TRANSCAT INC
Form 10-K/A
June 21, 2004

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

FORM 10-K/A

(Mark one)

X	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
	For the fiscal year ended: March 31, 2003
	or
	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
	For the transition period from to

Commission File Number: 000-03905

Transcat, Inc.

(Exact name of registrant as specified in its charter)

Ohio	**16-0874418**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
35 Vantage Point Drive, Rochester, New York	**14624**
(Address of principal executive offices)	*(Zip Code)*

(Registrant s telephone number, including area code) (585) 352-7777

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

None

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

Common Stock, $0.50 par value per share

(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ or No o

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant on September 30, 2002 was approximately $6,689,887. The market value calculation was determined using the closing sale price of the Registrant s Common Stock on September 30, 2002, as reported on the NASDAQ SmallCap Market System.

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

The number of shares of Common Stock of the Registrant outstanding as of June 16, 2004 was 6,237,465.

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EXPLANATORY NOTE

This Form 10-K/A amends Items 6, 7, 8, and 16 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2003, as filed with the Securities and Exchange Commission on June 11, 2003 (the 2003 Annual Report). This Form 10-K/A does not reflect events that occurred after the filing of the 2003 Annual Report or modify or update those disclosures to reflect any subsequent events. Except as set forth in Items 6, 7, 8, and 16, we have not made any changes to, nor updated any disclosures contained in the 2003 Annual Report.

As discussed in Note 1A to our Consolidated Financial Statements contained in this Form 10-K/A, this Form 10-K/A restates the balance sheet classification of outstanding debt under our revolving line of credit from long-term to current liabilities. Accounting principles require current classification of revolving lines of credit under which funds are borrowed when the line of credit contains both a lock-box arrangement, whereby remittances to the lock-box automatically pay down the outstanding revolving line of credit, and loan terms that allow the lender to declare the loan in default on a subjective basis. This accounting treatment is required regardless of the legal maturity date of the revolving credit arrangement. Our revolving line of credit, which matures on November 13, 2005, contains such features. Accordingly, the accompanying Consolidated Financial Statements have been restated to reclassify outstanding borrowings under the revolving line of credit from long-term to current liabilities. This change in balance sheet classification does not affect our Consolidated Statements of Operations or Consolidated Statements of Cash Flows.

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FORWARD-LOOKING STATEMENTS

This report and, in particular, the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this report, contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These include statements concerning expectations, estimates, and projections about the industry, management beliefs and assumptions of Transcat, Inc. (Transcat , we , us , or our). Words such as anticipates , e intends , plans , believes , seeks , estimates , and variations of such words and similar expressions are intended to i such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Therefore, our actual results may materially differ from those expressed or forecast in any such forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 6. ***Selected Financial Data***

The following table provides selected financial data for the current fiscal year and the previous four fiscal years (in thousands, except per share data): (See Divestitures in Item 1 for information regarding businesses divested in fiscal year 2002, which are included in the following table for fiscal years 1999 to 2002.)

	For the Years Ended March 31,				
	2003	2002	2001	2000	1999
Statements of Operations Data:					
Net Sales	57,181	66,782	76,881	81,473	71,999
Total Cost of Sales	43,895	48,706	53,671	59,789	49,167
Gross Profit	13,286	18,076	23,210	21,684	22,832
Operating Expenses	12,852	24,081	20,258	21,563	19,077
Operating Income (Loss)	434	(6,005)	2,952	121	3,755
Interest Expense	615	1,432	2,523	2,930	2,216
Gain on Extinguishment of Debt	(1,593)				
Other Expense (Income)	63	(206)			(246)
Income (Loss) Before Income Taxes	1,349	(7,231)	429	(2,809)	1,785
(Benefit) Provision for Income Taxes	(408)	(600)	(84)	(319)	737
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	1,757	(6,631)	513	(2,490)	1,048
Cumulative Effect of a Change in Accounting Principle	(6,472)				
Net (Loss) Income	(4,715)	(6,631)	513	(2,490)	1,048
Per Share Data:					
Basic Earnings Per Share Before Cumulative Effect of a Change in Accounting Principle	$ 0.29	$ (1.08)	$ 0.09	$ (0.42)	$ 0.18
Average Shares Outstanding	6,147	6,103	6,030	5,883	5,847
Closing Price Per Share	$ 1.40	$ 1.13	$ 1.62	$ 3.00	$ 3.00

	As of March 31,				
	2003 Restated(1)	2002	2001	2000	1999
Balance Sheets and Working Capital Data:					
Inventory, net	2,842	3,869	8,399	8,835	12,010
Properties, net	2,556	3,911	5,747	6,543	6,886
Goodwill	2,524	8,996	19,916	21,246	21,739
Total Assets	16,758	27,624	47,722	52,359	57,296
Depreciation and Amortization	2,047	4,086	4,546	4,808	3,057
Capital Expenditures	291	1,364	1,393	1,949	1,702
Revolving Line of Credit	5,248	6,817	9,104	10,593	7,366
Term Loan, current portion	666	1,016	3,980	2,700	2,200
Term Loan, less current portion	668	2,080	12,120	16,100	26,167
Shareholders Equity	2,698	6,764	13,329	12,814	14,906

(1) Restated, See Note 1A to our Consolidated Financial Statements.

Certain reclassifications of prior year financial information have been made to conform with current year presentation.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Reclassification of Amounts

Certain prior year and prior quarter financial information have been made to conform to current quarter and twelve month presentation.

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Overview

We appreciate that understanding the nature and magnitude of changes that have taken place over the last two years at Transcat is complex. Therefore, it is appropriate to review the extent of those changes, and relate those changes to the Pro Forma Statements of Operations that are included in Item 7 of this report.

At the end of fiscal year 2001, we had manufacturing operations to support our distribution products business, assets of $47.7 million, including $19.9 million of net goodwill, and $25.2 million of debt.

During fiscal year 2002, a number of actions were taken to begin repositioning Transcat, including both our organizational and operational structure. Those actions included:

- Divesting the MAC and TPG business units, with the proceeds of the Divestitures reducing our bank debt. The Divestitures allowed us to strategically focus on our distribution products business and growth in our calibration services. See Divestitures above in Item 1 and Deferred Gain on TPG of the Critical Accounting Policies and Estimates in Item 7;
- Amending our bank lending agreement for the eighth time;
- Announcing and implementing a corporate consolidated restructuring which resulted in a reduction of 22 employees at March 31, 2002;
- Opening two new calibration laboratories in Ottawa and San Francisco; and
- Signing a distribution agreement with the purchaser of TPG that included long-term purchase requirements. See Distribution Agreement above in Item 1.

At the completion of fiscal year 2002, and throughout fiscal year 2003, we believed it was important to present pro forma statements of operations, to facilitate the understanding of our ongoing business and the comparability of reported operating results. These pro forma operating results were reconciled to accounting principles generally accepted in the United States of America (GAAP) prepared, as- reported operating results, and were intended to be used in addition to, and not as a replacement for as- reported operating results. See Pro Forma Statement of Operations below in Item 7.

Mr. Carl Sassano moved from an external Board member to Chief Executive Officer as of April 1, 2002, replacing Mr. Robert Klimasewski, who resigned on March 31, 2002.

During fiscal year 2003, we continued our execution of actions we deemed necessary to develop the foundation for a consistent, profitable business model. Those actions included:

- Executing a new three year credit agreement, including a $1.6 million net gain on extinguishment of debt, which reduced our debt by $2.2 million (see Note 4 of the Consolidated Financial Statements);
- Creating ten calibration centers of excellence and, in the process, consolidating four laboratories into existing laboratory operations;
- Completing restructuring of the organization, incurring $0.4 million of severance charges;
- Changing the senior management team: replacing the Chief Financial Officer and eliminating the positions of President Calibration Services and President Distribution Products.

At the completion of fiscal year 2003, our balance sheet reflects assets of $16.8 million, including $2.5 million of goodwill, and debt of $6.6 million. We believe that these actions, which were implemented in a very challenging economic environment, have laid the foundation for profitable growth.

Critical Accounting Policies and Estimates

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

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preparation of our Consolidated Financial Statements. A summary of our most critical accounting policies follows:

Revenue Recognition. Sales are recorded when products are shipped or services are rendered to customers, as we generally have no significant post delivery obligations, the product price is fixed and determinable, collection of the resulting receivable is probable and product returns are reasonably estimated. Provisions for customer returns are provided for in the period the related sales are recorded based upon historical data.

Goodwill. On April 1, 2002, Transcat adopted Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets . Upon adopting SFAS 142, we were required to calculate the fair value of recorded goodwill. If the fair value of the goodwill does not exceed the carrying value of the goodwill, a write down of the remaining goodwill is necessitated. We evaluated the fair value of our goodwill and determined that a non-cash goodwill impairment of $6.5 million existed at April 1, 2002. Accordingly, in the first quarter of fiscal year 2003, we reported a $6.5 million charge as a cumulative effect of a change in accounting principle. We re-evaluated the fair value of our remaining goodwill, consistent with the provisions of SFAS No. 142, as of March 31, 2003 and determined no further impairment existed. At March 31, 2003 and 2002, goodwill amounted to $9.0 million and $2.5 million, respectively. A change in business could cause additional write-off or impairment.

Deferred Catalog Costs. Transcat amortizes the cost of each Master Catalog mailed over such catalog s estimated productive life. We review response results from catalog mailings on a continuous basis; and if warranted, we may modify the period over which costs are recognized. In the fourth quarter of fiscal year 2002, we determined that useful life for the Master Catalog approximated the mailing cycle, reducing its productive life from 24 to 18 months, and recognized an additional $0.1 million in catalog related amortization expense in fiscal year 2002. Deferred catalog costs totaled $0.7 million at March 31, 2002. There were no deferred catalog costs at March 31, 2003.

Deferred Gain on TPG. As a result of certain post divestiture commitments, Transcat, according to GAAP, is unable to recognize the gain of $1.5 million on the divestiture of TPG until those commitments expire in fiscal year 2006.

Valuation Allowance on Deferred Tax Assets. A valuation allowance for the full amount of the net deferred tax asset was recorded at March 31, 2003 and 2002. The valuation allowance represents the portion of the foreign tax credit carry forwards and other items for which it is more likely than not that the benefit of such items will not be realized. Such valuation allowance increased by approximately $1.1 million and $2.4 million for the fiscal years ended March 31, 2003 and 2002, respectively.

