formula to our accounts receivable aging, which may be adjusted on a specific account basis where the formula may not appropriately reserve for loss exposure. After all attempts to collect a receivable have failed, the receivable is written-off against the allowance for doubtful accounts. The returns reserve is calculated based upon the historical rate of returns applied to revenues over a specific timeframe. The returns reserve will increase or decrease as a result of changes in the level of revenues and/or the historical rate of returns.



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**Inventory.** Inventory consists of products purchased for resale and is valued at the lower of cost or market. Costs are determined using the average cost method of inventory valuation. Inventory is reduced by a reserve for items not saleable at or above cost by applying a specific loss factor, based on historical experience, to specific categories of our inventory. We evaluate the adequacy of the reserve on a quarterly basis.

**Property and Equipment, Depreciation and Amortization.** Property and equipment are stated at cost. Depreciation and amortization are computed primarily under the straight-line method over the following estimated useful lives:

	<b>Years</b>
Machinery, Equipment, and Software	2 - 6
Furniture and Fixtures	3 - 10
Leasehold Improvements	2 - 10

Property and equipment determined to have no value are written off at their then remaining net book value. We capitalize certain costs incurred in the procurement and development of computer software used for internal purposes. 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 information.

**Goodwill and Intangible Assets.** We estimate the fair value of our reporting units using the fair market value measurement requirement, rather than the undiscounted cash flows approach. We test goodwill and intangible assets for impairment on an annual basis, or immediately if conditions indicate that such impairment could exist. The evaluation of our reporting units on a fair value basis indicated that no impairment existed as of March 27, 2010 and March 28, 2009.

**Catalog Costs.** We capitalize the cost of each Master Catalog mailed and amortize the cost over the respective 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 unamortized catalog costs in prepaid expenses and other current assets on the Consolidated Balance Sheets were \$0.4 million as of March 27, 2010 and March 28, 2009.

**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. If necessary, 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 based on an assessment of both positive and negative evidence. See Taxes below in this section and Note 4 of our Consolidated Financial Statements for further details.

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

Options generally vest over a period of up to four years, using either a graded schedule or on a straight-line basis, and expire ten years from the date of grant. Beginning in the second quarter of fiscal year 2008, options granted to executive officers vest using a graded schedule of 0% in the first year, 20% in each of the second and third years, and 60% in the fourth year. Prior options granted to executive officers vested equally over three years. The expense relating to these executive officer options is recognized on a straight-line basis over the requisite service period for the entire award.

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During the first quarter of fiscal years 2010 and 2009, we granted performance-based restricted stock awards in place of options as a primary component of executive compensation. The performance-based restricted stock awards vest after three years subject to certain cumulative diluted earnings per share growth targets over the eligible three-year period. During the second quarter of fiscal year 2009 and in conjunction with the acquisition of Westcon, we modified these awards by increasing the cumulative diluted earnings per share growth performance condition. The modification did not have an impact on our Consolidated Financial Statements.

Compensation cost ultimately recognized for these performance-based restricted awards will equal the grant-date fair market value of the award that coincides with the actual outcome of the performance conditions. On an interim basis, we record compensation cost based on an assessment of the probability of achieving the performance conditions. At March 27, 2010, we estimated the probability of achievement for these performance-based awards granted in fiscal year 2010 and 2009 to be 75% and 0% of the target level, respectively.

See Note 7 of our Consolidated Financial Statements for further disclosure regarding our stock-based compensation.

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

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

**Reclassification of Amounts.** Certain reclassifications of financial information for prior fiscal years have been made to conform to the presentation for the current fiscal year. In addition, certain reclassifications of financial information for prior fiscal quarters have been made to conform to the presentation for the current fiscal quarters.

**Table of Contents****RESULTS OF OPERATIONS**

The following table sets forth, for the prior three fiscal years, the components of our Consolidated Statements of Operations.

	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
<i>Gross Profit Percentage:</i>			
Product Gross Profit	23.4%	25.4%	27.8%
Service Gross Profit	24.5%	23.7%	23.3%
Total Gross Profit	23.8%	24.9%	26.3%
<i>As a Percentage of Total Net Revenue:</i>			
Product Sales	65.6%	68.3%	67.5%
Service Revenue	34.4%	31.7%	32.5%
 Total Net Revenue	 100.0%	 100.0%	 100.0%
 Selling, Marketing and Warehouse Expenses	 13.2%	 13.2%	 12.9%
Administrative Expenses	7.7%	8.1%	8.8%
 Total Operating Expenses	 20.9%	 21.3%	 21.7%
 Operating Income	 2.9%	 3.6%	 4.6%
Interest Expense	0.1%	0.1%	0.1%
Other Expense		0.1%	0.6%
 Total Other Expense	 0.1%	 0.2%	 0.7%
 Income Before Income Taxes	 2.8%	 3.4%	 3.9%
Provision for Income Taxes	1.0%	1.3%	0.5%
 Net Income	 1.8%	 2.1%	 3.4%

***FISCAL YEAR ENDED MARCH 27, 2010 COMPARED TO FISCAL YEAR ENDED MARCH 28, 2009 (dollars in thousands):***

***Revenue:***

	<b>For the Years Ended</b>	
	<b>March 27, 2010</b>	<b>March 28, 2009</b>
Net Revenue:		
Product	\$ 53,143	\$ 51,480
Service	27,918	23,939

Total \$ 81,061      \$ 75,419

Net revenue increased \$5.6 million, or 7.5%, from fiscal year 2009 to fiscal year 2010.

Our products net sales accounted for 65.6% of our total net revenue in fiscal year 2010 and 68.3% of our total net revenue in fiscal year 2009. Year-over-year product net sales increased \$1.7 million, or 3.2%. Our fiscal years 2010 and 2009 product sales in relation to prior fiscal year quarter comparisons were as follows:

	<b>FY 2010</b>				<b>FY 2009</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Product Sales Growth (Decline)	20.5%	8.5%	(7.6)%	(8.5)%	(1.4)%	7.6%	15.5%	12.7%

Product net sales per day declined in both the first and second quarter of fiscal year 2010 when compared against the same quarter in the prior fiscal year, a direct result of the economy. As the economy began to improve in the second half of fiscal year 2010, we experienced growth in daily sales volume for both the third

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and fourth quarters of fiscal year 2010 when compared against the third and fourth quarters of fiscal year 2009. Our product sales per business day for each fiscal quarter during fiscal years 2010 and 2009 were as follows:

	FY 2010				FY 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Product Sales Per Business Day	\$ 230	\$ 249	\$ 190	\$ 176	\$ 191	\$ 226	\$ 206	\$ 192

The increase in product net sales was primarily due to increased sales in the wind energy industry. During fiscal year 2010, product sales to the wind energy industry were \$4.7 million, or 8.8% of net product sales. The sales growth achieved in the wind energy industry was partially offset by a decline in sales to non-wind energy customers within our direct channel as a result of the economic climate experienced during fiscal year 2010. As economic conditions improved in the latter part of fiscal year 2010, the second half year-over-year sales growth did not fully offset the sales decline from the first half. During the first half of fiscal 2010, non-wind sales to our direct channel declined 17.3%, when compared to the first half of fiscal year 2009. During the second half of fiscal year 2010, non-wind sales to our direct channel increased 6.0%, when compared to the same period in the prior fiscal year. Sales to our reseller channel were relatively consistent from fiscal year 2009 to fiscal year 2010. The following table presents the percent of net sales for our significant product distribution channels for each fiscal quarter during fiscal years 2010 and 2009:

	FY 2010				FY 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Percent of Net Sales:								
Direct	75.2%	70.8%	77.5%	75.2%	77.0%	72.7%	71.1%	74.1%
Reseller	23.2%	27.8%	21.1%	23.3%	21.6%	26.1%	27.3%	24.3%
Freight Billed to Customer	1.6%	1.4%	1.4%	1.5%	1.4%	1.2%	1.6%	1.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Customer product orders include orders for instruments that we routinely stock in our inventory, customized products, and other products ordered less frequently, which we do not stock. Pending product shipments are primarily backorders, but also include products that are requested to be calibrated in our laboratories prior to shipment, orders required to be shipped complete, and orders required to be shipped at a future date. Our total pending product shipments at the end of fiscal year 2010 increased by approximately \$0.6 million, or 49.2% from the balance at the end of fiscal year 2009. The increase in pending product shipments was primarily attributable to increased backorders, as well as \$0.2 million in incremental pending product shipments associated with United Scale, which was acquired during our fiscal fourth quarter. As the economy improved and customer demand in the marketplace quickly increased, manufacturers were slower to respond, thus resulting in longer lead times for many of the products we sell. The following table reflects the percentage of total pending product shipments that were backorders at the end of each fiscal quarter in 2010 and 2009 and our historical trend of total pending product shipments:

	FY 2010				FY 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total	\$ 1,576	\$ 2,351	\$ 1,904	\$ 1,445	\$ 1,189	\$ 1,701	\$ 1,398	\$ 1,366
Pending								

Product  
Shipments  
% of  
Pending  
Product  
Shipments  
that are  
Backorders

89.5%      82.8%      78.9%      72.2%      81.0%      84.1%      70.7%      74.7%

Calibration services revenue, which accounted for 34.4% of our total net revenue in fiscal year 2010 and 31.7% of our total net revenue in fiscal year 2009, increased 16.6% from fiscal year 2009 to fiscal year 2010. The growth in revenue is primarily a result of the expansion of our traditional service customer base through

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new customer acquisition as well as increased in-house and outsourced services provided to the wind energy industry. Service revenue with the wind-energy industry in fiscal year 2010 was \$2.1 million, or 7.6% of total service revenue. Also, within any year, while we add new customers, we also have customers from the prior year whose calibrations may not repeat for any number of factors. Among those factors are the variations in the timing of customer periodic calibrations on instruments and other services, customer capital expenditures and customer outsourcing decisions. Because of the timing of calibration orders and segment expenses can vary on a quarter-to-quarter basis, we believe a trailing twelve month trend provides a better indication of the progress of this segment. Our fiscal years 2010 and 2009 calibration service revenue in relation to prior fiscal year quarter comparisons, were as follows:

	FY 2010				FY 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Service Revenue Growth (Decline)	30.6%	10.7%	15.5%	7.2%	(0.9)%	10.3%	4.5%	5.3%

Within the calibration industry, there is a broad array of measurement disciplines making it costly and inefficient for any one provider to invest the needed capital for facilities, equipment and uniquely trained personnel necessary to address all measurement disciplines with in-house calibration capabilities. Our strategy has been to focus our investments in the core electrical, temperature, pressure and dimensional disciplines. Accordingly, we have historically outsourced 15% to 20% of Service segment revenue to third party vendors for calibration beyond our chosen scope of capabilities. During fiscal year 2010, we outsourced 21.1% of our total service revenue. The slight increase in the percentage of outsourced revenue is attributable to specific services provided to the wind energy industry, which fall outside our current scope of business. We will continue to evaluate the need for capital investments that could provide more in-house capabilities for our staff of technicians and reduce the need for third party vendors in certain instances. The following table presents the percent of Service segment revenue for the significant sources for each fiscal quarter during fiscal years 2010 and 2009:

	FY 2010				FY 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Percent of Service Revenue:								
Depot/Onsite	75.9%	73.5%	77.3%	79.3%	81.2%	78.5%	78.6%	80.8%
Outsourced	21.6%	24.0%	20.2%	18.2%	15.8%	18.2%	18.8%	16.4%
Freight Billed to Customers	2.5%	2.5%	2.5%	2.5%	3.0%	3.3%	2.6%	2.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**Gross Profit:**

**For the Years Ended**  
**March 27,      March 28,**  
**2010              2009**

Gross Profit:



Product	\$ 12,442	\$ 13,070
Service	6,852	5,678
Total	\$ 19,294	\$ 18,748

Total gross profit dollars in fiscal year 2010 increased by \$0.5 million, or 2.9%, from fiscal year 2009. As a percentage of total net revenue, total gross profit declined 110 basis points over the same time period.