Stock Options. Transcat has elected the use of the Accounting Principle Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , which does not require compensation costs related to stock options to be recorded in net income, as all options granted under the stock option plan had exercise prices equal to the market value of the underlying common stock at grant date. SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123 requires pro forma disclosure of net income and earnings per share determined as of the fair value method of accounting for stock options had been applied in measuring compensation cost. If we chose to adopt SFAS No. 148, our stock-based employee compensation expense for the fiscal years ending 2003, 2002, and 2001 would be $0.2 million, $0.2 million, and $0.5 million, respectively. See Notes 1 and 7 of the Consolidated Financial Statements for further information regarding stock options.

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Results of Operations

The following table sets forth, for the prior three fiscal years, the components of our Consolidated Statements of Operations. Fiscal years 2002 and 2001 include amounts from businesses divested in fiscal year 2002. See Divestitures above in Item 1 and Pro Forma Statements of Operations below in Item 7.

	FY 2003	FY 2002	FY 2001
Gross Profit Percentage:			
Product Gross Profit	26.6%	31.9%	33.1%
Service Gross Profit	16.5	15.2	20.7
Total Gross Profit	23.3%	27.1%	30.2%
As a Percentage of Net Sales:			
Product Sales	67.1%	71.4%	76.7%
Service Sales	32.9	28.6	23.3
Net Sales	100.0	100.0	100.0
Selling, Marketing, and Warehouse Expenses	14.5	17.1	15.7
Administrative Expenses	7.9	9.3	7.5
Research and Development Costs		1.3	1.5
Goodwill Amortization		1.7	1.6
Goodwill Impairment		6.8	
Total Operating Expenses	22.4	36.2	26.3
Operating Income (Loss)	0.8	(9.0)	3.8
Interest Expense	1.1	2.1	3.3
Gain on Extinguishment of Debt	(2.8)		
Other Expense (Income)	0.1	(0.3)	
Total Other (Income) Expense	(1.6)	1.8	3.3
Income (Loss) Before Income Taxes	2.4	(10.8)	0.5
Benefit for Income Taxes	(0.7)	(0.9)	(0.1)
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	3.1	(9.9)	0.6
Cumulative Effect of a Change in Accounting Principle	(11.3)		
Net (Loss) Income	(8.2)%	(9.9)%	0.6%

Certain reclassifications of prior year financial information, and therefore the applicable percentages, have been made to conform with current year presentation.

Pro Forma Statements of Operations

As a result of a number of events and transactions that occurred in fiscal years 2003 and 2002, which are described below, our ongoing operations differ significantly from those as reported. Those events and transactions are:

Fiscal Year 2003:

Elimination of SFAS No. 142 goodwill impairment

Elimination of net gain on debt restructuring

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Fiscal Year 2002:

Elimination of the sales, direct costs, and expenses (non-allocated) of the Divestitures

Elimination of the manufacturing profit of the Divestitures

Elimination of goodwill amortization

Elimination of interest expense attributable to the Divestitures

Elimination of life insurance proceeds

Elimination of inventory write down

Elimination of asset impairment charge due to the Divestitures

The following schedules provide a reconciliation from the reported operating results for the twelve months ended March 31, 2003 and 2002 prepared under GAAP to the pro forma adjusted operating results of our ongoing operations.

To enhance comparability, management believes that the unaudited pro forma information that follows provides additional information that is useful in analyzing the underlying business results. However, the pro forma operating results should be considered in addition to, not as a substitute for, reported results of operations. The unaudited pro forma information is not necessarily reflective of the results of operations had these events occurred at the beginning of fiscal years 2003 and 2002, nor is it necessarily indicative of future results.

We had previously reported in these quarterly reconciliations adjustments of $0.3 million of severance charges in the fourth quarter of fiscal year 2002 and $1.3 million from the elimination of the cost of restructured personnel in all quarters of fiscal year 2002. Under recent SEC guidance, because we incurred $0.4 million of severance charges in fiscal year 2003, the items should not be included in reconciliations of this nature and therefore are now excluded from adjustments. The following table shows the amounts expensed and paid fiscal years 2003 and 2002 for restructuring and severance costs that were initially incurred and accrued in these years:

	Accrued Costs	**Actual Payments**	**Balance at March 31, 2003**
Severance:			
FY 2003 Other	$0.4	$(0.1)	$0.3
FY 2002 Restructuring	0.3	(0.3)	
Total	$0.7	$(0.4)	$0.3

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TRANSCAT, INC.

Reconciliation of Reported FY 2003 and FY 2002 Operating Results to

Adjusted FY 2003 and FY 2002 Ongoing Operations
(In Thousands, Unaudited)

	Twelve Months Ended March 31,			Twelve Months Ended March 31,		
	2003 As Reported	2003 Adjust-ments	2003 Adjusted Ongoing	2002 As Reported	2002 Adjust-ments	2002 Adjusted Ongoing
Product Sales	$38,373	$	$38,373	$47,653	$(6,298)	$41,355
Service Sales	18,808		18,808	19,129		19,129
Net Sales	57,181		57,181	66,782	(6,298)	60,484
Product Cost of Sales	28,164		28,164	32,507	(2,865)	29,642
Service Cost of Sales	15,731		15,731	16,199		16,199
Total Costs of Products and Services Sold	43,895		43,895	48,706	(2,865)	45,841
Gross Profit	13,286		13,286	18,076	(3,433)	14,643
Selling, Marketing, and Warehouse Expenses	8,311		8,311	11,387	(995)	10,392
Administrative Expenses	4,541		4,541	6,183	(91)	6,092
Research and Development Costs				901	(901)	
Goodwill Amortization				1,102	(1,102)	
Goodwill Impairment				4,508	(4,508)	
Total Operating Expenses	12,852		12,852	24,081	(7,597)	16,484
Operating Income (Loss)	434		434	(6,005)	4,164	(1,841)
Interest Expense	615		615	1,432	(457)	975
Gain on Extinguishment of Debt	(1,593)	1,593				
Other Expense (Income)	63		63	(206)	206	
Income (Loss) Before Income Taxes and Cumulative Effect of a Change in Accounting Principle	1,349	(1,593)	(244)	(7,231)	4,415	(2,816)
Benefit for Income Taxes	(408)		(408)	(600)		(600)
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	1,757	(1,593)	164	(6,631)	4,415	(2,216)
Cumulative Effect of a Change in Accounting Principle	(6,472)	6,472				
Net (Loss) Income	$ (4,715)	$ 4,879	$ 164	$ (6,631)	$ 4,415	$ (2,216)

Certain reclassifications of prior year financial information have been made to conform to current year presentation.

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Fiscal Year Ended March 31, 2003 Compared to Fiscal Year Ended March 31, 2002:

The following section compares the reported operating results prepared under GAAP for the twelve months ended March 31, 2003 to the twelve months ended March 31, 2002. The following section also compares the twelve months ended March 31, 2003 to the pro forma adjusted operating results of our ongoing operations for the twelve months ended March 31, 2002. The pro forma fiscal year 2002 results have been adjusted for a number of events and transactions that are disclosed below in the Pro Forma Statements of Operations in Item 7. To enhance comparability, management believes that the unaudited pro forma information for fiscal year 2002 provides additional information that is useful in analyzing the underlying business results. However, the pro forma operating results should be considered in addition to, not as a substitute for, reported results of operations. The unaudited pro forma information is not necessarily reflective of the results of operations had these events occurred at the beginning of fiscal year 2002, nor is it necessarily indicative of future results.

Sales:

	For the Years Ended March 31,		
	2003	**2002**	**Pro Forma 2002**
Net Sales:			
Product	$38.4	$47.7	$41.4
Service	18.8	19.1	19.1
Total	$57.2	$66.8	$60.5

Net sales decreased $9.6 million, or 14.4%, from fiscal year 2002 to 2003. Excluding the Divestitures in fiscal year 2002, net sales decreased by $3.3 million, or 5.5%, from fiscal year 2002.

Product sales, which accounted for 67.1% of our sales in fiscal year 2003 and 68.4% of our sales in fiscal year 2002 (excluding the Divestitures), continued to be impacted by the weak economy. This impact is especially evident in the process industry, which has historically been and strategically is a major market for our products. Our product sales (excluding Divestitures) declined by $3.0 million, or 7.2%, from fiscal year 2002 to 2003. Of the decline, 70.0% occurred in the fourth quarter, as industrial spending again was further constrained.

Calibration services sales declined $0.3 million, or 1.6%, from fiscal year 2003 to 2002. This decline was also impacted, although not as severely as product sales, by the economic conditions existing over the last twelve months. More significant, was the impact of certain decisions we made and actions that were taken in the last six months of fiscal year 2003. During that period, we consolidated the operations of four calibration laboratories into existing calibration laboratories, and the contract for one unprofitable customer on-site was terminated by the customer.

Gross Profit:

	For the Years Ended March 31,		
	2003	**2002**	**Pro Forma 2002**
Gross Profit:			
Product	$10.2	$15.2	$11.7
Service	3.1	2.9	2.9
Total	$13.3	$18.1	$14.6

Gross profit decreased $4.8 million, or 26.5%, from fiscal year 2002 to 2003. Excluding the Divestitures, which accounted for $3.5 million of the decline, gross profit decreased $1.3 million, or 8.9%, from fiscal year 2002 to 2003.

On an as reported basis, inclusive of the Divestitures, gross profit on product sales decreased, as a percentage of product sales, from 31.9% in fiscal year 2002 to 26.6% in fiscal year 2003. Excluding the impact of the

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Divestitures, including manufacturing profit and certain other one-time costs, explained in more detail in the Pro Forma Statements of Operations section of this report, gross profit on product sales decreased from 28.3% to 26.6%. This deterioration is largely attributed to product mix and an increased level of discounting necessary under current economic conditions.

The following table presents the quarterly trend of product gross profit on an as reported basis and on a pro forma basis giving effect to the Divestitures, which were substantially completed by the end of the third quarter of fiscal year 2002. The fourth quarter of fiscal year 2002 includes both a $0.4 million inventory write-off and an incremental $0.4 million of manufacturing purchase rebate income over the fourth quarter of fiscal year 2003. The fourth quarter of fiscal year 2002 pro forma excludes the inventory write-off, as discussed above in the Pro Forma Statements of Operations in Item 7.