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

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sales to our reseller channel, which have lower margins than our direct customer base; and the timing of periodic vendor rebates and cooperative advertising income received from suppliers.

Total product gross profit in fiscal year 2010 was 23.4% of total product sales and declined 200 basis points when compared with 25.4% of total product sales in fiscal year 2009. Product gross profit declined \$0.6 million in fiscal year 2010 compared to fiscal year 2009. Despite increased product sale volume, an increase in price discounting drove the decrease. The gross profit percentage in our direct and reseller channels declined 140 basis points and 240 basis points, respectively, from fiscal year 2009 to fiscal year 2010. Pricing in the marketplace remained competitive during both the downturn and recovery phases of the economy, and as a result, we increased discounting accordingly. In addition, total product gross profit was negatively impacted by approximately \$0.2 million less in combined vendor rebate and cooperative advertising income in fiscal year 2010, when compared to fiscal year 2009. The key driver of this decline in fiscal year 2010 was lower point-of-sale rebates achieved from Fluke. The following table reflects the quarterly historical trend of our product gross profit as a percent of total product sales:

	FY 2010				FY 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Channel Gross Profit % Direct(1)	24.7%	23.1%	23.2%	24.3%	24.0%	24.6%	26.5%	25.8%
Channel Gross Profit % Reseller(1)	16.0%	15.0%	15.6%	17.0%	18.7%	17.8%	18.3%	18.2%
Channel Gross Profit % Combined(2)	22.6%	20.8%	21.6%	22.6%	22.8%	22.8%	24.2%	23.9%
Other Items %(3)	3.1%	1.2%	0.6%	0.9%	1.2%	1.6%	1.8%	3.4%
Total Product Gross Profit %	25.7%	22.0%	22.2%	23.5%	24.0%	24.4%	26.0%	27.3%

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

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

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

Calibration services gross profit increased \$1.2 million, or 20.7%, from fiscal year 2009 to fiscal year 2010. As a percent of service revenue, calibration services gross profit increased 80 basis points from fiscal year 2009 to fiscal year 2010. Despite this increase, margin expansion was somewhat limited during fiscal year 2010 due to the volume of revenue growth attributed to third-party vendor repairs and calibrations, primarily to wind energy customers, and incremental performance-based management bonus and profit sharing expense in fiscal year 2010. The following table reflects our calibration services gross profit growth in relation to prior fiscal year quarters:

	FY 2010				FY 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	25.4%	15.0%	25.5%	2.9%	5.7%	16.8%	4.8%	(0.3%)

Service Gross Profit  
 Dollar Growth (Decline)

*Operating Expenses:*

	<b>For the Years Ended</b>	
	<b>March 27, 2010</b>	<b>March 28, 2009</b>
Operating Expenses:		
Selling, Marketing and Warehouse	\$ 10,682	\$ 9,935
Administrative	6,231	6,127
Total	\$ 16,913	\$ 16,062

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Operating expenses were \$16.9 million, or 20.9% of total net revenue, in fiscal year 2010 compared with \$16.1 million, or 21.3% of total net revenue, in fiscal year 2009. Increased performance-based management bonus and profit sharing expenses contributed \$0.6 million, or 73.4% of the overall annual increase. Exclusive of this increase, the remaining year-over-year increase in operating expense was 1.4%, an indication of our continued commitment to control costs.

***Other Expense:***

	<b>For the Years Ended</b>	
	<b>March 27, 2010</b>	<b>March 28, 2009</b>
Other Expense:		
Interest Expense	\$ 63	\$ 100
Other Expense, net	35	67
Total	\$ 98	\$ 167

Total other expense decreased by less than \$0.1 million from fiscal year 2009 to fiscal year 2010. Lower interest expense was a result of reduced debt balances and lower interest rates, while other expense decreases were due to reductions in foreign currency losses. We have a program in place to hedge the majority of our risk from fluctuations in the value of the U.S. dollar relative to the Canadian dollar.

***Taxes:***

	<b>For the Years Ended</b>	
	<b>March 27, 2010</b>	<b>March 28, 2009</b>
Provision for Income Taxes	\$ 832	\$ 963

Our effective tax rates for fiscal years 2010 and 2009 were 36.4% and 38.2%, respectively.

***FISCAL YEAR ENDED MARCH 28, 2009 COMPARED TO FISCAL YEAR ENDED MARCH 29, 2008 (dollars in thousands):***

***Revenue:***

	<b>For the Years Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Net Revenue:		
Product	\$ 51,480	\$ 47,539
Service	23,939	22,914

Total \$ 75,419 \$ 70,453

Net revenue increased \$5.0 million, or 7.0%, from fiscal year 2008 to fiscal year 2009.

Our distribution products net sales accounted for 68.3% of our total net revenue in fiscal year 2009 and 67.5% of our total net revenue in fiscal year 2008. Year-over-year product net sales increased 8.3%, primarily due to incremental sales associated with our acquisition of Westcon and increased reseller sales to expand our market reach. We believe that the overall economic environment, specifically the conditions experienced in the second half of our fiscal year, negatively impacted our overall sales performance for the year. This belief stems, in part, from the number of notices we have received from our suppliers and customers regarding plant shut downs, closures and workforce reductions. In the first half of fiscal year 2009, we experienced 14.1% growth in product net sales compared with the first half of fiscal year 2008; while in the second half of fiscal year 2009, we grew only 3.2% compared with the second half of fiscal year 2008, including incremental sales from

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Westcon. Our fiscal years 2009 and 2008 product sales in relation to prior fiscal year quarter comparisons were as follows:

	FY 2009				FY 2008			
	Q4	Q3	Q2	Q1	Q4(1)	Q3	Q2	Q1
Product Sales (Decline)								
Growth	(1.4)%	7.6%	15.5%	12.7%	(2.4)%	5.8%	13.6%	3.7%

(1) The fourth quarter of fiscal year 2008 was a 13-week period compared to a 14-week period in the fourth quarter of fiscal year 2007.

Product net sales per day increased in each quarter of fiscal year 2009 as compared with the same period of fiscal year 2008, except for our fourth quarter of fiscal year 2009. We believe this was primarily due to a decline in the general economy. Our product sales per business day for each fiscal quarter during fiscal years 2009 and 2008 were as follows:

	FY 2009				FY 2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Product Sales Per Business Day	\$ 191	\$ 226	\$ 206	\$ 192	\$ 197	\$ 213	\$ 178	\$ 171

Overall product sales from fiscal year 2008 to fiscal year 2009 reflect 1.8% growth in our direct distribution channel. The direct distribution channel experienced a 5.8% growth in the first half of fiscal year 2009, due primarily to a combination of increased prices, new product introductions by strategic suppliers, increased customer response to our sales and marketing efforts, and growing sales through our website. Direct distribution channel's sales in the third and fourth quarters of fiscal year 2009 declined 1.5% and 1.9%, respectively, compared to those in the third and fourth quarters of fiscal year 2008. We attribute this decline to the general weakness in the economy as demand from customers decreased despite aggressive pricing. For fiscal year 2009, our direct distribution channel gross profit percentage decreased 160 basis points, primarily as a result of more competitive pricing in both our U.S. and Canadian markets. While our direct distribution channel grew modestly in fiscal year 2009, our reseller distribution channel increased 34.0%, when compared to fiscal year 2008. We believe resellers continue to utilize us for our extensive availability to a broad range of new and existing products from within our inventory. While sales increased significantly, our continued use of a volume-based pricing structure allowed us to improve our reseller gross profit percentage by 70 basis points in fiscal year 2009 when compared to the fiscal year 2008. The following table presents the percent of net sales for our significant product distribution channels for each fiscal quarter during fiscal years 2009 and 2008:

	FY 2009				FY 2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Percent of Net Sales:								
Direct	77.0%	72.7%	71.1%	74.1%	77.4%	79.5%	77.4%	79.1%
Reseller	21.6%	26.1%	27.3%	24.3%	21.1%	19.1%	21.0%	19.3%
Freight Billed to Customer	1.4%	1.2%	1.6%	1.6%	1.5%	1.4%	1.6%	1.6%

100.0% 100.0% 100.0% 100.0% 100.0% 100.0% 100.0% 100.0%

Customer product orders include orders for instruments that we routinely stock in our inventory, customized products, and other products ordered less frequently, which we do not stock. Pending product shipments are primarily backorders, but also include products that are requested to be calibrated in our laboratories prior to shipment, orders required to be shipped complete, and orders required to be shipped at a future date. Our total pending product shipments at the end of fiscal year 2009 decreased by approximately \$0.2 million, or 16.2% from the balance at the end of fiscal year 2008. We believe this decrease was a result of a decline in the general economy. The following table reflects the percentage of total pending product shipments that were

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backorders at the end of each fiscal quarter in 2009 and 2008 and our historical trend of total pending product shipments:

	FY 2009				FY 2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total Pending Product Shipments	\$ 1,189	\$ 1,701	\$ 1,398	\$ 1,366	\$ 1,419	\$ 1,411	\$ 1,689	\$ 1,678
% of Pending Product Shipments that are Backorders	81.0%	84.1%	70.7%	74.7%	81.5%	78.1%	74.1%	81.0%

Calibration services revenue, which accounted for 31.7% of our total net revenue in fiscal year 2009 and 32.5% of our total net revenue in fiscal year 2008, increased 4.5% from fiscal year 2008 to fiscal year 2009. Incremental revenue achieved through new customer acquisition, resulting from our sales and marketing efforts and our acquisition of Westcon, was partially offset by declines in our existing customer base. Within any year, while we add new customers, we also have customers from the prior year whose calibrations may not repeat for any number of factors. Among those factors are the variations in the timing of customer periodic calibrations on instruments and other services, customer capital expenditures and customer outsourcing decisions. Because of the timing of calibration orders and segment expenses can vary on a quarter-to-quarter basis, we believe a trailing twelve month trend provides a better indication of the progress of this segment. Our fiscal years 2009 and 2008 calibration service revenue in relation to prior fiscal year quarter comparisons, were as follows:

	FY 2009				FY 2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Service Revenue (Decline) Growth	(0.9)%	10.3%	4.5%	5.3%	10.6%	9.9%	8.6%	5.6%

Within the calibration industry, there is a broad array of measurement disciplines making it costly and inefficient for any one provider to invest the needed capital for facilities, equipment and uniquely trained personnel necessary to address all measurement disciplines with in-house calibration capabilities. Our strategy has been to focus our investments in the core electrical, temperature, pressure and dimensional disciplines. Accordingly, 15% to 20% of Service segment revenue is generated from outsourcing customer equipment to third party vendors for calibration beyond our chosen scope of capabilities. The following table presents the percent of Service segment revenue for the significant sources for each fiscal quarter during fiscal years 2009 and 2008:

	FY 2009				FY 2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Percent of Service Revenue:								
Depot/Onsite	81.2%	78.5%	78.6%	80.8%	81.0%	78.8%	78.9%	79.2%
Outsourced	15.8%	18.2%	18.8%	16.4%	16.4%	18.6%	18.4%	18.2%



Freight Billed to Customers	3.0%	3.3%	2.6%	2.8%	2.6%	2.6%	2.7%	2.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**Gross Profit:**

	<b>For the Years Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Gross Profit:		
Product	\$ 13,070	\$ 13,205
Service	5,678	5,336
Total	\$ 18,748	\$ 18,541

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Gross profit, as a percent of total net revenue, decreased from 26.3% in fiscal year 2008 to 24.9% in fiscal year 2009.

Distribution products gross profit decreased \$0.1 million, or 1.0%, from fiscal year 2008 to fiscal year 2009.

Contributing to this decline was a greater mix of sales into our lower margin reseller channel, a decrease of \$0.3 million in income from our rebate programs, and increased pricing discounts. These same factors led to a decline in product profit margin from 27.8% in fiscal year 2008 to 25.4% in fiscal year 2009.

Our product gross profit may be influenced by a number of factors that can impact quarterly comparisons. Among those factors are sales to our reseller channel which have lower margins than our direct customer base, periodic rebates on purchases, and cooperative advertising received from suppliers. The following table reflects the quarterly historical trend of our product gross profit as a percent of product net sales:

	FY 2009				FY 2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Channel Gross Profit %								
Direct(1)	24.0%	24.6%	26.5%	25.8%	26.2%	26.7%	27.8%	26.6%
Channel Gross Profit %								
Reseller(1)	18.7%	17.8%	18.3%	18.2%	16.4%	18.3%	18.4%	16.7%
Channel Gross Profit %								
Combined(2)	22.8%	22.8%	24.2%	23.9%	24.1%	25.1%	25.8%	24.6%
Other Items %(3)	1.2%	1.6%	1.8%	3.4%	3.0%	3.0%	2.1%	3.4%
Total Product Gross Profit %	24.0%	24.4%	26.0%	27.3%	27.1%	28.1%	27.9%	28.0%

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

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

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

Calibration services gross profit increased \$0.3 million, or 6.4%, from fiscal year 2008 to fiscal year 2009. As a percent of service revenue, calibration services gross profit increased 40 basis points from fiscal year 2008 to fiscal year 2009. The improvement in calibration services gross profit and margin is a direct result of reduced performance-based bonus and profit sharing expense. The following table reflects our calibration services gross profit growth in relation to prior fiscal year quarters:

	FY 2009				FY 2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Service Gross Profit Dollar Growth (Decline)	5.7%	16.8%	4.8%	(0.3)%	32.5%	14.0%	5.0%	3.8%

**Operating Expenses:**

	<b>For the Years Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Operating Expenses:		
Selling, Marketing and Warehouse	\$ 9,935	\$ 9,056
Administrative	6,127	6,202
Total	\$ 16,062	\$ 15,258

Operating expenses were \$16.1 million, or 21.3% of total net revenue, in fiscal year 2009 compared with \$15.3 million, or 21.7% of total net revenue, in fiscal year 2008. Included in fiscal year 2009 operating expenses were \$1.1 million in Westcon expenses, of which \$0.3 million related to non-recurring administrative expenses associated with integration. Exclusive of incremental Westcon expenses, our organic operating expenses decreased 1.8% in fiscal year 2009 compared with fiscal year 2008, primarily due to reductions in

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employee stock-based compensation, performance-based management bonus and employee profit sharing expense, partially offset by investments in our sales and marketing for the Service segment.

***Other Expense:***

	<b>For the Years Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Other Expense:		
Interest Expense	\$ 100	\$ 101
Other Expense, net	67	437
Total	\$ 167	\$ 538

Interest expense of \$0.1 million in fiscal year 2009 was consistent with interest expense in fiscal year 2008. Other expense decreased \$0.4 million from fiscal year 2008 to fiscal year 2009 due to reduced foreign exchange losses. We have a program in place to hedge the majority of our risk to fluctuations in the value of the U.S. dollar relative to the Canadian dollar.

***Taxes:***

	<b>For the Years Ended</b>	
	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Provision for Income Taxes	\$ 963	\$ 382

In fiscal year 2009, we recognized a \$1.0 million provision for income taxes, compared with a \$0.4 million provision in fiscal year 2008. Fiscal year 2008 included a \$0.8 million benefit from a reduction in our deferred tax asset valuation allowance relating to our U.S. foreign tax credit carryforwards.

**LIQUIDITY AND CAPITAL RESOURCES**

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

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

	<b>For the Years Ended</b>	
	<b>March 27, 2010</b>	<b>March 28, 2009</b>
Cash Provided by (Used in):		
Operating Activities	\$ 5,649	\$ 3,816

Investing Activities	(4,139)	(7,416)
Financing Activities	(1,469)	3,472

**Operating Activities:** Cash provided by operating activities for fiscal year 2010 was \$5.6 million compared to \$3.8 million in fiscal year 2009. Significant working capital fluctuations were as follows:

Inventory/Accounts Payable: Inventory balance at March 27, 2010 was \$5.9 million, an increase of \$1.0 million when compared to the \$4.9 million on-hand on March 28, 2009. The increase was partly due to inventory acquired in the acquisition of United Scale as well as a strategic decision we made to maintain higher inventory levels of specific, higher-volume products, in support of greater sales growth and in an effort to reduce future backorder issues similar to those experienced at times during fiscal year 2010. The timing of inventory receipts impacted the accounts payable balance and is the primary reason for the \$3.6 million increase in accounts payable in fiscal year 2010, compared to a \$1.6 million

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decrease in fiscal year 2009. In general, our accounts payable balance increases or decreases as a result of timing of vendor payments for inventory receipts.

Receivables: We continue to generate positive operating cash flows and maintain strong collections on our accounts receivable.

The following table illustrates our days sales outstanding from fiscal year 2009 to fiscal year 2010:

	<b>March 27, 2010</b>	<b>March 28, 2009</b>
Net Sales, for the last two fiscal months	\$ 17,824	\$ 14,226
Accounts Receivable, net	\$ 11,439	\$ 8,981
Days Sales Outstanding	39	38

Accrued Compensation and Other Liabilities: Lower payments for employee profit sharing and performance-based management bonuses during fiscal year 2010, while accruing for future payments at March 27, 2010, contributed to the \$1.5 million of cash provided during fiscal year 2010 compared with \$0.8 million of cash used in fiscal year 2009.

**Investing Activities:** In fiscal year 2010, we used \$4.1 million of cash in investing activities. The primary uses of the cash were \$1.9 million for the acquisition of United Scale, \$1.1 million in contingent consideration relating to our acquisition of Westcon and \$1.1 million to purchase property and equipment, primarily for additional lab capabilities and information technology. In fiscal year 2009, we used \$7.4 million of cash in investing activities, of which approximately \$5.6 million was associated with the purchase of Westcon. In addition, during fiscal year 2009, we used \$1.8 million of cash for the purchase of property and equipment primarily for the expansion of capabilities in our calibration laboratories which included improvements to our facilities and infrastructure.

**Financing Activities:** During fiscal year 2010, we used \$1.5 million in cash for financing activities, including \$1.0 million to reduce our debt. In addition, we used \$0.6 million of cash for the repurchase of 143,000 shares of common stock from beneficiaries of a former Board member's estate at a price of \$4.45 per share. This use of cash was offset by \$0.2 million of cash generated primarily from the issuance of common stock through the exercise of stock options and warrants. Financing activities provided \$3.5 million in cash during fiscal year 2009. Net borrowings from our revolving line of credit provided \$3.2 million during fiscal year 2009, primarily due to borrowings used to acquire Westcon. In addition, \$0.2 million of cash was generated in fiscal year 2009 primarily from the issuance of common stock through the exercise of stock options and warrants.

**Contractual Obligations and Commercial Commitments.** The table below contains aggregated information about future payments related to contractual obligations and commercial commitments such as debt and lease agreements (in millions):

	<b>Payments Due By Period</b>				<b>Total</b>
	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More than 5 Years</b>	
Revolving Line of Credit(1)	\$	\$ 2.5	\$	\$	\$ 2.5

Operating Leases	1.1	1.6	0.7	1.4	4.8
Total Contractual Cash Obligations	\$ 1.1	\$ 4.1	\$ 0.7	\$ 1.4	\$ 7.3

(1) Due to the uncertainty of forecasting expected variable rate interest payments, this amount excludes interest portion of the debt obligation.

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**OUTLOOK**

With an expanded service capability and product portfolio, we are strategically positioned to further capitalize on our customers' requirements for high quality calibration and repair services and a convenient, cost-competitive source for a broad inventory of handheld test and measurement equipment. Looking ahead to fiscal year 2011, we anticipate that our quarterly performance should result in strong first half year-over-year comparisons that will moderate in the second half to be more in line with our previously communicated organic growth rates of low-to-mid single digit growth in our Product segment and low double digit growth in our Service segment. More significantly, we expect that as our top line expands, we will continue to realize the significant leverage available in our Service segment and our bottom line should expand at an appreciably greater rate. Capital spending, excluding any acquisitions, is expected to be in the range of \$1.5 million to \$2.0 million in fiscal year 2011.

**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 less than \$0.1 million assuming our average-borrowing levels remained constant. As of March 27, 2010, \$13.8 million was available under our credit facility, subject to the maximum borrowing restriction based on a 2.75 multiple of earnings before income taxes, depreciation and amortization for the preceding four consecutive fiscal quarters, of which \$2.5 million was outstanding.

Under our credit facility described in Note 3 of our Consolidated Financial Statements, interest is adjusted on a quarterly basis based upon our calculated leverage ratio. We mitigate our interest rate risk by electing the lower of the base rate available under the credit facility and the London Interbank Offered Rate ( LIBOR ). As of March 27, 2010, the base rate and the LIBOR rate were 3.3% and 0.2%, respectively. Our interest rate for fiscal year 2010 ranged from 1.1% to 2.8%. On March 27, 2010 and March 28, 2009, we had no hedging arrangements in place to limit our exposure to upward movements in interest rates.

**FOREIGN CURRENCY**

Over 90% of our net revenues for fiscal years 2010 and 2009 were denominated in United States dollars, with the remainder denominated in Canadian dollars. A 10% change in the value of the Canadian dollar to the United States dollar would impact our net revenues by less than 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.

We periodically enter into foreign exchange forward contracts to reduce the risk that our earnings would be adversely affected by changes in currency exchange rates. We do not apply hedge accounting and therefore, the change in the fair value of the contracts, which totaled less than \$0.1 million in each of fiscal years 2010 and 2009 was recognized as a component of other expense in the Consolidated Statements of Operations and Comprehensive Income. The change in the fair value of the contracts is offset by the change in fair value on the underlying receivables denominated in Canadian dollars being hedged. On March 27, 2010, we had a foreign exchange contract set to mature in April 2010, outstanding in the notional amount of \$0.4 million. On March 28, 2009, we had foreign exchange contracts outstanding in the notional amount of \$0.3 million. We do not use hedging arrangements for speculative purposes.





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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Transcat, Inc. and its subsidiaries ( the Company ) as of March 27, 2010 and March 28, 2009 and the related consolidated statements of operations and comprehensive income, shareholders equity and cash flows for each of the three years in the period ended March 27, 2010. In connection with our audits of the financial statements, we have also audited the schedule listed in the accompanying index. 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 audits.

We conducted our audits 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. 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, 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 audits provide 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 27, 2010 and March 28, 2009, and the results of their operations and their cash flows for each of the three years in the period ended March 27, 2010, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 10 to the consolidated financial statements, effective March 29, 2009 the Company adopted Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations, now codified as Accounting Standards Codification Topic 805, Business Combinations.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP  
BDO Seidman, LLP

New York, New York  
June 24, 2010

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**TRANSCAT, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(In Thousands, Except Per Share Amounts)

	<b>For the Years Ended</b>		
	<b>March 27, 2010</b>	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Product Sales	\$ 53,143	\$ 51,480	\$ 47,539
Service Revenue	27,918	23,939	22,914
Net Revenue	81,061	75,419	70,453
Cost of Products Sold	40,701	38,410	34,334
Cost of Services Sold	21,066	18,261	17,578
Total Cost of Products and Services Sold	61,767	56,671	51,912
Gross Profit	19,294	18,748	18,541
Selling, Marketing and Warehouse Expenses	10,682	9,935	9,056
Administrative Expenses	6,231	6,127	6,202
Total Operating Expenses	16,913	16,062	15,258
Operating Income	2,381	2,686	3,283
Interest Expense	63	100	101
Other Expense, net	35	67	437
Total Other Expense	98	167	538
Income Before Income Taxes	2,283	2,519	2,745
Provision for Income Taxes	832	963	382
Net Income	1,451	1,556	2,363
Other Comprehensive Income (Loss)	62	(116)	393
Comprehensive Income	\$ 1,513	\$ 1,440	\$ 2,756
Basic Earnings Per Share	\$ 0.20	\$ 0.21	\$ 0.33
Average Shares Outstanding	7,352	7,304	7,132
Diluted Earnings Per Share	\$ 0.19	\$ 0.21	\$ 0.32
Average Shares Outstanding	7,549	7,469	7,272

See accompanying notes to consolidated financial statements.