	Product Gross Profit %				
	Q1	Q2	Q3	Q4	Total
FY 2003	25.6%	26.3%	26.7%	27.7%	26.6%
FY 2002	35.4%	33.2%	31.7%	26.8%	31.9%
FY 2002 Pro Forma	29.5%	27.6%	24.6%	31.3%	28.3%

Calibration services gross profit, as a percentage of service sales, increased from 15.2% in fiscal year 2002 to 16.5% in fiscal year 2003. Calibration gross profit has begun to yield the benefit of cost restructuring initiatives implemented in late fiscal year 2003, increasing revenue in new calibration laboratories opened in fiscal year 2002 offset by lower sales in the fourth quarter of fiscal year 2003 than we had experienced in the fourth quarter of fiscal year 2002. Gross profit by quarter for calibration services for fiscal years 2003 and 2002 was:

	Service Gross Profit %				
	Q1	Q2	Q3	Q4	Total
FY 2003	15.4%	15.2%	16.5%	18.9%	16.5%
FY 2002	12.4%	15.2%	12.5%	20.0%	15.2%

Operating Expenses:

	For the Years Ended March 31,		
	2003	2002	Pro Forma 2002
Operating Expenses:			
Selling, Marketing, and Warehouse	$ 8.3	$ 11.4	$ 10.4
General and Administrative	4.5	6.2	6.1
Research and Development		0.9	
Goodwill Amortization		1.1	
Goodwill Impairment		4.5	
Total	$ 12.8	$ 24.1	$ 16.5

Operating expenses decreased $11.3 million from fiscal year 2002 to fiscal year 2003, or from 36.2% of sales to 22.4% of net sales. Excluding those items as noted in the Pro Forma Statements of Operations section of Item 7, comparable operating expenses decreased $3.7 million, or from 27.3% of sales to 22.4% of sales in fiscal year 2003. This decrease was the result of management s focus on cost containment including payroll and management information systems.

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Other Income (Expense):

	For the Years Ended March 31,		
	2003	2002	Pro Forma 2002
Other Income (Expense):			
Interest Expense	$ 0.6	$ 1.4	$1.0
Gain on Extinguishment of Debt	(1.6)		
Other Expense (Income)	0.1	(0.2)	
Total	$(0.9)	$ 1.2	$1.0

Other income (expense) includes the $1.6 million net gain on extinguishment of debt recorded in fiscal year 2003 in conjunction with our restructuring of our senior debt. See Note 4 of the Consolidated Financial Statements. Interest expense in fiscal year 2003 was reduced by $0.8 million, or 57.1%, as a result of lower debt levels driven by the proceeds from the Divestitures (see Divestitures above in Item 1), the gain on extinguishment of debt and operating cash flows.

Taxes:

	For the Years Ended March 31,		
	2003	2002	Pro Forma 2002
Benefit for Income Taxes	$(0.4)	$(0.6)	$(0.6)

The benefit for income taxes recognizes the benefit derived from the utilization of net operating loss tax carry backs. As further explained (see Note 5 of the Consolidated Financial Statements), we have fully reserved our net deferred tax assets.

The effects of inflation during fiscal years 2003 and 2002 were not material.

Fiscal Year Ended March 31, 2002 Compared to Fiscal Year Ended March 31, 2001:

Sales:

	For the Years Ended March 31,	
	2002	2001
Net Sales:		
Product	$47.7	$59.0
Service	19.1	17.9
Total	$66.8	$76.9

Net sales decreased $10.1 million, or 13.1%, from fiscal year 2001 to 2002. Excluding the impact of the Divestitures, which accounted for $2.9 million of the decrease, net sales decreased by $7.2 million, or 7.8%, from fiscal year 2001. External sales of the Divestitures amounted to $6.3 million for fiscal year 2002. The weak United States economy in fiscal year 2002 impacted the process industry, which has historically been a major market for our products.

Our product sales (excluding Divestitures) declined as a result $7.2 million, or 14.7%, from fiscal year 2001.

Calibration services sales in fiscal year 2002 increased $1.2 million, or 6.7% over 2001, attributable to our new customers in life science and fiber optics.

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Gross Profit:

	For the Years Ended March 31, 2002	2001
Gross Profit:		
Product	$15.2	$19.5
Service	2.9	3.7
Total	$18.1	$23.2

Gross profit decreased $5.1 million, or 22.0% from fiscal year 2001 to 2002. Excluding the Divestitures, which accounted for $0.9 million of the decrease, gross profit decreased by $4.2 million, or 22.3%, from fiscal year 2001. Gross profit of the Divestitures amounted to $1.9 million in fiscal year 2002. Additionally, as a result of the Divestitures, the manufacturing gross profit of $2.0 million that we realized on the sale of products through our distribution operations will not be realized in subsequent years.

The gross profit on product sales declined from 33.1% of product sales in 2001 to 31.9% in fiscal year 2002. The gross profit deterioration is the result of a non-recurring inventory write-off of $0.4 million in the fourth quarter of fiscal year 2002, the higher cost of products previously manufactured and product mix along with volume/cost absorption issues.

Gross profit on calibration services decreased from 20.7% in 2001 to 15.2% in 2002. Our investment in four new calibration operations, including two new laboratories and two new on-sites, was the primary cause of the gross profit erosion.

Operating Expenses:

	For the Years Ended March 31, 2002	2001
Operating Expenses:		
Selling, Marketing, and Warehouse	$11.4	$12.1
General and Administrative	6.2	5.8
Research and Development	0.9	1.2
Goodwill Amortization	1.1	1.2
Goodwill Impairment	4.5	
Total	$24.1	$20.3

Selling, general and administrative expenses decreased $0.3 million or 1.7% in fiscal year 2002 from 2001. This decrease is attributable to certain operating expenses eliminated as a result of the Divestitures and our ongoing effort to control operating expense spending. Direct selling, marketing, general and administrative expenses from the Divestitures totaled $1.1 million in fiscal year 2002. Research and development costs decreased $0.3 million or 25.0% in fiscal year 2002 from 2001. The reduction in research and development expenses reflects the divestiture of TPG. For the twelve months ended March 31, 2002, TPG accounted for our entire $0.9 million in research and development expenditures.

Other Income (Expense):

	For the Years Ended March 31,	
	2002	2001
Other Income (Expense):		
Interest Expense	$ 1.4	$ 2.5
Other Expense (Income)	(0.2)	
Total	$ 1.2	$ 2.5

Interest expense decreased by $1.1 million, or 44.0%, from fiscal year 2001 to 2002. This decrease reflects proceeds from the Divestitures to reduce our bank debt from $25.2 million at March 31, 2001 to $9.9 million at March 31, 2002. The interest expense attributed to the Divestitures was $0.5 million in fiscal year 2002. Other income increased by $0.2 million due to the gain associated with the proceeds received from a life insurance policy.

Taxes:

	For the Years Ended March 31,	
	2002	2001
Benefit for Income Taxes	$ (0.6)	$ (0.1)

Due to the current year loss from operations, we fully reserved our net deferred taxes. As a result of utilization of net operating loss tax carry backs, a $0.6 million, or 8.3% effective income tax benefit, was recorded in fiscal year 2002. The effective income tax benefit of 19.6% in fiscal year 2001 resulted from utilization of net operating losses and the reversal of valuation allowances.

The effects of inflation during fiscal years 2002 and 2001 were not material.

Liquidity and Capital Resources

Refinancing of Debt. On November 13, 2002, Transcat entered into a new Revolving Credit and Loan Agreement (the Credit Agreement) with GMAC Business Credit, LCC (GMAC). The Credit Agreement expires on November 13, 2005 and replaced our Revolving Credit and Loan Agreement (the Prior Credit Agreement) with Key Bank, N.A. and Citizens Bank (the Banks) originally dated August 3, 1998 and most recently amended on July 12, 2002. The Credit Agreement consists of a term loan and a revolving line of credit (the Loan), the terms of which are as set forth below:

Under the Credit Agreement, Transcat made a term note in the amount of $1.5 million in favor of GMAC. This term note requires annual payments totaling $0.5 million, payable in equal monthly installments, commencing on December 1, 2002. Interest on the term note is payable at our option, at prime plus 0.5% or up to 80% of the Loan at the 30-day LIBOR (London Interbank Offered Rate) plus 3.25%. The prime rate and LIBOR as of June 6, 2003 were 4.25% and 1.27%, respectively. In addition, under the Credit Agreement, we are required to further reduce the term loan, on an annual basis, by 20% of excess cash flow, as defined, not to exceed $0.2 million per fiscal year. Excess cash flow for the fiscal year ended March 31, 2003 was $0.2 million. As a result, we have classified an additional $0.2 million as a current liability as of March 31, 2003.

The maximum amount available under the revolving line of credit portion of the Credit Agreement is $10.0 million. As of March 31, 2003, Transcat borrowed $5.2 million. Availability under the line of credit is determined by a formula based on eligible accounts receivable (85%) and inventory (48%). As of March 31, 2003, availability amounted to $6.7 million. The Credit Agreement has certain covenants with which we must comply, including a minimum EBITDA (earnings before interest, income taxes, depreciation and amortization) covenant, as well as, restrictions on capital expenditures and Master Catalog spending. We were not in violation of any loan covenants as of March 31, 2003, and we believe we will be in compliance with all covenants in the upcoming fiscal year. Interest on borrowings under the revolving line of credit is payable monthly, at our option, at prime rate, 4.25% as of June 6, 2003, or up to 80% of the Loan at the 30-day LIBOR, 1.27% as of

June 6, 2003, plus 2.75%. Additional terms of the Credit Agreement require an increase in our borrowing rate of two percentage points should an event of default occur and a termination premium of 3% of the maximum available borrowing under the revolving line of credit plus the then outstanding balance owed under the term note if the Credit Agreement is terminated in its first year and 1% if terminated thereafter, prior to November 13, 2005.

Our credit facility with GMAC contains a common subjective acceleration clause which allows GMAC to call the loan in the event we suffer a material adverse effect or we become unable to repay the loan. Our credit facility also contains a requirement to maintain a lock-box that directly applies receipts from customers to reduce the revolving line of credit. The EITF reached a consensus in November 1998 on Issue No. 95-22, Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement . This Issue requires that in situations where both a subjective acceleration clause and a mandatory lock-box arrangement exist, revolving line of credit debt must be classified as short-term. For future cash flow purposes, we consider the revolving line of credit to be a long-term source of funds since it is continually re-financed on a daily basis. We further believe that, while GAAP requires the revolving line of credit with GMAC to be characterized as short-term, Transcat views the GMAC commitment as a long-term source of funds. More importantly, we believe that Transcat does not face any current liquidity crisis. We intend to explore new credit relationships, the nature of which would not require us to report the majority of our indebtedness as short-term debt, and we expect to enter into a new credit arrangement during fiscal year 2005.