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

	<b>March 27, 2010</b>	<b>March 28, 2009</b>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 123	\$ 59
Accounts Receivable, less allowance for doubtful accounts of \$82 and \$75 as of March 27, 2010 and March 28, 2009, respectively	11,439	8,981
Other Receivables	418	119
Inventory, net	5,906	4,887
Prepaid Expenses and Other Current Assets	915	774
Deferred Tax Asset	566	380
<b>Total Current Assets</b>	<b>19,367</b>	<b>15,200</b>
Property and Equipment, net	4,163	4,174
Goodwill	10,038	7,923
Intangible Assets, net	1,234	1,091
Deferred Tax Asset	533	635
Other Assets	378	368
<b>Total Assets</b>	<b>\$ 35,713</b>	<b>\$ 29,391</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts Payable	\$ 8,798	\$ 4,748
Accrued Compensation and Other Liabilities	3,171	1,757
Income Taxes Payable	251	215
<b>Total Current Liabilities</b>	<b>12,220</b>	<b>6,720</b>
Long-Term Debt	2,532	3,559
Other Liabilities	704	493
<b>Total Liabilities</b>	<b>15,456</b>	<b>10,772</b>
Shareholders Equity:		
Common Stock, par value \$0.50 per share, 30,000,000 shares authorized; 7,698,450 and 7,656,358 shares issued as of March 27, 2010 and March 28, 2009, respectively; 7,279,668 and 7,380,576 shares outstanding as of March 27, 2010 and March 28, 2009, respectively	3,849	3,828
Capital in Excess of Par Value	9,357	8,606
Accumulated Other Comprehensive Income	382	320
Retained Earnings	8,304	6,853
	(1,635)	(988)

Less: Treasury Stock, at cost, 418,782 and 275,782 shares as of March 27, 2010 and March 28, 2009, respectively

Total Shareholders' Equity	20,257	18,619
Total Liabilities and Shareholders' Equity	\$ 35,713	\$ 29,391

See accompanying notes to consolidated financial statements.

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

	<b>For the Years Ended</b>		
	<b>March 27, 2010</b>	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Cash Flows from Operating Activities:			
Net Income	\$ 1,451	\$ 1,556	\$ 2,363
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Deferred Income Taxes	35	246	40
Depreciation and Amortization	2,080	1,897	1,761
Provision for (Recovery of) Accounts Receivable and Inventory Reserves	133	304	(23)
Stock-Based Compensation Expense	579	666	780
Changes in Assets and Liabilities, net of acquisitions:			
Accounts Receivable and Other Receivables	(2,453)	1,418	(186)
Inventory	(669)	836	(1,039)
Prepaid Expenses and Other Assets	(707)	(694)	(662)
Accounts Payable	3,639	(1,585)	640
Accrued Compensation and Other Liabilities	1,529	(789)	(15)
Income Taxes Payable	32	(39)	(66)
Net Cash Provided by Operating Activities	5,649	3,816	3,593
Cash Flows from Investing Activities:			
Purchase of Property and Equipment	(1,128)	(1,775)	(1,505)
Payments of Contingent Consideration	(1,094)		
Business Acquisitions, net of cash acquired	(1,917)	(5,641)	
Net Cash Used in Investing Activities	(4,139)	(7,416)	(1,505)
Cash Flows from Financing Activities:			
Revolving Line of Credit, net	(1,001)	3,199	(2,598)
Payments on Other Debt Obligations	(26)	(10)	
Issuance of Common Stock	201	239	266
Repurchase of Common Stock	(647)		
Excess Tax Benefits Related to Stock-Based Compensation	4	44	86
Net Cash (Used in) Provided by Financing Activities	(1,469)	3,472	(2,246)
Effect of Exchange Rate Changes on Cash	23	(21)	9
Net Increase (Decrease) in Cash	64	(149)	(149)
Cash at Beginning of Period	59	208	357



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Cash at End of Period	\$ 123	\$ 59	\$ 208
Supplemental Disclosures of Cash Flow Activity:			
Cash paid during the period for:			
Interest	\$ 74	\$ 91	\$ 114
Income Taxes, net	\$ 741	\$ 715	\$ 253
Supplemental Disclosure of Non-Cash Investing and Financing Activities:			
Contingent Consideration Related to Business Acquisition	\$ 207	\$	\$
Stock Issued in Connection with Business Acquisition	\$	\$ 1,113	\$
Capital Lease Obligation	\$	\$ 49	\$
Expiration of Warrants from Debt Retirement	\$	\$	\$ 329

See accompanying notes to consolidated financial statements.

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

	Common Stock Issued \$0.50 Par Value		Capital In Excess of Par Value	Warrants	Accumulated Other Comprehensive	Retained	Treasury Stock Outstanding at Cost		Total
	Shares	Amount	Value		Income	Earnings	Shares	Amount	
Balance as of March 31, 2007	7,286	\$ 3,643	\$ 5,268	\$ 329	\$ 43	\$ 2,934	276	\$ (988)	\$ 11,229
Issuance of Common Stock	130	65	201						266
Stock-Based Compensation			608						608
Tax Benefit from Stock-Based Compensation			86						86
Restricted Stock	30	15	157						172
Expired Warrants			329	(329)					
Comprehensive Income:									
Currency Translation Adjustment					385				385
Unrecognized Prior Service Cost, net of tax					8				8
Net Income						2,363			2,363
Balance as of March 29, 2008	7,446	\$ 3,723	\$ 6,649	\$	\$ 436	\$ 5,297	276	\$ (988)	\$ 15,117
Issuance of Common Stock	210	105	1,247						1,352
Stock-Based Compensation			666						666
Tax Benefit from Stock-Based Compensation			44						44
Comprehensive Income:									
Currency Translation Adjustment					(104)				(104)
Unrecognized Prior Service Cost, net of tax					(12)				(12)
Net Income						1,556			1,556
Balance as of March 28, 2009	7,656	\$ 3,828	\$ 8,606	\$	\$ 320	\$ 6,853	276	\$ (988)	\$ 18,619
Issuance of Common Stock	42	21	180						201
Repurchase of Common Stock							143	(647)	(647)
Stock-Based Compensation			579						579
Tax Expense from Stock-Based Compensation			(8)						(8)
Comprehensive Income:									

Currency Translation Adjustment					101					101
Unrecognized Prior Service Cost, net of tax					(39)					(39)
Net Income						1,451				1,451
Balance as of March 27, 2010	7,698	\$ 3,849	\$ 9,357	\$	\$ 382	\$ 8,304	419	\$ (1,635)	\$	20,257

See accompanying notes to consolidated financial statements.

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**TRANSCAT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(In Thousands, Except Per Share Amounts)

**NOTE 1 GENERAL**

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

**Basis of Presentation:** During the second quarter of the fiscal year ended March 27, 2010, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. This statement, now codified as Accounting Standards Codification ( ASC ) Topic 105, Generally Accepted Accounting Principles, did not change accounting principles generally accepted in the United States ( GAAP ), but established the ASC as the single source of authoritative accounting principles recognized by the Financial Accounting Standards Board ( FASB ). The adoption of this statement did not have an impact on the Company s Consolidated Financial Statements.

**Principles of Consolidation:** The Consolidated Financial Statements of Transcat include the accounts of Transcat, Inc. and the Company s wholly-owned subsidiaries, Transmation (Canada) Inc., Westcon, Inc. ( Westcon ) and USEC Acquisition Corp. ( USEC Acquisition ). All significant intercompany balances and transactions have been eliminated in consolidation.

On January 27, 2010, Transcat, through its wholly-owned subsidiary USEC Acquisition acquired United Scale & Engineering Corporation ( United Scale ), a Wisconsin corporation, pursuant to a Stock Purchase Agreement. See Note 10 for more information on this acquisition.

On March 29, 2009, the Company adopted SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, now codified within ASC Topic 810, Consolidation. This statement applies to the accounting for noncontrolling interests (previously referred to as minority interests) in a subsidiary and for the deconsolidation of a subsidiary and requires noncontrolling interests to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Since the Company does not have any noncontrolling interests, the adoption of this statement did not have an impact on the Company s Consolidated Financial Statements.

**Use of Estimates:** The preparation of Transcat s Consolidated Financial Statements in accordance with Generally Accepted Accounting Principles (GAAP) requires that the Company make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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 fixed assets, estimated lives of major catalogs and intangible assets, and deferred tax asset 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 the operating environment changes. Actual results could differ from 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:** Transcat operates on a 52/53 week fiscal year, ending the last Saturday in March. In a 52-week fiscal year, each of the four quarters is a 13-week period. In a 53-week fiscal year, the last quarter is a 14-week period. The fiscal years ended March 27, 2010 ( fiscal year 2010 ), March 28, 2009 ( fiscal year 2009 ) and March 29, 2008 ( fiscal year 2008 ) consisted of 52 weeks.

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

**Inventory:** Inventory consists of products purchased for resale and is valued at the lower of cost or market. Costs are determined using the average cost method of inventory valuation. Inventory is reduced by a reserve for items not saleable at or above cost by applying a specific loss factor, based on historical experience, to specific categories of inventory. The Company evaluates the adequacy of the reserve on a quarterly basis.

**Property and Equipment, Depreciation and Amortization:** Property and equipment are stated at cost. Depreciation and amortization are computed primarily under the straight-line method over the following estimated useful lives:

	<b>Years</b>
Machinery, Equipment and Software	2 - 6
Furniture and Fixtures	3 - 10
Leasehold Improvements	2 - 10

Property and equipment determined to have no value are written off at their then remaining net book value. Transcat capitalizes certain costs incurred in the procurement and development of computer software used for internal purposes. 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 for further information on property and equipment.

**Goodwill and Intangible Assets:** Goodwill represents costs in excess of fair values assigned to the underlying net assets of an acquired business. Other intangible assets, namely customer base, represent an allocation of purchase price to identifiable intangible assets of an acquired business.

Transcat estimates the fair value of the Company's reporting units using the fair market value measurement requirement, rather than the undiscounted cash flows approach. The Company tests goodwill and intangible assets for impairment on an annual basis, or immediately if conditions indicate that such impairment could exist. The evaluation of the Company's reporting units on a fair value basis indicated that no impairment existed as of March 27, 2010 and March 28, 2009.

A summary of changes in the Company's goodwill and intangible assets is as follows:

	<b>Goodwill</b>			<b>Intangible Assets</b>		
	<b>Product</b>	<b>Service</b>	<b>Total</b>	<b>Product</b>	<b>Service</b>	<b>Total</b>
Net Book Value as of March 29, 2008	\$ 1,524	\$ 1,443	\$ 2,967	\$	\$	\$

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Additions (see Note 10)	3,965	991	4,956	480	726	1,206
Amortization				(45)	(70)	(115)
Net Book Value as of March 28, 2009	\$ 5,489	\$ 2,434	\$ 7,923	\$ 435	\$ 656	\$ 1,091
Additions (see Note 10)	1,283	832	2,115	17	324	341
Amortization				(79)	(119)	(198)
Net Book Value as of March 27, 2010	\$ 6,772	\$ 3,266	\$ 10,038	\$ 373	\$ 861	\$ 1,234

The intangible assets are being amortized on an accelerated basis over their estimated useful life of 10 years. Amortization expense relating to intangible assets is expected to be \$0.2 million in fiscal year 2011,

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\$0.3 million in fiscal year 2012, \$0.2 million in each of the fiscal years 2013 and 2014, and \$0.1 million in fiscal year 2015.

**Catalog Costs:** Transcat capitalizes the cost of each Master Catalog mailed and amortizes the cost over the respective catalog's estimated productive life. The Company reviews response results from catalog mailings on a continuous basis, and if warranted, modifies 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 unamortized catalog costs included as a component of prepaid expenses and other current assets on the Consolidated Balance Sheets were \$0.4 million as of March 27, 2010 and March 28, 2009.

**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. If necessary, a valuation allowance on net deferred tax assets is provided for items for which it is more likely than not that the benefit of such items will not be realized based on an assessment of both positive and negative evidence. See Note 4 for further discussion on income taxes.

**Fair Value Measurements:** Transcat has determined the fair value of debt and other financial instruments using a valuation hierarchy. The hierarchy, which prioritizes the inputs used in measuring fair value, consists of three levels. Level 1 uses observable inputs such as quoted prices in active markets; Level 2 uses inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, which is defined as unobservable inputs in which little or no market data exists, requires the Company to develop its own assumptions. The carrying amount of debt on the Consolidated Balance Sheets approximates fair value due to variable interest rate pricing, and the carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short-term nature.

During fiscal year 2010, the Company adopted Financial Statement of Position ( FSP ) No. 157-2, Partial Deferral of the Effective Date of Statement 157, and FSP No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, now codified within ASC Topic 820, Fair Value Measurements ( ASC 820 ). The adoption of these pronouncements did not have a material impact on the Company's Consolidated Financial Statements.

**Stock-Based Compensation:** The Company measures the cost of services received in exchange for all equity awards granted, including stock options, warrants and restricted stock, based on the fair market value of the award as of the grant date. The Company records compensation cost related to unvested stock awards by recognizing, on a straight line basis, the unamortized grant date fair value over the remaining service period of each award. Excess tax benefits from the exercise of stock awards are presented in the Consolidated Statements of Cash Flows as a financing activity. Excess tax benefits are realized benefits from tax deductions for exercised awards in excess of the deferred tax asset attributable to stock-based compensation costs for such awards. The Company did not capitalize any stock-based compensation costs as part of an asset. The Company estimates forfeiture rates based on its historical experience. During fiscal years 2010, 2009 and 2008, the Company recorded non-cash stock-based compensation cost in the amount of \$0.6 million, \$0.7 million and \$0.8 million, respectively, in the Consolidated Statements of Operations and Comprehensive Income.

The estimated fair value of options granted was calculated using the Black-Scholes-Merton pricing model ( Black-Scholes ), which produced a weighted average fair value granted of \$3.67 per share in fiscal year 2010, \$4.02 per share in fiscal year 2009 and \$4.59 per share in fiscal year 2008.

The following are the weighted average assumptions used in the Black-Scholes model:



	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
Expected life	6 years	6 years	6 years
Annualized volatility rate	57.3%	61.3%	68.3%
Risk-free rate of return	2.8%	3.3%	4.5%
Dividend rate	0.0%	0.0%	0.0%

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The Black-Scholes model incorporates assumptions to value stock-based awards. The risk-free rate of return for periods within the contractual life of the award is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility is based on historical volatility of the Company's stock. The expected option term represents the period that stock-based awards are expected to be outstanding based on the simplified method, which averages an award's weighted-average vesting period and expected term for plain vanilla share options. Options are considered to be plain vanilla if they have the following basic characteristics: granted at-the-money; exercisability is conditioned upon service through the vesting date; termination of service prior to vesting results in forfeiture; limited exercise period following termination of service; and options are non-transferable and non-hedgeable. The Company will continue to use the simplified method until it has the historical data necessary to provide a reasonable estimate of expected life. For the expected term, the Company has plain vanilla stock options, and therefore used a simple average of the vesting period and the contractual term for options granted subsequent to January 1, 2006.

**Revenue Recognition:** Product sales are recorded when a product's title and risk of loss transfers to the customer. The Company recognizes the majority of its service revenue based upon when the calibration or repair activity is performed and then shipped and/or delivered to the customer. Some service revenue is generated from managing customers' calibration programs in which the Company recognizes revenue in equal amounts at fixed intervals. The Company generally invoices its customers for freight, shipping, and handling charges. Provisions for customer returns are provided for in the period the related revenue is recorded based upon historical data.

**Vendor Rebates:** Vendor rebates are based on a specified cumulative level of purchases and incremental product sales and are recorded as a reduction of cost of products sold. Purchase rebates are calculated and recorded quarterly based upon our volume of purchases with specific vendors during the quarter. Point of sale rebate programs are based upon annual year-over-year sales performance on a calendar year basis and are recorded as earned, on a quarterly basis, based upon the expected level of annual achievement.

**Cooperative Advertising Income:** Transcat records cash consideration received from a vendor as a reduction of cost of products sold as the related inventory is sold. The Company recorded, as a reduction of cost of products sold, consideration in the amount of \$1.1 million in each of the fiscal years 2010, 2009 and 2008.

**Shipping and Handling Costs:** Freight expense and direct shipping costs are included in cost of products and services sold. These costs were approximately \$1.4 million, \$1.5 million and \$1.4 million for fiscal years 2010, 2009 and 2008, respectively. Direct handling costs, the majority of which 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 \$0.7 million in fiscal year 2010, \$0.5 million in fiscal year 2009 and \$0.4 million in fiscal year 2008.

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

Transcat records foreign currency gains and losses on Canadian business transactions. The net foreign currency loss was less than \$0.1 million in each of the fiscal years 2010 and 2009 and \$0.4 million in fiscal year 2008. Beginning in the third quarter of fiscal year 2008, the Company began utilizing foreign exchange forward contracts to reduce the risk that future earnings would be adversely affected by changes in currency exchange rates. The Company does not

apply hedge accounting and therefore, the change in the fair value of the contracts, which totaled less than \$0.1 million in each of the fiscal years 2010 and 2009 and \$0.2 million in fiscal year 2008, was recognized as a component of other expense in the Consolidated Statements of Operations and Comprehensive Income. The change in the fair value of the contracts is offset by the change in fair value on the underlying receivables denominated in Canadian dollars being hedged. On March 27, 2010,

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the Company had a foreign exchange contract set to mature in April 2010, outstanding in the notional amount of \$0.4 million. On March 28, 2009, the Company had foreign exchange contracts outstanding in the notional amount of \$0.3 million. The Company does not use hedging arrangements for speculative purposes.

On March 29, 2009, the Company adopted SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, now codified within ASC Topic 815, Derivatives and Hedging. This statement intends to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements.

**Comprehensive Income:** Other comprehensive income is comprised of net income, currency translation adjustments and unrecognized prior service costs, net of tax. At March 27, 2010, accumulated other comprehensive income consisted of cumulative currency translation gains of \$0.6 million and unrecognized prior service costs, net of tax, of \$0.2 million. At March 28, 2009, accumulated other comprehensive income consisted of cumulative currency translation gains of \$0.5 million and unrecognized prior service costs, net of tax, of \$0.2 million.

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

For fiscal year 2010, the net additional common stock equivalents had a \$.01 per share effect on the calculation of dilutive earnings per share. For fiscal years 2009 and 2008, the net additional common stock equivalents had no effect and a \$0.01 per share effect, respectively, on the calculation of dilutive earnings per share. The average shares outstanding used to compute basic and diluted earnings per share are as follows:

	<b>For the Years Ended</b>		
	<b>March 27, 2010</b>	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Average Shares Outstanding - Basic	7,352	7,304	7,132
Effect of Dilutive Common Stock Equivalents	197	165	140
Average Shares Outstanding - Diluted	7,549	7,469	7,272
Anti-dilutive Common Stock Equivalents	644	616	615

On March 29, 2009, the Company adopted FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, now codified within ASC Topic 260, Earnings Per Share (ASC 260). This pronouncement addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore, need to be included in the computation of earnings per share under the two-class method as described in ASC 260. The adoption of this pronouncement did not

have a material impact on the Company's Consolidated Financial Statements.

**Subsequent Events:** In May 2009, the FASB issued SFAS No. 165, Subsequent Events, now codified as ASC Topic 855, Subsequent Events ( ASC 855 ). This statement established general standards of accounting and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It is effective for financial periods ending after June 15, 2009 and is to be applied prospectively. In February 2010, the FASB issued Accounting Standards Update ( ASU ) 2010-09, Subsequent Events, which amended ASC 855 by clarifying that Securities and Exchange Commission filers need not

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disclose the date through which subsequent events have been evaluated and that reissuances for which a subsequent events evaluation is required are limited to revised financial statements, as defined in the ASU.

The Company has evaluated all events and transactions that occurred subsequent to March 27, 2010. No material subsequent events have occurred that require recognition or disclosure in the Consolidated Financial Statements.

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

**NOTE 2 PROPERTY AND EQUIPMENT**

Property and equipment consist of:

	<b>March 27, 2010</b>	<b>March 28, 2009</b>
Machinery, Equipment and Software	\$ 16,608	\$ 15,475
Furniture and Fixtures	1,710	1,688
Leasehold Improvements	904	657
Total Property and Equipment	\$ 19,222	\$ 17,820
Less: Accumulated Depreciation and Amortization	(15,059)	(13,646)
Total Property and Equipment, net	\$ 4,163	\$ 4,174

Total depreciation and amortization expense amounted to \$1.3 million in fiscal year 2010 and \$1.1 million in each of the fiscal years 2009 and 2008.

**NOTE 3 DEBT**

**Description.** Transcat, through a credit agreement (the Credit Agreement) with JPMorgan Chase Bank, N.A. maturing in August 2011, has a revolving credit facility in the amount of \$15.0 million (the Revolving Credit Facility), subject to the maximum borrowing restriction based on a 2.75 multiple of earnings before income taxes, depreciation and amortization for the preceding four consecutive fiscal quarters. As of March 27, 2010, \$13.8 million was available under the Credit Agreement, of which \$2.5 million was outstanding and included in long-term debt on the Consolidated Balance Sheet.

**Interest and Other Costs.** Interest on the Revolving Credit Facility accrues, at Transcat's election, at either a base rate (defined as the highest of prime, a three month certificate of deposit plus 1%, or the federal funds rate plus 1/2 of 1%) (the Base Rate) or the London Interbank Offered Rate (LIBOR), in each case, plus a margin. Commitment fees accrue based on the average daily amount of unused credit available on the Revolving Credit Facility. Interest and commitment fees are adjusted on a quarterly basis based upon the Company's calculated leverage ratio, as defined in the Credit Agreement. The Base Rate and the LIBOR rates as of March 27, 2010 were 3.3% and 0.2%, respectively. The Company's interest rate for fiscal year 2010 ranged from 1.1% to 2.8%. Loan costs associated with the Chase Credit Agreement, totaling less than \$0.1 million, are being amortized over the term of the agreement.

**Covenants.** The Credit Agreement has certain covenants with which the Company has to comply, including a fixed charge ratio covenant and a leverage ratio covenant. The Company was in compliance with all loan covenants and requirements throughout fiscal year 2010.

**Other Terms.** The Company has pledged all of its U.S. tangible and intangible personal property and the common stock of its wholly-owned subsidiaries, Transmation (Canada) Inc. and Westcon as collateral security for the loans made under the Revolving Credit Facility.