Additionally, we have pledged certain property and fixtures in favor of GMAC, including inventory, equipment, and accounts receivable as collateral security for the loans made under the Credit Agreement. The Credit Agreement requires Transcat to make the following principal payments on the term note, excluding any reductions attributable to excess cash flow, as discussed above (in thousands):

Fiscal Year 2004	500
Fiscal Year 2005	500
Fiscal Year 2006	333
Total	$ 1,333

Cash Flows. The following table is a summary of our Consolidated Statements of Cash Flows:

	For the Years Ended March 31,		
	2003	2002	2001
Cash Provided by (Used in):			
Operating Activities	$ 937	$ 3,544	$ 5,425
Investing Activities	(291)	12,099	(1,393)
Financing Activities	(1,131)	(15,291)	(4,190)

Operating Activities. For fiscal year 2003, cash provided by operating activities was $0.9 million, compared to $3.5 million and $5.4 million in fiscal year 2002 and 2001, respectively. Cash was provided by net income adjusted for non-cash related items. Decreased inventories and receivables of $2.3 million were offset by reduced payables of $2.6 million. The reduction in receivables is a direct result of lower sales in the fourth quarter, whereas the reduction in inventory and payables is due to a corporate initiative to reduce both inventory and overall spending.

Investing Activities. Transcat used $0.3 million in net cash for investing activities in fiscal year 2003, compared to cash provided by investing activities in fiscal year 2002 of $12.1 million and cash used for investing activities in fiscal year 2001 of $1.4 million. The reduction in cash provided by investing activities resulted primarily from $13.2 million of cash realized in fiscal year 2002 from the proceeds of the Divestitures. We also reduced capital expenditures in fiscal year 2003 to $0.3 million. Following the investment in two new calibration laboratories in fiscal year 2002, capital expenditures in fiscal year 2002 totaled $1.4 million. Capital spending in fiscal year 2001 included capital spending for TPG, which was divested in fiscal year 2002.

Financing Activities. In fiscal year 2003, we reduced our bank debt by $3.3 million, of which, $2.2 million was the gain on extinguishment of debt, before expenses and warrants and $1.1 million in cash used for debt reduction. This follows a reduction in debt in fiscal year 2002, primarily funded by the proceeds of the Divestitures, of $15.3 million and debt reduction in fiscal year 2001 of $4.2 million.

We believe that we have the financial resources, which include cash from operations and the use of our availability under our Credit Agreement, needed to meet our business requirements for the next twelve months.

Disclosures about Contractual Obligations and Commercial Commitments. The schedule below contains aggregated information about contractual obligations and commercial commitments that we must make future payments under for contracts such as debt and lease

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agreements, purchase arrangements, and various operating requirements (in thousands):

	Payments Due By Period				
	Less Than 1 Year	1 3 Years	4 5 Years	After 5 Years	Total
Term Loan	$0.7	$0.7	$	$	$1.4
Revolving Line of Credit (2)	5.2				5.2
Operating Leases	0.7	1.3	0.5		2.5
Unconditional Purchase Obligations (1)					
Total Contractual Cash Obligations	$6.6	$2.0	$0.5	$	$9.1

(1) Relates to minimum inventory purchase commitment. Transcat has received approval from the SEC, granting confidential treatment under the SEC Act of 1934. See Distribution Agreement above in Item 1 for further information.

(2) Restated, See Note 1A to our Consolidated Financial Statements.

New Accounting Pronouncements

Transcat adopted SFAS No. 142, Goodwill and Other Intangible Assets, effective April 1, 2002. As a result of adopting SFAS No. 142, we no longer records goodwill amortization. Further information regarding the adoption of SFAS No. 142 is disclosed in Note 3 of the Consolidated Financial Statements.

In May 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Early application of the provisions of SFAS No. 145 is encouraged and Transcat elected to do so beginning in May 2002. Transcat now classifies the aggregate of gains and/or losses from the early extinguishment of debt separately on the Consolidated Statements of Operations, as appropriate, instead of as an extraordinary item. The remaining provisions of SFAS No. 145 did not have a material effect on our consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, rather than at a plan or commitment date for the exit or disposal activity. The SFAS establishes fair value as the objective for initial measurement of the liability. The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. Transcat has determined that our adoption of SFAS No. 146 does not have a material effect on our consolidated financial position or results of operations at March 31, 2003.

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which expands previously issued accounting guidance and disclosure requirements for certain guarantees. The Interpretation requires an entity to recognize an initial liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. Transcat does not have any such guarantees as of March 31, 2003.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123, as detailed in Note 1 of the Consolidated Financial Statements. Transcat has included the new disclosures required by SFAS No. 148 in Note 1 of the Consolidated Financial Statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, which requires all variable interest entities to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the variable interest entity. In addition, the interpretation expands disclosure requirements for both variable interest entities that are consolidated as well as variable interest entities from which the entity is the holder of a significant amount of the beneficial interests, but not the majority. The disclosure requirements of this interpretation are effective for all financial statements issued

after January 31, 2003. The consolidation requirements of this interpretation are effective for all periods beginning after June 15, 2003. Transcat does not have any such variable interest entities as of March 31, 2003.

Employee Stock Options

Our stock option program, which expires in June 2003 is a broad based, long-term retention program intended to attract, incent and retain key employees, thereby aligning stockholder and employee interests. The plan also provides for all employees to participate. Options granted to date under the plan expire no later than five years from the grant date and vest within four years, in equal increments. For the first four years after the grant date, options are exercisable only if Transcat s stock price attains a specific market value for a minimum specified number of consecutive trading days. After four years, the stock price and duration requirements cease.

We are mindful and keenly aware of the potential incremental dilution related to our options outstanding; and the necessity of balancing dilution with the plan objectives.

Options granted to employees, including officers are summarized for the fiscal years ended March 31, 1999 to 2003 as follows (shares in thousands):

	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Total Options Granted	502	5	317	347	301
Less: Options Forfeited	473	587	354	342	276
Net Options Granted	29	(532)	(37)	5	25

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

	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Total Options Granted as a % of Total Shares Outstanding	8.0%	0.9%	5.1%	5.7%	5.1%
Total Options Outstanding as a % of Total Shares Outstanding	14.6%	14.2%	23.0%	23.9%	27.1%
Options Granted to Corporate Officers as a % of Total Options Granted	63.7%	0.0%	6.3%	57.8%	68.8%
Options Granted to Corporate Officers as a % of Total Shares Outstanding	5.1%	0.0%	0.3%	3.3%	3.5%
Cumulative Options Held by Corporate Officers as a % of Total Options Outstanding	42.7%	62.4%	74.5%	79.2%	75.7%
Cumulative Options Held by Corporate Officers as a % of Total Shares Outstanding	6.2%	8.9%	17.1%	18.9%	20.5%

The following table summarizes the number of stock option shares available to be granted at March 31 for the prior three fiscal years (shares in thousands):

	FY 2003	FY 2002	FY 2001
Authorized	1,900	1,900	1,900
Cumulatively Exercised	(283)	(283)	(283)
Outstanding	(918)	(889)	(1,421)
Total Available for Grant	699	728	196

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In-the-money and out-of-the-money (have an exercise price equal to or above $1.40 per share, the market price of Transcat Common Stock at March 31, 2003) option information as of March 31, 2003 is as follows (shares in thousands):

	Exercisable			Unexercisable			Total		
	Number of Shares	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price Per Share
In-the-Money			$	421	4.10	$0.99	421	4.10	$0.99
Out-of-the-Money	106	0.57	$3.85	391	2.23	$2.28	497	2.92	$2.61
Total	106	0.57	$3.85	812	3.23	$1.61	918	1.88	$1.87

Options granted to Corporate Officers as a group during fiscal year 2003 are as follows (in thousands, except per share amounts):

Number of Securities Underlying Option Grants	% of Total Options Granted to Employees	Range of Exercise Price Per Share	Expiration Date	Potential Realization Value at Assumed Rate of Stock Price Appreciation For Option Term(1)	
				10%	25%
320	63.7%	$ 0.80 to $1.00	2008	$342	$781

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

Corporate Officers did not exercise any options during fiscal year 2003. The options held by these officers as a group as of March 31, 2003 are as follows (in thousands):

Number of Shares Underlying Unexercised Options at March 31, 2003		Values of Unexercised In-the-Money Options as of March 31, 2003(2)	
Exercisable	Unexercisable	Exercisable	Unexercisable
52	340	$ 0	$134

(2) These amounts represent the difference between the exercise price and $1.40, the market price of Transcat Common Stock at March 31, 2003 for all in-the-money options held by the listed officers.

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

For additional information regarding stock option plan activity for fiscal years 2003, 2002 and 2001, see the reconciliation of options outstanding in Note 7 of the Consolidated Financial Statements.

Employee Stock Purchase Plan

The Transcat, Inc. Employees Stock Purchase Plan (Plan) has up to 200,000 shares of our Common Stock for issuance. Under the Plan, eligible employees may purchase stock at 85% of the fair market value of our Common Stock on the Investment Date, which is the second to last business day of each calendar month. Purchases are limited under certain circumstances to maintain Plan conformance to various regulations. Plan participation was approximately 22% of total employees, including those ineligible, during fiscal years 2003 and 2002.

Outlook

In general, as we look ahead to fiscal year 2004, the outlook continues to be uncertain. We anticipate a year, especially in our distribution products business, largely driven by the pace of the recovery in the economy, and the resulting impact on our industry. Our plans assume little, if any, improvement throughout the first two quarters, however, we have maintained the flexibility to respond quickly to any earlier improvement in business conditions.

Our financial results are heavily dependent on the leverage of sales of our calibration services. We anticipate single digit growth, primarily in the last two quarters, as we continue to focus our field and inside sales efforts on the quality demanding process and life science industries.