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Transcat's net income before income taxes on the Consolidated Statements of Operations is as follows:

	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
United States	\$ 2,289	\$ 2,544	\$ 2,695
Foreign	(6)	(25)	50
Total	\$ 2,283	\$ 2,519	\$ 2,745

The net provision for income taxes for fiscal years 2010, 2009 and 2008 is as follows:

	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
Current Tax Provision:			
Federal	\$ 710	\$ 631	\$ 236
State	87	86	106
	\$ 797	\$ 717	\$ 342
Deferred Tax Provision (Benefit):			
Federal	\$ 34	\$ 225	\$ 69
State	1	21	(29)
	\$ 35	\$ 246	\$ 40
Provision for Income Taxes	\$ 832	\$ 963	\$ 382

A reconciliation of the 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 is as follows:

	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
Federal Income Tax at Statutory Rate	\$ 776	\$ 856	\$ 933
State Income Taxes, net of Federal benefit	91	101	110
Valuation Allowance(1)			(784)
Other, net	(35)	6	123
Total	\$ 832	\$ 963	\$ 382



- (1) In fiscal year 2008, after assessing all available evidence, the Company determined that it was more likely than not that the benefits associated with its U.S. foreign tax credit carryforwards would be realized. As a result, the Company reduced its deferred tax valuation allowance by \$0.8 million and recorded the reduction as a benefit from income taxes in the Consolidated Statements of Operations.

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

	<b>March 27, 2010</b>	<b>March 28, 2009</b>
Current Deferred Tax Assets:		
Accrued Liabilities	\$ 263	\$ 231
Other	303	149
<b>Total Current Deferred Tax Assets</b>	<b>\$ 566</b>	<b>\$ 380</b>
Non-Current Deferred Tax Assets (Liabilities):		
Stock-Based Compensation	\$ 708	\$ 511
Foreign Tax Credits (expiring through March 2018)	494	614
Depreciation	(524)	(536)
Intangible Assets	(469)	(414)
Other	324	460
<b>Total Non-Current Deferred Tax Assets</b>	<b>\$ 533</b>	<b>\$ 635</b>
<b>Net Deferred Tax Assets</b>	<b>\$ 1,099</b>	<b>\$ 1,015</b>

Deferred U.S. income taxes have not been recorded for basis differences related to the investments in the Company's foreign subsidiary, which consist primarily of undistributed earnings. During fiscal year 2008, the Company's foreign subsidiary declared and paid dividends to Transcat in the amount of \$2.6 million (in U.S. dollars), of which \$1.3 million was previously taxed. The Company incurred additional tax of \$0.4 million on the remaining dividend, which was fully offset by the utilization of a portion of the Company's available foreign tax credits, as a component of the provision for income taxes in the Consolidated Statements of Operations. The remaining earnings of the Company's foreign subsidiary are considered permanently reinvested in the subsidiary, therefore, the determination of the deferred tax liability on unremitted earnings is not practicable because such liability, if any, depends on circumstances existing if and when remittance occurs.

The Company files income tax returns in the U.S. federal jurisdiction, various states and Canada. During fiscal year 2010, the Internal Revenue Service (the IRS) commenced an examination of the Company's U.S. federal income tax returns for the tax years ended March 28, 2009 and March 29, 2008. Subsequent to March 27, 2010, the IRS completed its examination with no material adjustments being proposed. The Company is no longer subject to examination by U.S. federal income tax authorities for the tax years 2009 and prior, by state tax authorities for the tax years 2006 and prior, and by Canadian tax authorities for the tax years 2002 and prior. There are no tax years currently under examination by state or Canadian tax authorities.

During fiscal years 2010, 2009 and 2008, the Company recognized no adjustments for material uncertain tax benefits and expects no material changes to unrecognized tax positions within the next twelve months. The Company recognizes interest and penalties, if any, related to uncertain tax positions in the provision for income taxes. No interest and penalties related to uncertain tax positions were recognized in fiscal years 2010, 2009 and 2008 or were accrued at March 27, 2010 and March 28, 2009.

**NOTE 5 DEFINED CONTRIBUTION PLAN**

All of Transcat's United States based employees are eligible to participate in a defined contribution plan, the Long-Term Savings and Deferred Profit Sharing Plan (the Plan), provided certain qualifications are met.

In the long-term savings portion of the Plan (the 401K Plan), plan participants are entitled to a distribution of their vested account balance upon termination of employment or retirement. Plan participants are fully vested in their contributions while Company contributions vest over a three year period. The Company temporarily suspended matching contributions to the 401K Plan for fiscal year 2010. The Company's matching contributions to the 401K Plan were \$0.3 million in each of the fiscal years 2009 and 2008.

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In the deferred profit sharing portion of the Plan, Company contributions are made at the discretion of the Board of Directors. The Company made no profit sharing contributions in fiscal years 2010, 2009 and 2008.

**NOTE 6 POSTRETIREMENT HEALTH CARE PLANS**

The Company has two defined benefit postretirement health care plans. One plan provides limited reimbursement to eligible non-officer participants for the cost of individual medical insurance coverage purchased by the participant following qualifying retirement from employment with the Company (the Non-Officer Plan ). The other plan provides long-term care insurance benefits, medical and dental insurance benefits and medical premium reimbursement benefits to eligible retired corporate officers and their eligible spouses (the Officer Plan ).

The change in the postretirement benefit obligation is as follows:

	<b>FY 2010</b>	<b>FY 2009</b>
Postretirement benefit obligation, at beginning of fiscal year	\$ 458	\$ 359
Service cost	85	50
Interest cost	33	24
Benefits paid	(7)	(6)
Actuarial loss	82	31
Postretirement benefit obligation, at end of fiscal year	651	458
Fair value of plan assets, at end of fiscal year		
Funded status, at end of year	\$ (651)	\$ (458)
Accumulated postretirement benefit obligation, at end of fiscal year	\$ 651	\$ 458

The accumulated postretirement benefit obligation is included as a component of other liabilities (non-current) in the Consolidated Balance Sheets. The components of net periodic postretirement benefit cost and other amounts recognized in other comprehensive income are as follows:

	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
Net periodic postretirement benefit cost:			
Service cost	\$ 85	\$ 50	\$ 34
Interest cost	33	24	16
Amortization of prior service cost	13	13	13
	131	87	63
Benefit obligations recognized in other comprehensive income:			
Amortization of prior service cost	(13)	(13)	(13)
Net loss	77	31	

	64	18	(13)
Total recognized in net periodic benefit cost and other comprehensive income	\$ 195	\$ 105	\$ 50
Amount recognized in accumulated other comprehensive income, at end of fiscal year:			
Unrecognized prior service cost	\$ 327	\$ 263	\$ 245

The prior service cost is amortized on a straight-line basis over the average remaining service period of active participants for the Non-Officer Plan and over the average remaining life expectancy of active participants for the Officer Plan. The estimated prior service cost that will be amortized from accumulated other comprehensive gain into net periodic postretirement benefit cost during the fiscal year 2011 is less than \$0.1 million.

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The postretirement benefit obligation was computed by an independent third party actuary. Assumptions used to determine the postretirement benefit obligation and the net periodic benefit cost were as follows:

	<b>March 27, 2010</b>	<b>March 28, 2009</b>	<b>March 29, 2008</b>
Weighted average discount rate	6.1%	7.4%	6.7%
Medical care cost trend rate:			
Trend rate assumed for next year	8.5%	9.0%	9.5%
Ultimate trend rate	5.0%	5.0%	5.0%
Year that rate reaches ultimate trend rate	2018	2018	2018
Dental care cost trend rate:			
Trend rate assumed for next year and remaining at that level thereafter	5.0%	5.0%	5.0%

Benefit payments are funded by the Company as needed. Payments toward the cost of a retiree's medical and dental coverage, which are initially determined as a percentage of a base coverage plan in the year of retirement as defined in the plan document, are limited to increase at a rate of no more than 3% per year. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

<b>Fiscal Year</b>	<b>Amount</b>
2011	\$ 26
2012	29
2013	43
2014	64
2015	77
2016-2020	397

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated postretirement benefit obligation and the annual net periodic cost by less than \$0.1 million. A one percentage point decrease in the healthcare cost trend would decrease the accumulated postretirement benefit obligation and the annual net periodic cost by less than \$0.1 million.

**NOTE 7 STOCK-BASED COMPENSATION**

The Transcat, Inc. 2003 Incentive Plan, as amended (the 2003 Plan), provides for, among other awards, grants of restricted stock and stock options to directors, officers and key employees to purchase common stock at no less than the fair market value at the date of grant. At March 27, 2010, the number of shares available for future grant under the 2003 Plan totaled 0.2 million.

In addition, Transcat maintains a warrant plan for directors (the Directors Warrant Plan). Under the Directors Warrant Plan, as amended, warrants have been granted to non-employee directors to purchase common stock at the fair market value at the date of grant. All warrants authorized for issuance pursuant to the Directors Warrant Plan have been granted and were fully vested as of August 2009.

**Restricted Stock:** During the first quarter of fiscal years 2010 and 2009, the Company granted performance-based restricted stock awards in place of options as a primary component of executive compensation. These performance-based restricted stock awards vest after three years subject to certain cumulative diluted earnings per share targets over the eligible three-year period.

Compensation cost ultimately recognized for these performance-based restricted stock awards will equal the grant-date fair market value of the award that coincides with the actual outcome of the performance conditions. On an interim basis, the Company records compensation cost based on an assessment of the probability of achieving the performance conditions. At March 27, 2010, the Company estimated the probability of achievement for the performance-based restricted stock awards granted in fiscal year 2010 to be

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75% of the target level. During the fourth quarter of fiscal year 2010, based on an assessment of achieving the performance condition, the Company adjusted the estimated probability of achievement for the performance-based restricted stock awards granted in fiscal year 2009 from 50% to 0%. As a result, cumulative compensation cost relating to these awards was reduced by \$0.1 million and reflected as a reduction of expense in the Consolidated Statement of Operations in fiscal year 2010. Total expense relating to performance-based restricted stock awards, based on grant-date fair market value and the estimated probability of achievement, was less than \$0.1 million during each of fiscal years 2010 and 2009. Unearned compensation totaled \$0.2 million as of March 27, 2010.

Restricted stock awards granted in fiscal year 2008 vested immediately and as such, the Company realized total expense, based on fair market value, in the amount of \$0.2 million in fiscal year 2008.

**Stock Options:** Options generally vest over a period of up to four years, using either a graded schedule or on a straight-line basis, and expire ten years from the date of grant. Beginning in the second quarter of fiscal year 2008, options granted to executive officers vest using a graded schedule of 0% in the first year, 20% in each of the second and third years, and 60% in the fourth year. Prior options granted to executive officers vested equally over three years. The expense relating to these executive officer options is recognized on a straight-line basis over the requisite service period for the entire award.

The following table summarizes the Company's options for fiscal years 2010, 2009 and 2008:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding as of March 31, 2007	329	\$ 3.11		
Granted	407	6.90		
Exercised	(71)	1.37		
Cancelled/Forfeited	(9)	4.12		
Outstanding as of March 29, 2008	656	5.64		
Granted	19	6.75		
Exercised	(6)	2.69		
Cancelled/Forfeited	(4)	6.35		
Outstanding as of March 28, 2009	665	5.70		
Granted	10	6.55		
Cancelled/Forfeited	(1)	2.89		
Outstanding as of March 27, 2010	674	5.72	6	\$ 1,106
Exercisable as of March 27, 2010	417	4.84	6	1,004



The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal year 2010 and the exercise price, multiplied by the number of in-the-money stock options) that would have been received by the option holders had all option holders exercised their options on March 27, 2010. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

Total unrecognized compensation cost related to non-vested stock options as of March 27, 2010 was \$0.5 million, which is expected to be recognized over a weighted average period of one year. In fiscal year 2010, there were no stock options exercised. The aggregate intrinsic value of stock options exercised in fiscal year 2009 was less than \$0.1 million and was \$0.3 million in fiscal year 2008. Cash receipts from the exercise of options in fiscal year 2009 were less than \$0.1 million and were \$0.1 million in fiscal year 2008.