We expect our gross margin in fiscal year 2004 to be in the range of 27.0%, plus or minus a few points, which is an increase of four points from our fiscal year 2003 gross margin of approximately 23.0%. Our gross margin variability is dependent upon our calibration services business as distribution products margins are generally stable. Calibration services margins should improve due to lower costs resulting from consolidation actions taken in fiscal year 2003, lower depreciation expense, targeted operational efficiency improvements, as well as, the leverage of increased volume.

In conjunction with the implementation of the new accounting rules for goodwill, we completed the initial goodwill impairment review in the first quarter of fiscal year 2003 and recorded an impairment charge of $6.5 million. We completed the required subsequent review as of March 31, 2003 and found no additional impairment. Our impairment review process is based on a discounted cash flow approach that uses our estimates of revenue for our business units and appropriate discount rates. The estimates we have used are consistent with the plans and estimates that we are using to manage our business. To the extent, either due to factors within or outside of our control, those estimates are not achieved, we may further incur charges for impairment of goodwill.

The need for a deferred tax valuation allowance will be reviewed quarterly in fiscal year 2004 and may change depending on the success of the operating plans and other related business developments. Any change in the valuation allowance will impact Transcat s effective rate.

As we continue to improve our operating performance, we anticipate significantly increased capital expenditures. Under our credit agreement, we are limited to $0.5 million in fiscal year 2004, increasing to $1.5 million in fiscal year 2005. We would expect fiscal year 2004 capital to primarily be asset replacement and strategic investment, followed by investment in capacity and operational efficiency in fiscal year 2005.

Finally, we believe that it would not be unreasonable to anticipate further reductions in our debt of approximately $1.0 million by the end of fiscal year 2004.

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Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders of Transcat, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Transcat, Inc. and its subsidiaries at March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1A to the consolidated financial statements, the Company has restated its consolidated balance sheet at March 31, 2003, to reclassify its debt outstanding under the Company s Revolving Credit Agreement from long-term to current liabilities.

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Rochester, New York

May 19, 2003, except for Note 1A, as to which the date is June 17, 2004

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TRANSCAT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(In Thousands, Except Per Share Amounts)

	For the Years Ended March 31,		
	2003	**2002**	**2001**
Product Sales	$38,373	$47,653	$58,962
Service Sales	18,808	19,129	17,919
Net Sales	57,181	66,782	76,881
Cost of Products Sold	28,164	32,507	39,444
Cost of Services Sold	15,731	16,199	14,227
Total Cost of Products and Services Sold	43,895	48,706	53,671
Gross Profit	13,286	18,076	23,210
Selling, Marketing, and Warehouse Expenses	8,311	11,387	12,080
Administrative Expenses	4,541	6,183	5,774
Research and Development Costs		901	1,165
Goodwill Amortization		1,102	1,239
Goodwill Impairment		4,508	
Total Operating Expenses	12,852	24,081	20,258
Operating Income (Loss)	434	(6,005)	2,952
Interest Expense	615	1,432	2,523
Gain on Extinguishment of Debt	(1,593)		
Other Expense (Income)	63	(206)	
Total Other (Income) Expense	(915)	1,226	2,523
Income (Loss) Before Income Taxes and Cumulative Effect of a Change in Accounting Principle	1,349	(7,231)	429
Benefit for Income Taxes	(408)	(600)	(84)
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	1,757	(6,631)	513
Cumulative Effect of a Change in Accounting Principle	(6,472)		
Net (Loss) Income	(4,715)	(6,631)	513
Other Comprehensive Income:			
Currency Translation Adjustment	91	(21)	(173)
Comprehensive (Loss) Income	$ (4,624)	$ (6,652)	$ 340
Basic and Diluted (Loss) Earnings Per Share:			
Before Cumulative Effect of a Change in Accounting Principle	$ 0.29	$ (1.08)	$ 0.09

From Cumulative Effect of a Change in Accounting Principle	(1.05)		
Total Basic and Diluted (Loss) Earnings Per Share	$ (0.76)	$ (1.08)	$ 0.09
Average Shares Outstanding (in thousands)	6,147	6,103	6,030

See the notes to these financial statements.

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TRANSCAT, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Amounts)

	March 31, 2003 (Restated, see Note 1A)	March 31, 2002
ASSETS		
Current Assets:		
Cash	$ 114	$ 508
Accounts Receivable, less allowance for doubtful accounts of $114 and $231 as of March 31, 2003 and 2002, respectively	6,879	8,056
Other Receivables	159	92
MAC Escrow and Holdback		225
Finished Goods Inventory, net	2,842	3,869
Income Taxes Receivable	799	853
Prepaid Expenses and Deferred Charges	454	774
Total Current Assets	11,247	14,377
Property, Plant and Equipment, net	2,556	3,911
Goodwill	2,524	8,996
Deferred Charges	197	116
Other Assets	234	224
Total Assets	$16,758	$27,624
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	$ 3,738	$ 6,340
Accrued Payrolls, Commissions and Other	1,862	1,959
Income Taxes Payable	100	245
Deposits	64	448
Deferred Revenue MAC		179
Current Portion of Term Loan	666	1,016
Revolving Line of Credit	5,248	
Total Current Liabilities	11,678	10,187
Term Loan, less current portion	668	2,080
Revolving Line of Credit		6,817
Deferred Compensation	170	232
Deferred Gain on TPG Divestiture	1,544	1,544
Total Liabilities	14,060	20,860
Stockholders Equity:		
Common Stock, par value $0.50 per share, 30,000,000 shares authorized; 6,296,000 and 6,241,000 shares issued as of March 31, 2002 and 2003, respectively; 6,176,642 and 6,121,642 shares outstanding as of March 31, 2003 and 2002, respectively	3,148	3,120
Capital in Excess of Par Value	3,031	3,019
Warrants	518	
Accumulated Other Comprehensive Loss	(235)	(326)

Retained (Deficit) Earnings	(3,311)	1,404
Less: Treasury Stock, at cost, 119,358 shares	(453)	(453)
Total Stockholders Equity	2,698	6,764
Total Liabilities and Stockholders Equity	$16,758	$27,624

See the notes to these financial statements

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TRANSCAT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	For the Years Ended, March 31,		
	2003	**2002**	**2001**
Cash Flows from Operating Activities:			
Net (Loss) Income	$ (4,715)	$ (6,631)	$ 513
Cumulative Effect of a Change in Accounting Principle	6,472		
Net Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	1,757	(6,631)	513
Adjustments to Reconcile Net Income (Loss) Before Cumulative Effect of a Change in Accounting Principle to Net Cash Provided by Operating Activities:			
Impairment of Long-Lived Assets		4,508	
Loss on Disposal of Assets	63		
Gain on Extinguishment of Debt	(1,593)		
Depreciation and Amortization	2,047	4,086	4,546
Provision for Doubtful Accounts Receivable and Returns	(210)	297	321
Provision for Slow Moving or Obsolete Inventory		712	180
Deferred Revenue MAC	(179)		
Deferred Taxes		107	206
Common Stock Expense	40	87	176
Gain on Life Insurance Policy		(206)	
Other	(10)	(9)	113
Changes in Assets and Liabilities, net of divested businesses:			
Accounts Receivable and Other Receivables	1,320	1,369	562
MAC Escrow and Holdback	225		
Inventories	1,027	438	256
Income Taxes Receivable / Payable	(91)	(461)	105
Prepaid Expenses, Deferred Charges, and Other	(225)	(768)	(646)
Accounts Payable	(2,602)	(652)	(474)
Accrued Payrolls, Commissions, and Other	(186)	281	(367)
Deposits	(384)	448	
Deferred Compensation	(62)	(62)	(66)
Net Cash Provided by Operating Activities	937	3,544	5,425
Cash Flows from Investing Activities:			
Purchase of Property, Plant and Equipment	(291)	(1,364)	(1,393)
Proceeds from Sale of Divested Operations		13,160	
Proceeds from Corporate-Owned Life Insurance		303	
Net Cash (Used in) Provided by Investing Activities	(291)	12,099	(1,393)
Cash Flows from Financing Activities:			
Revolving Line of Credit, net	89	(2,287)	(1,490)
Payments on Long-Term Borrowings	(8,333)	(13,004)	(2,700)
Proceeds from Long-Term Borrowings	7,113		
Net Cash Used in Financing Activities	(1,131)	(15,291)	(4,190)

Effect of Exchange Rate Changes on Cash	91	(21)	(173)
Net (Decrease) Increase in Cash	(394)	331	(331)
Cash at Beginning of Period	508	177	508
Cash at End of Period	$ 114	$ 508	$ 177
Cash Paid (Received) from Interest and Taxes			
Interest Paid	$ 645	$ 1,432	$ 2,523
Taxes Refunded	$ (319)	$ (447)	$ (110)
Supplemental Disclosure of Non-Cash Financing Activity			
Issuance of Warrants for Debt Retirement	$ 518	$	$

See the notes to these financial statements.

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TRANSCAT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In Thousands)

	Common Stock Outstanding $0.50 Par Value		Capital in Excess of Par Value	Warrants	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Treasury Stock	Total
	Shares	Amount						
Balance as of March 31, 2000	6,101	$3,050	$2,826	$	$(132)	$ 7,522	$(453)	$12,813
Issuance of Common Stock	89	44	132					176
Comprehensive Income:								
Currency Translation Adjustment					(173)			(173)
Net Income (Loss)						513		513
Balance as of March 31, 2001	6,190	$3,094	$2,958	$	$(305)	$ 8,035	$(453)	$13,329
Issuance of Common Stock	51	26	61					87
Comprehensive Income:								
Currency Translation Adjustment					(21)			(21)
Net (Loss) Income						(6,631)		(6,631)
Balance as of March 31, 2002	6,241	$3,120	$3,019	$	$(326)	$ 1,404	$(453)	$ 6,764
Issuance of Common Stock	55	28	12					40
Issuance of Warrants				518				518
Comprehensive Income:								
Currency Translation Adjustment					91			91
Net (Loss) Income						(4,715)		(4,715)
Balance as of March 31, 2003	6,296	$3,148	$3,031	$518	$(235)	$(3,311)	$(453)	$ 2,698

See the notes to these financial statements

TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In Thousands, Except Share and Per Share Amounts)

Note 1 Nature of Business and Summary of Significant Accounting Policies

Description of Business

Transcat, Inc. (Transcat , we , us , our), formerly known as Transmation, Inc., is a leading distributor of professional grade test, measuremen and calibration instruments and a provider of calibration and repair services, primarily throughout the process, life science, and manufacturing industries.

Principles of Consolidation

The consolidated financial statements of Transcat include the accounts of Transcat, Inc. and all of our wholly owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

Transcat has operated within a conventional 52-week accounting fiscal year ending on March 31st of each year. As of April 1, 2003, we changed our fiscal year end from March 31 to a 52 / 53 week fiscal year end, ending the last Saturday in March. As a result of this change, in a 52-week fiscal year, each of our four quarters will be a 13-week period, and the final month of each quarter will be a 5-week period. This is not deemed a change in fiscal year for purposes of reporting subject to Rule 13a-10 or 15d-10 since the new fiscal year commences with the end of the old fiscal year.

Revenue Recognition

Sales are recorded when products are shipped or services are rendered to customers, as we generally have no significant post delivery obligations, the product price is fixed and determinable, collection of the resulting receivable is probable and product returns are reasonably estimated. Provisions for customer returns are provided for in the period the related sales are recorded based upon historical data.

Shipping and Handling Costs

Freight expense and direct shipping costs are included in Cost of Sales . These costs were approximately $1.7 million, $2.8 million, and $2.4 million for the fiscal years ended 2003, 2002, and 2001, respectively. Direct handling costs, which primarily represent direct compensation of employees who pick, pack, and otherwise prepare, if necessary, merchandise for shipment to our customers are reflected in Selling, Marketing, and Warehouse Expenses . These costs were approximately $0.2 million for the fiscal years ended 2003, 2002, and 2001.

Comprehensive Income

Transcat reports comprehensive income under SFAS No. 130, Reporting Comprehensive Income . Other comprehensive income is comprised of net income (loss) and currency translation adjustments.

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TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Earnings Per Share

Basic earnings per share of Common Stock are computed based on the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings per share of Common Stock reflect the assumed conversion of dilutive stock options and warrants. In computing the per share effect of assumed conversion, funds which would have been received from the exercise of options and warrants are considered to have been used to purchase shares of Common Stock at the average market prices during the period, and the resulting net additional shares of Common Stock are included in the calculation of average shares of Common Stock outstanding. For the years ended March 31, 2003, 2002, and 2001, there were no dilutive stock options and warrants. The total number of anti-dilutive shares outstanding from stock options and warrants are summarized as follows (shares in thousands, except per share amounts):

	For the Years Ended March 31,		
	2003	2002	2001
Number of Options and Warrants:			
Anti-dilutive	1,522	1,050	1,434
Range of Exercise Prices per Share	$0.80-$8.50	$1.55-$9.25	$1.94-$9.25

Accounts Receivable and Credit Policies

Trade accounts receivable represent receivables from customers in the ordinary course of business. These amounts are recorded net of the allowance for doubtful accounts in the consolidated balance sheets. The allowance for doubtful accounts is based upon the expected collectibility of accounts receivable.

Inventories

Inventories consist of finished goods and are valued at the lower of standard cost or market. Standard costs approximate the average cost method of inventory valuation. Inventories are reduced by a reserve for items not saleable at or above standard cost. We evaluate the adequacy of the reserve on a quarterly basis.

Properties, Depreciation, and Amortization

Properties are stated at cost. Depreciation and amortization is computed primarily under the straight-line method with useful lives of 3 to 10 years for the major classifications of inventory: machinery, equipment, and software and furniture and fixtures. Capitalized software costs consist of costs to purchase software. Leasehold improvements are amortized under the straight-line method over the terms of the related leases. Maintenance and repairs are expensed as incurred. See Note 2 of the Consolidated Financial Statements for further disclosure.

Goodwill

Transcat follows the provisions under the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Tangible Assets . SFAS No. 142 requires Transcat to test our goodwill or intangible assets deemed to have an indefinite life for impairment on an annual basis, or immediately if conditions indicate that such impairment could exist. We estimate fair value of our reporting units in accordance with SFAS No. 142. See Note 3 of the Consolidated Financial Statements for further disclosure.

Deferred Catalog Costs

Transcat amortizes the cost of each major catalog (Master Catalog) mailed over such catalog s estimated productive life. We review response results from catalog mailings on a continuous basis; and if warranted, we may modify the period over which costs are recognized. In the fourth quarter of fiscal year 2002, we determined

TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

that useful life for our Master Catalog approximated the mailing cycle, reducing its productive life from 24 to 18 months, and recognized an additional $1.0 million in catalog related amortization expense in fiscal year 2002. Deferred catalog costs totaled $0.7 million at March 31, 2002. There were no deferred catalog costs at March 31, 2003.

Deferred Gain on TPG

As a result of certain post divestiture commitments, Transcat, according to GAAP, is unable to recognize the gain of $1.5 million on the divestiture of Transmation Products Group (TPG) until those commitments expire in fiscal year 2006.

Deferred Taxes

Transcat accounts for certain income and expense items differently for financial reporting purposes than for income tax reporting purposes. Deferred taxes are provided in recognition of these temporary differences. A valuation allowance on deferred tax assets is provided for the portion of the foreign tax credit carry forwards and other items for which it is more likely than not that the benefit of such items will not be realized. See Note 5 of the Consolidated Financial Statements for further disclosure.

Fair Value of Financial Instruments

Transcat has determined the fair value of our debt and other financial instruments using available market information and appropriate valuation methodologies as follows:

Cash and Accounts Receivables: The carrying amounts reported on the Consolidated Balance Sheets for cash and accounts receivables approximate fair value, due to their short-term nature.

Long-Term Debt: The carrying amount of debt under our Credit Agreement approximates fair value.

Stock Options

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

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

	FY 2003	FY 2002	FY 2001
Weighted average fair value of options awarded	$0.61	$1.41	$1.36

The following assumptions were used in the Pricing Model:

	FY 2003	FY 2002	FY 2001
Weighted average fair value of value of options life	5 years	5 years	5 years
Annualized volatility rate	92.7%	85.9%	73.9%
Weighted average risk-free rate of return	4.4%	4.6%	5.6%
Dividend Rate	0.0%	0.0%	0.0%

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

TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	For the Years Ended March 31,		
	2003	2002	2001
Net (Loss) Income, as reported	$(4,715)	$(6,631)	$ 513
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(205)	(227)	(543)
Pro Forma Net (Loss) Income	$(4,920)	$(6,858)	$ (30)
(Loss) Earnings Per Share:			
Basic and Diluted as reported	$ (0.76)	$ (1.08)	$ 0.09
Basic and Diluted pro forma	$ (0.80)	$ (1.13)	$(0.00)

The effect of applying SFAS No. 123 in the current year is not representative of the effect on income for future years since each subsequent year will reflect expense for additional vesting, additional stock option grants, and updated assumptions.

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

Foreign Operations

The accounts of Transcat s foreign subsidiary are maintained in the local currency of the country in which we operate and have been translated to United States dollars in accordance with SFAS No. 52, Foreign Currency Translation . Accordingly, the amounts representing assets and liabilities, except for long-term intercompany and equity, have translated at the year-end rates of exchange and related revenue and expense accounts have been translated at average rates of exchange during the year. Gains and losses arising from translation of our subsidiary balance sheets into United States dollars are recorded directly to the accumulated comprehensive income component of stockholders equity. Currency gains and losses on business transactions are included in net income and have not been significant.

Reclassification of Amounts

Certain prior year and prior quarter financial information have been made to conform to current quarter and twelve month presentation.

New Accounting Pronouncements

Transcat adopted SFAS No. 142 effective April 1, 2002. As a result of adopting SFAS No. 142, we no longer records goodwill amortization. Further information regarding the adoption of SFAS No. 142 is disclosed in Note 3 of the Consolidated Financial Statements.

In May 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Early application of the provisions of SFAS No. 145 is encouraged and Transcat elected to do so beginning in May 2002. Transcat now classifies the aggregate of gains and/or losses from the early extinguishment of debt separately on the Consolidated Statements of Operations, as appropriate, instead of as an extraordinary item. The remaining provisions of SFAS No. 145 did not have a material effect on our consolidated financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, rather than at a plan or commitment date for the exit or disposal activity. The SFAS establishes fair value as the objective for initial measurement of the liability. The provisions of SFAS

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TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

No. 146 are effective for exit or disposal activities initiated after December 31, 2002. Transcat has determined that our adoption of SFAS No. 146 does not have a material effect on our consolidated financial position or results of operations at March 31, 2003.

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which expands previously issued accounting guidance and disclosure requirements for certain guarantees. The Interpretation requires an entity to recognize an initial liability for the fair value of an obligation assumed by issuing a guarantee. The provision for initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. Transcat does not have any such guarantees as of March 31, 2003.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123, as detailed above in Note 1 of the Consolidated Financial Statements. Transcat has included the new disclosures required by SFAS No. 148 above in Note 1 of the Consolidated Financial Statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, which requires all variable interest entities to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the variable interest entity. In addition, the interpretation expands disclosure requirements for both variable interest entities that are consolidated as well as variable interest entities from which the entity is the holder of a significant amount of the beneficial interests, but not the majority. The disclosure requirements of this interpretation are effective for all financial statements issued after January 31, 2003. The consolidation requirements of this interpretation are effective for all periods beginning after June 15, 2003. Transcat does not have any such variable interest entities as of March 31, 2003.

Note 1A Restatement

We have restated the classification of our outstanding debt under our revolving line of credit from long-term to current liabilities on our Consolidated Balance Sheets as of March 31, 2003. Emerging Issues Task Force Issue No. 95-22, Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement, requires current classification of revolving lines of credit under which funds are borrowed when the revolving line of credit contains both loan terms that allow the lender to declare the loan in default on a subjective basis and a lock-box arrangement, whereby remittances to the lock-box automatically pay down the outstanding revolving line of credit. This accounting treatment is required regardless of the legal maturity date of the revolving line of credit arrangement. Our revolving line of credit, which matures on November 13, 2005, contains such features. Accordingly, the Consolidated Financial Statements have been restated to reclassify outstanding borrowings under the revolving line of credit from long-term to current liabilities. This change in balance sheet classification does not affect our Consolidated Statements of Operations or Consolidated Statements of Cash Flows. The following table reflects the effect of the reclassification of the revolving line of credit on our Consolidated Balance Sheet. The revolving line of credit was previously reported in long-term debt on our Consolidated Balance Sheet and has been reclassified to a separate line.