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The following table presents options outstanding and exercisable as of March 27, 2010:

	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted Average Remaining Contractual Term (in Years)	Weighted Average Exercise Price per Share	Number of Shares	Weighted Average Exercise Price per Share
Range of Exercise Prices:					
\$2.20-\$3.50	133	4	\$ 2.51	133	\$ 2.51
\$3.51-\$5.00	55	5	4.31	55	4.31
\$5.01-\$6.50	204	7	5.58	147	5.57
\$6.51-\$7.72	282	7	7.61	82	7.72
Total	674	6	5.72	417	4.84

**Warrants:** Warrants expire in five years from the date of grant. The following table summarizes warrants for fiscal years 2010, 2009 and 2008:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of March 31, 2007	153	\$ 3.27		
Exercised	(43)	1.82		
Cancelled/Forfeited	(11)	4.51		
Outstanding as of March 29, 2008	99	3.75		
Exercised	(32)	2.57		
Cancelled/Forfeited	(4)	5.25		
Outstanding as of March 28, 2009	63	4.28		
Exercised	(18)	3.19		
Cancelled/Forfeited	(4)	2.88		
Outstanding as of March 27, 2010	41	4.89	1	\$ 92
Exercisable as of March 27, 2010	41	4.89	1	92

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal year 2010 and the exercise price, multiplied by the number of in-the-money warrants) that would have been received by the warrant holders had all warrant holders exercised their warrants on March 27, 2010. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock. The aggregate intrinsic value of warrants exercised was \$0.1 million in each of the fiscal years 2010 and 2009, and \$0.2 million in fiscal year 2008. Cash received from the exercise of warrants was less than \$0.1 million in each of fiscal years 2010, 2009 and 2008.

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The following table presents warrants outstanding and exercisable as of March 27, 2010:

	<b>Warrants Outstanding</b>		
	<b>Number of Shares</b>	<b>Remaining Contractual Life (in Years)</b>	<b>Warrants Exercisable (in Shares)</b>
Exercise Prices:			
\$4.26	24		24
\$5.80	17	1	17
Total	41	1	41

**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 revenues. The following table presents segment and geographic data for fiscal years 2010, 2009 and 2008:

	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
Net Revenue:			
Product	\$ 53,143	\$ 51,480	\$ 47,539
Service	27,918	23,939	22,914
Total	81,061	75,419	70,453
Gross Profit:			
Product	12,442	13,070	13,205
Service	6,852	5,678	5,336
Total	19,294	18,748	18,541
Operating Expenses:			
Product(1)	10,155	9,622	9,392
Service(1)	6,758	6,440	5,866
Total	16,913	16,062	15,258
Operating Income	2,381	2,686	3,283
Unallocated Amounts:			
Other Expense, net	98	167	538

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Provision for Income Taxes	832	963	382
Total	930	1,130	920
Net Income	\$ 1,451	\$ 1,556	\$ 2,363
Total Assets(2):			
Product	\$ 20,969	\$ 16,807	\$ 13,871
Service	11,938	10,233	7,407
Unallocated	2,806	2,351	3,066
Total	\$ 35,713	\$ 29,391	\$ 24,344

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	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
<b>Depreciation and Amortization(3):</b>			
Product	\$ 742	\$ 778	\$ 739
Service	1,136	954	893
Unallocated	202	165	129
<b>Total</b>	<b>\$ 2,080</b>	<b>\$ 1,897</b>	<b>\$ 1,761</b>
<b>Capital Expenditures:</b>			
Product	\$ 25	\$ 21	\$ 45
Service	767	1,456	1,268
Unallocated	336	298	192
<b>Total</b>	<b>\$ 1,128</b>	<b>\$ 1,775</b>	<b>\$ 1,505</b>
<b>Geographic Data:</b>			
<b>Net Revenues to Unaffiliated Customers(4):</b>			
United States(5)	\$ 72,595	\$ 66,892	\$ 60,881
Canada	5,872	5,296	6,597
Other International	2,594	3,231	2,975
<b>Total</b>	<b>\$ 81,061</b>	<b>\$ 75,419</b>	<b>\$ 70,453</b>
<b>Long-Lived Assets:</b>			
United States(5)	\$ 4,059	\$ 4,065	\$ 3,093
Canada	104	109	118
<b>Total</b>	<b>\$ 4,163</b>	<b>\$ 4,174</b>	<b>\$ 3,211</b>

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

(2) Goodwill and intangible assets were allocated based on the percentage of segment revenue acquired. For fiscal year 2010, goodwill and intangible assets of \$11.2 million were allocated between our segments as follows: 63% to Product and 37% to Service. For fiscal year 2009, goodwill and intangible assets of \$9.0 million were allocated between our segments as follows: 66% to Product and 34% to Service. For fiscal year 2008, goodwill of \$3.0 million was allocated between our segments as follows: 51% to Product and 49% to Service.

(3) Including amortization of catalog costs.

(4) Net revenues are attributed to the countries based on the destination of a product shipment or the location where service is rendered.

(5) United States includes Puerto Rico.

**Table of Contents****NOTE 9 COMMITMENTS**

**Leases:** Transcat leases facilities, equipment, and vehicles under non-cancelable operating leases. Total rental expense was approximately \$1.3 million in fiscal year 2010, \$1.2 million in fiscal year 2009 and \$1.1 million in fiscal year 2008. The minimum future annual rental payments under the non-cancelable leases at March 27, 2010 are as follows (in millions):

**Fiscal Year**

2011	\$ 1.1
2012	0.9
2013	0.7
2014	0.4
2015	0.3
Thereafter	1.4
Total minimum lease payments	\$ 4.8

The Company leases its facility in Portland, Oregon from an executive officer of the company (the former sole shareholder of Westcon) under a non-cancelable operating lease which expires in August 2011. The minimum future annual rental payments are approximately \$0.1 million per year.

Concurrent with the acquisition of United Scale, the Company entered into a non-cancelable operating lease agreement for a facility in New Berlin, Wisconsin, which is owned by an employee of the Company (a former owner of United Scale). The lease agreement is for a three year period commencing on the acquisition date. The minimum future rental payments are approximately \$0.1 million per year.

**NOTE 10 ACQUISITIONS**

On March 29, 2009, the Company adopted SFAS No. 141 (revised 2007), Business Combinations, now codified as ASC Topic 805, Business Combinations. This statement, which is to be applied prospectively upon adoption, established principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; requires the need to recognize contingent consideration at fair value on the acquisition date; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The statement also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination.

On January 27, 2010, Transcat, through its wholly-owned subsidiary USEC Acquisition, acquired United Scale pursuant to a Stock Purchase Agreement (the Purchase Agreement) for approximately \$2.0 million. United Scale is a supplier and servicer of industrial scales and weighing systems to customers located primarily in Wisconsin, Northern Illinois and Upper Michigan. The acquisition expands the Company's footprint in the Midwest and broadens Transcat's product and service offerings. The results of operations of United Scale are included in Transcat's consolidated operating results as of the date the business was acquired. Pro forma information as of the beginning of the fiscal years presented and the operating results of United Scale since the date of acquisition have not been disclosed as the



acquisition was not considered significant.

The assets and liabilities of United Scale are recorded under the purchase method of accounting at their estimated fair values as of the date of acquisition. Goodwill, totaling \$1.0 million, represents costs in excess of fair values assigned to the underlying net assets of the acquired business. Other intangible assets, namely customer base totaling \$0.3 million, represent an allocation of purchase price to identifiable intangible assets of the acquired business. Intangible assets are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of 10 years. Goodwill and the intangible assets are not deductible for tax purposes.

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Contingent consideration, relating to certain holdback provisions under the terms of the Purchase Agreement, with an estimated fair value of \$0.2 million, using Level 3 inputs to assess fair value under ASC 820, was accrued at the date of purchase. The value of the contingent consideration remained unchanged at March 27, 2010 and is included as an other current liability in the Consolidated Balance Sheet. Acquisition costs, totaling \$0.2 million, were recorded as incurred as an administrative expense in the Consolidated Statement of Operations.

In addition, concurrent with the acquisition, Transcat and the former owners of United Scale entered into an Earn Out Agreement. This agreement provides that the former owners may be entitled to receive earn out payments subject to certain continued employment and post-closing gross profit targets. These potential future payments are expected to be recorded as compensation expense in the period earned.

On August 14, 2008, Transcat acquired Westcon, a distributor of professional grade test and measurement instruments and provider of calibration and repair services to customers located primarily in the western United States. Under the terms of the Agreement and Plan of Merger (the Merger Agreement), Transcat paid an aggregate purchase price of approximately \$6.9 million, which was paid in a combination of the issuance of 150,000 shares of Transcat common stock valued at approximately \$1.1 million and approximately \$5.8 million in cash. \$0.5 million of the cash purchase price was distributed to satisfy certain debt obligations of Westcon, with the remainder being paid to the sole shareholder.

The following is a summary of the preliminary purchase price allocation:

Purchase Price Paid:	
Cash Paid to Seller at Closing	\$ 4,216
Westcon Debt Paid by Transcat at Closing	466
Fair Value of Common Stock Issued	1,113
Cash Paid to Seller in November 2008	1,017
Direct Acquisition Costs	116
 Total Purchase Price	 \$ 6,928
Allocation of Purchase Price:	
Intangible Asset - Customer Base	\$ 1,206
Deferred Tax Liability	(458)
Goodwill	4,956
	5,704
Plus: Current Assets	1,675
Non-Current Assets	274
Less: Current Liabilities	(658)
Non-Current Liabilities	(67)
 Total Purchase Price	 \$ 6,928

The assets and liabilities of Westcon were recorded under the purchase method of accounting at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of the acquired business. Other intangible assets, namely customer base, represent an allocation of purchase

price to identifiable intangible assets of the acquired business. Intangible assets are being amortized for financial reporting purposes on an accelerated basis over the estimated useful life of 10 years. Goodwill and the intangible assets are not deductible for tax purposes.

The primary reasons for the Company's acquisition of Westcon and the principal factors that contributed to the recognition of goodwill were the strengthening of the Company's presence in the western United States and/or the synergies and related cost savings gained from the integration of the acquired operation.

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Under the terms of the Merger Agreement, a contingent payment of up to \$1.4 million was subject to holdback restrictions to secure the obligations of Westcon and its sole shareholder for post-closing adjustments, retention of business, reimbursement and indemnification. During fiscal year 2010, the Company paid \$1.1 million to the sole shareholder in full satisfaction of this contingency and recorded the payment as additional goodwill on the Company's Consolidated Balance Sheet.

In addition, Transcat and the sole shareholder of Westcon entered into an Earn Out Agreement dated as of the closing of the merger. This agreement provides that the sole shareholder may be entitled to certain contingent earn out payments subject to continued employment and achieving certain post-closing gross profit and revenue targets. During fiscal year 2010, payments totaling \$0.1 million were earned and recorded as compensation expense in the Consolidated Statement of Operations and Comprehensive Income.

The results of operations of Westcon were included in Transcat's consolidated operating results as of the date the business was acquired. The following unaudited pro forma results assume the acquisition occurred at the beginning of each period presented. The pro forma results do not purport to represent what the Company's results of operations actually would have been if the transactions set forth had occurred on the date indicated or what the Company's results of operations will be in future periods.

	(Unaudited)	
	FY 2009	FY 2008
Net Revenue	\$ 78,569	\$ 79,781
Net Income	\$ 1,413	\$ 2,353
Basic Earnings Per Share	\$ 0.19	\$ 0.32
Diluted Earnings Per Share	\$ 0.19	\$ 0.32

**NOTE 11 QUARTERLY DATA (Unaudited)**

The following table presents a summary of certain unaudited quarterly financial data for fiscal years 2010 and 2009:

	Net Revenues	Gross Profit	Net Income (Loss)	Basic Earnings (Loss) per Share(a)	Diluted Earnings (Loss) per Share(a)
FY 2010:					
Fourth Quarter	\$ 23,535	\$ 6,431	\$ 869	\$ 0.12	\$ 0.12
Third Quarter	21,823	4,806	483	0.07	0.06
Second Quarter	18,495	4,172	188	0.03	0.02
First Quarter	17,208	3,885	(89)	(0.01)	(0.01)
FY 2009:					
Fourth Quarter	\$ 18,964	\$ 5,042	\$ 556	\$ 0.08	\$ 0.07
Third Quarter	19,992	4,731	342	0.05	0.05
Second Quarter	18,610	4,574	430	0.06	0.06
First Quarter	17,853	4,525	228	0.03	0.03

- (a) Earnings per share calculations for each quarter include the weighted average effect of stock issuances and common stock equivalents for the quarter; therefore, the sum of quarterly earnings per share amounts may not equal full-year earnings per share amounts, which reflect the weighted average effect on an annual basis. Diluted earnings per share calculations for each quarter include the effect of stock options, warrants and non-vested restricted stock, when dilutive to the quarter. In addition, basic earnings per share and diluted earnings per share may not add due to rounding.