	As Previously Reported	As Restated
	March 31, 2003	March 31, 2003
Current Portion of Long-Term Debt	$666	$
Current Portion of Term Loan	$	$666
Revolving Line of Credit	$	$5,248
Total Current Liabilities	$6,430	$11,678
Long-Term Debt, less current portion		

$5,916 $
Term Loan, less current portion
$ $668
Total Liabilities
$14,060 $14,060

Note 2 Properties

Properties consist of (in thousands):

	March 31,	
	2003	**2002**
Machinery, Equipment, and Software	$ 8,741	$ 8,678
Furniture and Fixtures	1,162	1,173
Leasehold Improvements	323	302
Total Properties	$10,226	$10,153
Less: Accumulated Depreciation and Amortization	(7,670)	(6,242)
Total Properties, net	$ 2,556	$ 3,911

Depreciation expenses amounted to $1.6 million, $2.0 million, and $2.1 million in fiscal years 2003, 2002, and 2001, respectively.

TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Transcat leases facilities and equipment under non-cancelable operating leases. The minimum future annual rental payments under the non-cancelable operating leases at March 31, 2003 are as follows:

Fiscal Year	Amounts
2004	$ 0.7 million
2005	$ 0.5 million
2006	$ 0.4 million
2007	$ 0.4 million
2008	$ 0.3 million
Thereafter	$ 0.2 million

Total rental expense for fiscal years 2003, 2002, and 2001 was approximately $1.0 million, $1.0 million, and $1.1 million, respectively.

Note 3 Goodwill

Transcat recorded an impairment from the implementation of SFAS No. 142 in June 2002 as a change in accounting principle in the first quarter of the fiscal year 2003, using the fair market value measurement requirement, rather than the undiscounted cash flows approach.

The evaluation of Transcat s reporting units on a fair value basis indicated that no impairment existed as of March 31, 2003. The evaluation as of April 1, 2002, indicated that a $6.5 million impairment existed.

The following table provides the comparative effects of adopting SFAS No. 142 for the fiscal years ended March 31, 2003 and 2002 (in thousands, except per share amounts):

	For the Years Ended March 31,		
	2003	2002	2001
Income (Loss) Before Cumulative Effect of a Change in Accounting Principle	$1,757	$(6,631)	$ 513
Add Back: Goodwill Amortization		1,102	1,239
Adjusted Net Income (Loss)	$1,757	$(5,529)	$1,752
Basic and Diluted Earnings (Loss) Per Share:			
Before Cumulative Effect of a Change in Accounting Principle	$ 0.29	$ (1.08)	$ 0.09
Add Back: Goodwill Amortization		0.18	0.21
Adjusted Basic and Diluted Earnings (Loss) Per Share	$ 0.29	$ (0.90)	$ 0.30

Note 4 Debt

On November 13, 2002, Transcat entered into a new Revolving Credit and Loan Agreement (the Credit Agreement) with GMAC Business Credit, LCC (GMAC). The Credit Agreement expires on November 13, 2005 and replaced our Revolving Credit and Loan Agreement (the Prior Credit Agreement) with Key Bank, N.A. and Citizens Bank (the Banks) originally dated August 3, 1998 and most recently amended on July 12,

2002. The Credit Agreement consists of a term loan and a revolving line of credit (the Loan), the terms of which are as set forth below. The Credit Agreement was amended on April 11, 2003 (First Amendment to Loan and Security Agreement) to address certain non-material post closing conditions.

Under the Credit Agreement, Transcat made a term note in the amount of $1.5 million in favor of GMAC. This term note requires annual payments totaling $0.5 million, payable in equal monthly installments, commencing on December 1, 2002. Interest on the term note is payable at our option, at prime plus 0.5% or up to

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TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

80% of the Loan at the 30-day LIBOR (London Interbank Offered Rate) plus 3.25%. The prime rate and LIBOR as of June 6, 2003 were 4.25% and 1.27%, respectively. In addition, under the Credit Agreement, we are required to further reduce the term loan, on an annual basis, by 20% of excess cash flow, as defined, not to exceed $0.2 million per fiscal year. Excess cash flow for the fiscal year ended March 31, 2003 was $0.2 million. As a result, we have classified an additional $0.2 million as a current liability as of March 31, 2003.

The maximum amount available under the revolving line of credit portion of the Credit Agreement is $10.0 million. As of March 31, 2003, Transcat borrowed $5.2 million. Availability under the line of credit is determined by a formula based on eligible accounts receivable (85%) and inventory (48%). As of March 31, 2003, availability amounted to $6.7 million. The Credit Agreement has certain covenants with which we must comply, including a minimum EBITDA (earnings before interest, income taxes, depreciation and amortization) covenant, as well as, restrictions on capital expenditures and Master Catalog spending. We were not in violation of any loan covenants as of March 31, 2003, and we believe we will be in compliance with all covenants in the upcoming fiscal year. Interest on borrowings under the revolving line of credit is payable monthly, at our option, at prime rate, 4.25% as of June 6, 2003, or up to 80% of the Loan at the 30-day LIBOR, 1.27% as of June 6, 2003, plus 2.75%. Additional terms of the Credit Agreement require an increase in our borrowing rate of two percentage points should an event of default occur and a termination premium of 3% of the maximum available borrowing under the revolving line of credit plus the then outstanding balance owed under the term note if the Credit Agreement is terminated in its first year and 1% if terminated thereafter, prior to November 13, 2005. The Credit Agreement requires both a subjective acceleration clause and a requirement to maintain a lock-box arrangement. These requirements result in a short-term classification of the revolving line of credit in accordance with EITF No. 95-22, as discussed above in Note 1A.

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

The Credit Agreement also requires Transcat to make the following principal payments on the term note, excluding any reductions attributable to excess cash flow, as discussed above (in thousands):

Fiscal Year 2004	500
Fiscal Year 2005	500
Fiscal Year 2006	333
Total	$ 1,333

In completing the refinancing with GMAC, Transcat s lenders under the Prior Credit Agreement, the Banks, and Transcat executed a Termination Agreement under which the Banks accepted a $2.2 million reduction in our outstanding debt as of November 13, 2002, in consideration of the issuance to the Banks of warrants to purchase 500,000 shares of Transcat s Common Stock. The shares of Common Stock underlying such warrants have an exercise price of $1.50 and expire according to the following schedule: 100,000 shares on November 13, 2004, 100,000 shares on November 13, 2005, and 300,000 shares on November 13, 2007. The refinancing transaction resulted in a one-time gain, net of transaction costs, of $1.6 million and an increase in stockholders equity attributed to the valuation of the warrants of $0.5 million. The warrants were valued based on the Black-Scholes option-pricing model.

Further, under the Termination Agreement, should Transcat incur a change of control, as defined in the Termination Agreement, prior to November 13, 2004, the Banks will be entitled to recover the lesser of our net assets or $2.2 million. To the extent the net market value of the warrants issued in conjunction with the termination of the Prior Credit Agreement is less than the amount due, additional warrants would be issued at the market price in such quantity to equal the difference between the amount due and the net market value of the warrants issued in conjunction with the Termination Agreement. Transcat currently has no plans to effect a change in control, nor is it currently soliciting or entertaining any transactions that would constitute a change in control.

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TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We believe that we have the financial resources, which include cash from operations and the use of our availability under our Credit Agreement, needed to meet our business requirements for the next twelve months.

Note 5 Income Taxes

The provisions for income taxes determined in accordance with SFAS No. 109, Accounting for Income Taxes , for the years ended March 31, 2003, 2002, and 2001 are comprised of (in thousands):

	Current	Deferred	Total
Fiscal Year Ended 2003:			
Federal	$(418)	$	$(418)
State	10		10
Foreign			
Total	$(408)	$	$(408)
Fiscal Year Ended 2002:			
Federal	$(730)	$ 97	$(633)
State	11	10	21
Foreign	12		12
Total	$(707)	$107	$(600)
Fiscal Year Ended 2001:			
Federal	$(331)	$159	$(172)
State	10	47	57
Foreign	31		31
Total	$(290)	$206	$ (84)

The following is a reconciliation of the expected federal income tax provision computed by applying the statutory United States federal income tax rate and the income tax provision reflected in the Consolidated Statements of Operations (in thousands):

	FY 2003	FY 2002	FY 2001
Computed Expected Federal Income Tax	$(1,742)	$(2,455)	$ 146
State Income Taxes	(231)	(377)	15
Foreign Sales Corporation			(38)
Book Expenses Not Deductible for Taxes	24	312	91
Valuation Allowance	1,139	2,439	(300)
R&D and Other Credits	274	(359)	
Other, Net	128	(160)	2
Total	$ (408)	$ (600)	$ (84)

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TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	FY 2003	FY 2002	FY 2001
Deferred Tax Assets:			
Deferred Revenue	$	$ 238	$
Domestic Net Operating Loss Carry Forward		465	452
Reserves for Inventory Obsolescence	150	392	347
Gain on Sale of Business	587	210	
Goodwill	2,282	925	
Foreign Tax Credit	724	401	43
Other	426	571	454
Valuation Allowance (1)	(3,728)	(2,589)	(150)
Total Deferred Tax Assets	$ 441	$ 613	$1,146
Deferred Tax Liabilities:			
Goodwill	$ 409	$	$ 429
Depreciation	32	613	469
Accelerated Catalog and Postage Write-offs			141
Total Deferred Tax Liabilities	$ 441	$ 613	$1,039
Net Deferred Tax Assets	$	$	$ 107

(1) A valuation allowance for the full amount of the net deferred tax asset was recorded at March 31, 2003 and 2002. This represents the portion of the foreign tax credit carry forwards and other items for which it is more likely than not that the benefit of such items will not be realized. Such valuation allowance increased by approximately $1.1 million and $2.4 million for the years ended March 31, 2003 and 2002, respectively. As of March 31, 2003, Transcat had foreign tax credit carry forwards of $0.7 million that will expire within five years.

Note 6 Defined Contribution Plan

All United States employees of Transcat are eligible to participate in a plan providing certain qualifications are met. Effective April 1, 1981, Transcat s Deferred Profit Sharing Plan was adopted. Effective April 1, 1987, this plan was amended from a non-contributory to a contributory defined contribution plan and renamed the Long-Term Savings and Deferred Profit Sharing Plan (Plan).