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**TRANSCAT, INC.**  
**SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS**  
(In Thousands)

	<b>Balance</b>	<b>Expense (Income) Realized in</b>	<b>Additions (Reductions) to Allowance/ Reserve</b>	<b>Balance</b>
	<b>at the Beginning of the Year</b>	<b>Consolidated Statements of Operations</b>		<b>at the End of the Year</b>
Allowance for Doubtful Accounts:				
FY 2010	\$ 75	\$ 85	\$ (78)	\$ 82
FY 2009	\$ 56	\$ 160	\$ (141)	\$ 75
FY 2008	\$ 47	\$ 49	\$ (40)	\$ 56
Reserve for Inventory Loss:				
FY 2010	\$ 223	\$ 31	\$ 93	\$ 347
FY 2009	\$ 62	\$ 103	\$ 58	\$ 223
FY 2008	\$ 129	\$ (67)	\$	\$ 62
Deferred Tax Valuation Allowance:				
FY 2010	\$	\$	\$	\$
FY 2009	\$ 35	\$ (35)	\$	\$
FY 2008	\$ 819	\$ (784)	\$	\$ 35

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

None.

**ITEM 9A(T). CONTROLS AND PROCEDURES**

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

(b) **Management's Annual Report on Internal Control over Financial Reporting.** Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. In designing and evaluating our internal control system, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives and that the effectiveness of any system has inherent limitations including, but not limited to, the possibility of human error and the circumvention or overriding of controls and procedures. Management, including the principal executive officer and the principal financial officer, is required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected in a timely manner. Management excluded United Scale from its assessment of internal control over financial reporting as of March 27, 2010 due to the acquisition occurring during the fourth quarter of fiscal year 2010.

An evaluation was performed under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer, of the effectiveness of the design and operation of our procedures and internal control over financial reporting using the framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management, including the principal executive officer and the principal financial officer, concluded that our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles as of March 27, 2010.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report on internal control over financial reporting was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

(c) **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.



**Table of Contents****PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item 10 is incorporated herein by reference from our proxy statement for our 2010 Annual Meeting of Shareholders under the headings Election of Directors, Corporate Governance, Executive Officers and Section 16(a) Beneficial Ownership Reporting Compliance, which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2010 fiscal year end.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 is incorporated herein by reference from our proxy statement for our 2010 Annual Meeting of Shareholders under the heading Compensation of Named Executive Officers and Directors, which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2010 fiscal year end.

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

With the exception of the information presented in the table below, the information required by this Item 12 is incorporated herein by reference from our proxy statement for our 2010 Annual Meeting of Shareholders under the headings Security Ownership of Certain Beneficial Owners and Security Ownership of Management, which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2010 fiscal year end.

Securities Authorized for Issuance Under Equity Compensation Plans as of March 27, 2010:

**Equity Compensation Plan Information**  
(In Thousands, Except Per Share Amounts)

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> <b>(a)</b>	<b>Weighted average exercise price of outstanding options, warrants and rights</b> <b>(b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b> <b>(excluding securities reflected in column (a))</b> <b>(c)</b>
Equity compensation plans approved by security holders	841(1)	\$ 5.68	221
Equity compensation plans not approved by security holders			

Total	841	\$	5.68	221
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(1) Includes performance-based restricted stock awards granted to officers and key employees pursuant to our 2003 Incentive Plan. See Note 7 of our Consolidated Financial Statements in Item 8 of Part II.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 is incorporated herein by reference from our proxy statement for our 2010 Annual Meeting of Shareholders under the headings Corporate Governance and Certain Relationships and Related Transactions, which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2010 fiscal year end.

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

The information required by this Item 14 is incorporated herein by reference from our proxy statement for our 2010 Annual Meeting of Shareholders under the heading Ratification of Selection of Independent Registered Public Accounting Firm, which proxy statement will be filed pursuant to Regulation 14A within 120 days after the March 27, 2010 fiscal year end.

**PART IV**

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

(a) See Index to Financial Statements included in Item 8 of this report.

(b) Exhibits.

See Index to Exhibits contained in this report.

**Table of Contents****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 24, 2010

By: /s/ Charles P. Hadeed  
 Charles P. Hadeed  
 President, Chief Executive Officer and  
 Chief Operating 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.

<b>Date</b>	<b>Signature</b>	<b>Title</b>
June 24, 2010	/s/ Charles P. Hadeed Charles P. Hadeed	Director, President, Chief Executive Officer and Chief Operating Officer (Principal Executive Officer)
June 24, 2010	/s/ John J. Zimmer John J. Zimmer	Vice President of Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
June 24, 2010	/s/ Carl E. Sassano Carl E. Sassano	Chairman of the Board of Directors
June 24, 2010	/s/ Francis R. Bradley Francis R. Bradley	Director
June 24, 2010	/s/ Richard J. Harrison Richard J. Harrison	Director
June 24, 2010	/s/ Nancy D. Hessler Nancy D. Hessler	Director
June 24, 2010	/s/ Paul D. Moore Paul D. Moore	Director
June 24, 2010	/s/ Harvey J. Palmer Harvey J. Palmer	Director
June 24, 2010	/s/ Alan H. Resnick Alan H. Resnick	Director

June 24, 2010

/s/ John T. Smith

Director

John T. Smith

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**INDEX TO EXHIBITS**

- (2) Plan of acquisition, reorganization, arrangement, liquidation or succession  
Not applicable.
- (3) Articles of Incorporation and Bylaws
  - 3.1 The Articles of Incorporation, as amended, are incorporated herein by reference from Exhibit 4(a) to the Company's Registration Statement on Form S-8 (Registration No. 33-61665) filed on August 8, 1995 and from Exhibit 3(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
  - 3.2 Code of Regulations, as amended through May 4, 2009, are incorporated herein by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated October 26, 2009.
- (4) Instruments defining the rights of security holders, including indentures  
Not applicable.
- (9) Voting trust agreement  
Not applicable.
- (10) Material contracts
  - #10.1 Transcat, Inc. Amended and Restated Directors' Warrant Plan is incorporated herein by reference from Exhibit 99(b) to the Company's Registration Statement on Form S-8 (Registration No. 33-61665) filed on August 8, 1995.
  - #10.2 Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein from Exhibit 99(e) to the Company's Registration Statement on Form S-8 (Registration No. 33-61665) filed on August 8, 1995.
  - #10.3 Amendment No. 1 to the Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein by reference from Exhibit 10(b) to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1996.
  - #10.4 Amendment No. 1 to the Transcat, Inc. Amended and Restated Directors' Warrant Plan is incorporated herein by reference from Exhibit II to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
  - #10.5 Amendment No. 2 to the Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein by reference from Exhibit V to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
  - #10.6 Amendment No. 2 to the Transcat, Inc. Amended and Restated Directors' Warrant Plan is incorporated herein by reference from Exhibit 10(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
  - #10.7 Amendment No. 3 to the Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein by reference from Exhibit 10(k) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.
  - #10.8 Amendments No. 3 and 4 to the Transcat, Inc. Amended and Restated Directors' Warrant Plan are incorporated herein by reference from the Company's definitive proxy statement filed on July 7, 1998 in connection with the 1998 Annual Meeting of Shareholders.
  - #10.9 Amendment No. 5 to the Transcat, Inc. Amended and Restated Directors' Warrant Plan is incorporated herein by reference from Appendix B to the Company's 1999 preliminary proxy statement filed on June 21, 1999 in connection with the 1999 Annual Meeting of Shareholders.
  - #10.10 Amendment No. 4 to the Transcat, Inc. Employees' Stock Purchase Plan is incorporated herein by reference from Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

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

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- #10.12 Form of Award Notice for Restricted Stock granted under the Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 25, 2004.
- #10.13 Form of Warrant Certificate representing warrants granted under the Amended and Restated Directors' Warrant Plan is incorporated herein by reference from Exhibit 10.42 to the Company's Annual Report on Form 10-K for the fiscal year ended March 26, 2005.
- #10.14 Form of Award Notice for Non-Qualified Stock Options granted under the Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 24, 2005.
- #10.15 Form of Amended and Restated Agreement for Severance Upon Change in Control for Charles P. Hadeed is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 19, 2006.
- #10.16 Transcat, Inc. 2003 Incentive Plan, as amended, is incorporated herein by reference from Appendix D to the Company's definitive proxy statement filed on July 10, 2006 in connection with the 2006 Annual Meeting of Shareholders.
- 10.17 Credit Agreement dated as of November 21, 2006 by and between Transcat, Inc. and JPMorgan Chase Bank, N.A. is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 21, 2006.
- 10.18 Amendment Number One to Credit Agreement dated as of August 14, 2008 between Transcat, Inc. and JPMorgan Chase Bank, N.A. is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 2008.
- 10.19 Agreement and Plan of Merger by and among Transcat Acquisition Corp., Westcon, Inc. and David Goodhead dated as of August 14, 2008 is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 2008.
- 10.20 Lease Addendum between Gallina Development Corporation and Transcat, Inc. dated June 2, 2008 is incorporated herein by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 2008.
- #10.21 Amendment to Agreement for Severance Upon Change in Control for Charles P. Hadeed dated December 16, 2008 is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 27, 2008.
- #10.22 Form of Award Notice for Performance-Based Restricted Stock granted under the Transcat, Inc. 2003 Incentive Plan is incorporated herein by reference from Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended March 28, 2009.
- 10.23 Transcat, Inc. 2009 Insider Stock Sales Plan is incorporated herein by reference from Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended March 28, 2009.
- \*#10.24 Transcat, Inc. Post-Retirement Benefit Plan for Officers (Amended and Restated Effective January 1, 2010).
- \*10.25 Transcat, Inc. Post-Retirement Benefit Plan for Non-Officer Employees (Amended and Restated Effective January 1, 2010).
- \*10.26 Amendment No. 2 to Credit Agreement dated February 26, 2010 between Transcat, Inc. and JPMorgan Chase Bank, N.A.
- #10.27 Certain compensation information for Charles P. Hadeed, President, Chief Executive Officer and Chief Operating Officer of the Company is incorporated herein by reference from the Company's Current Report on Form 8-K dated April 5, 2010.
- #10.28 Certain compensation information for John J. Zimmer, Vice President of Finance and Chief Financial Officer of the Company is incorporated herein by reference from the Company's Current Report on Form 8-K dated May 20, 2010.





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- (11) Statement re computation of per share earnings  
Computation can be clearly determined from the Consolidated Statements of Operations and Comprehensive Income included in this Form 10-K as Item 8.
- (13) Annual report to security holders, Form 10-Q or quarterly report to security holders  
Not applicable.
- (14) Code of Ethics  
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
- (22) Published report regarding matters submitted to a vote of security holders  
Not applicable.
- (23) Consents of experts and counsel  
\*23.1 Consent of BDO Seidman, LLP
- (24) Power of Attorney  
Not applicable.
- (31) Rule 13a-14(a)/15d-14(a) Certifications  
\*31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  
\*31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32) Section 1350 Certifications  
\*32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Exhibit filed with this report.

# Management contract or compensatory plan or arrangement.