In the Long-Term Savings (401K) portion of the Plan, payments of benefits accrued for plan participants will be made upon retirement or upon termination of employment prior to retirement providing certain conditions have been met by the employee prior to termination. Transcat s matching contributions to the 401K were $0.2 million, $0.3 million, and $0.3 million for the fiscal years ended 2003, 2002, and 2001, respectively.

In the Deferred Profit Sharing portion of the Plan, employer contributions are made at the discretion of the Board of Directors. Transcat made no profit sharing contributions in the fiscal years ended 2003, 2002, and 2001.

Note 7 Stock Options and Warrants

Under the 1993 Stock Option Plan (Option Plan), as amended, officers and key employees may be granted options to purchase Transcat s common stock at no less than the fair market value at the date of the grant. Options are exercisable in annual installments beginning at the date of the grant and expiring up to ten years later.

TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the transactions under the Option Plan during the fiscal years ended 2003, 2002, and 2001 (shares in thousands):

	FY 2003		FY 2002		FY 2001	
	Number of Shares	Weighted Average Price	Number of Shares	Weighted Average Price	Number of Shares	Weighted Average Price
Beginning of Year	889	$2.85	1,421	$ 3.99	1,458	$4.44
Add (Deduct):						
Granted	502	1.03	55	2.02	317	2.16
Cancelled	(473)	3.85	(587)	4.70	(354)	4.24
End of Year	918	1.87	889	2.85	1,421	3.99
Exercisable, End of Year	106	$3.85	139	$13.63	505	$9.59
Available for Grant, End of Year	699		728		196	

The following table presents options outstanding or exercisable as of March 31, 2003 (shares in thousands, except per share amounts):

	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price per Share	Number of Shares	Weighted Average Exercise Price per Share
Range of Exercise Prices:					
$0.80-$3.00	812	3.23	$1.61		$
$3.25-$4.75	104	0.58	$3.79	104	$3.79
$5.25-$9.25	2	0.11	$7.13	2	$7.13
Total	918	2.92	$1.87	106	$3.85

Under the Directors Warrant Plan, warrants may be granted to non-employee directors of Transcat to purchase in the aggregate not more than 200,000 shares of our Common Stock. The purchase price for shares issued under the Directors Warrant Plan shall be equal to the fair market value of the stock on the date of the grant of the warrant. A summary of activity under the 1984 Directors Warrant Plan is as follows:

	Number of Shares	Range of Warrant Prices
Balance, March 31, 2000	96,000	$3.06 $7.88
Granted During FY 2001	28,000	$2.91
Cancelled and Expired During FY 2001	(36,000)	$2.91 $7.88
Balance, March 31, 2001	88,000	$2.91 $7.88

Granted During FY 2002	32,000		$2.00
Cancelled and Expired During FY 2002	(32,000)	$2.00	$7.88
Balance, March 31, 2002	88,000	$2.00	$7.89
Granted During FY 2003	28,000		$0.97
Cancelled and Expired During FY 2003	(12,000)	$2.00	$3.06
Balance, March 31, 2003	104,000	$0.97	$3.75

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TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Transcat granted warrants to purchase 500,000 shares of Transcat s Common Stock on November 13, 2002 to Key Bank, N.A. and Citizens Bank in consideration for our refinancing of debt. The $0.5 million valuation of the warrants was based on the Black-Scholes option-pricing model. See Note 4 of the Consolidated Financial Statements for further information.

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. We have no inter-segment sales. Beginning in fiscal year 2003, management s review of the operating segments of the business included an allocation methodology for all previously unallocated expenses (see footnote 1 below). Because prior years included the Divestitures, the basis for constructing a comparable allocation is not available. The following table presents our segment and geographic data as of, and for the years ended March 31, 2003, 2002, and 2001 (in thousands):

	FY 2003	FY 2002	FY 2001
Net Sales:			
Product	$38,373	$47,653	$58,962
Service	18,808	19,129	17,919
Total	57,181	66,782	76,881
Gross Profit:			
Product	10,209	15,146	19,518
Service	3,077	2,930	3,692
Total	13,286	18,076	23,210
Operating Expenses:			
Product (1)	7,380		
Service (1)	5,472		
Unallocated		24,081	20,258
Total	12,852	24,081	20,258
Operating (Income) Loss	$ 434	$ (6,005)	$ 2,952
Total Assets:			
Product	$ 9,753	$10,080	$10,229
Service	5,356	6,577	3,308
Unallocated	1,650	10,967	34,185
Total	$16,759	$27,624	$47,722
Depreciation and Amortization:			
Product	$ 633	$ 2,037	$ 1,717
Service	1,414	1,608	1,041
Unallocated		441	1,788
Total	$ 2,047	$ 4,086	$ 4,546

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TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	FY 2003	FY 2002	FY 2001
Capital Expenditures:			
Product	$ 22	$ 108	$ 338
Service	269	1,181	783
Unallocated		75	272
Total	$ 291	$ 1,364	$ 1,393
Geographic Data:			
Net Sales to Unaffiliated Customers (2)			
United States	$52,035	$62,096	$71,264
Canada	5,146	4,686	5,617
Total	$57,181	$66,782	$76,881
Long-Lived Assets:			
United States	$ 4,599	$12,541	$25,564
Canada	481	366	99
Total	$ 5,080	$12,907	$25,663

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

(2) Net sales are attributed to the countries based on the location of the subsidiary making the sale.

Note 9 Divestitures

During fiscal year 2002, Transcat divested the TPG and the Measurement and Control (MAC) unit (the Divestitures). The Divestitures are disclosed in detail in Note 13 of the Consolidated Financial Statements of our 2002 Annual Report on Form 10K/ A filed with the SEC.

In conjunction with the sale of TPG on December 26, 2001, Transcat entered into a distribution agreement (the Distribution Agreement) with Fluke Electronics Corporation (Fluke) to be the exclusive worldwide distributor of TPG products until December 25, 2006. Under the Distribution Agreement, we also agreed to purchase a pre-determined amount of inventory from Fluke.

On October 31, 2002, we entered into a new distribution agreement (the New Agreement) with Fluke with an effective date of September 1, 2002, extending through December 31, 2006. Under the terms of the New Agreement, among other items, we agreed to purchase a larger, pre-determined amount of inventory across a broader array of products and brands. We believe that this commitment to future purchases is consistent with our business needs and plans. We were in compliance with all terms of the agreement as of March 31, 2003.

Note 10 Litigation

In May 2002, Transcat s former Vice President Finance sued us in New York State Supreme Court, Monroe County, alleging, among other items, that we breached the terms of his employment agreement with us when his employment was terminated. He is seeking approximately $0.5 million to compensate him for lost wages and unpaid vacation. Transcat disagrees with his claim against us, does not believe he is entitled to any relief and is defending this action to the maximum extent possible.

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TRANSCAT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 Quarterly Data (Unaudited)

The following table presents certain unaudited quarterly financial data for the fiscal years ended March 31, 2003, 2002, and 2001 (in thousands, except per share amounts):

	Net Sales	Gross Profit	Income (Loss) Before Cumu-lative Effect of a Change in Accounting Principle	Net (Loss) Income	Basic Earnings (Loss) Per Share	Diluted Earnings (Loss) Per Share
Fiscal Year 2003:						
Fourth Quarter	$13,915	$ 3,443	$ 63	$ 63	$ 0.01	$ 0.01
Third Quarter	14,578	3,372	1,330	1,330	0.22	0.21
Second Quarter	14,445	3,309	509	509	0.08	0.08
First Quarter	14,243	3,162	(145)	(6,617)	(1.08)	(1.08)
Total	$57,181	$13,286	$ 1,757	$(4,715)	$(0.76)	$(0.76)
Fiscal Year 2002:						
Fourth Quarter	$16,861	$ 4,117	$ (609)	$ (609)	$(0.10)	$(0.10)
Third Quarter	16,453	4,335	(5,362)	(5,362)	(0.88)	(0.88)
Second Quarter	16,327	4,619	(221)	(221)	(0.04)	(0.04)
First Quarter	17,141	5,005	(439)	(439)	(0.07)	(0.07)
Total	$66,782	$18,076	$(6,631)	$(6,631)	$(1.08)	$(1.08)
Fiscal Year 2001:						
Fourth Quarter	$20,500	$ 6,749	$ 655	$ 655	$ 0.11	$ 0.11
Third Quarter	19,746	5,526	85	85	0.01	0.01
Second Quarter	17,524	5,201	(257)	(257)	(0.04)	(0.04)
First Quarter	19,111	5,734	30	30	0.01	0.01
Total	$76,881	$23,210	$ 513	$ 513	$ 0.09	$ 0.09

Certain prior year and prior quarter financial information have been made to conform to current quarter and twelve month presentation.

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TRANSCAT, INC.

SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS

As of March 31
(In Thousands)

	Balance at the Beginning of the Year	Additions (Reductions) to Consolidated Statements of Operations	Additions (Reductions) to Consolidated Balance Sheets	Reductions due to Products Sold	Acquired in Acquisitions (Released in Divestitures)	Balance at the End of the Year
Allowance for Doubtful Accounts:						
FY 2003	$ 231	$	$ (117)	$	$	$ 114
FY 2002	160	170	(76)		(23)	231
FY 2001	164	144	(148)			160
Reserve for Inventory Loss:						
FY 2003	$ 1,030	$	$	$ (635)	$	$ 395
FY 2002	913	712		(17)	(578)	1,030
FY 2001	2,172	180		(1,439)		913
Deferred Asset Valuation Allowance:						
FY 2003	$ 2,589	$	$	$	$	$ 2,589
FY 2002	150	2,439				2,589
FY 2001	450	(300)				150

Certain prior years financial information has been made to conform to current year presentation.

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Part IV

Item 16. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

a) Exhibits.

See Index to Exhibits. The Index to Exhibits attached to this Form 10-K/A supplements the Index to Exhibits contained in the 2003 Annual Report.

b) Reports on Form 8-K.

None.

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SIGNATURES

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.

TRANSCAT, INC.

Date: June 17, 2004

/s/ Carl E. Sassano

Carl E. Sassano
Chairman, President and Chief Executive Officer

Date: June 17, 2004

/s/ Charles P. Hadeed

Charles P. Hadeed
Vice President of Finance and Chief Financial Officer

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INDEX TO EXHIBITS

(23) Consents of Experts and Counsel

23.1 Consent of PricewaterhouseCoopers LLC

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

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

(32) Section 1350 Certifications

32.1 Section 1350 Certifications