TRANSCAT INC
Form 10-Q
August 11, 2008

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June 28, 2008

or

o **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)

(585) 352-7777

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ
		(Do not check if a smaller reporting company)	

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

The number of shares of Common Stock, par value $0.50 per share, of the registrant outstanding as of August 8, 2008 was 7,194,481.

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PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	(Unaudited) First Quarter Ended	
	June 28, 2008	**June 30, 2007**
Product Sales	$ 12,311	$ 10,927
Service Revenue	5,542	5,263
Net Revenue	17,853	16,190
Cost of Products Sold	8,949	7,866
Cost of Services Sold	4,379	4,097
Total Cost of Products and Services Sold	13,328	11,963
Gross Profit	4,525	4,227
Selling, Marketing and Warehouse Expenses	2,595	2,305
Administrative Expenses	1,542	1,473
Total Operating Expenses	4,137	3,778
Operating Income	388	449
Interest (Income) Expense	(1)	34
Other Expense, net	8	81
Total Other Expense	7	115
Income Before Income Taxes	381	334
Provision for Income Taxes	153	96
Net Income	228	238
Other Comprehensive Income	8	192

Comprehensive Income	$ 236	$ 430
Basic Earnings Per Share	$ 0.03	$ 0.03
Average Shares Outstanding	7,186	7,068
Diluted Earnings Per Share	$ 0.03	$ 0.03
Average Shares Outstanding	7,399	7,460

See accompanying notes to consolidated financial statements.

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

	(Unaudited) June 28, 2008	March 29, 2008
ASSETS		
Current Assets:		
Cash	$ 130	$ 208
Accounts Receivable, less allowance for doubtful accounts of $74 and $56 as of June 28, 2008 and March 29, 2008, respectively	7,501	9,346
Other Receivables	535	370
Inventory, net	6,557	5,442
Prepaid Expenses and Other Current Assets	824	773
Deferred Tax Asset	299	248
Total Current Assets	15,846	16,387
Property and Equipment, net	3,154	3,211
Goodwill	2,967	2,967
Deferred Tax Asset	1,386	1,435
Other Assets	343	344
Total Assets	$ 23,696	$ 24,344
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	$ 6,085	$ 5,947
Accrued Compensation and Other Liabilities	1,410	2,489
Income Taxes Payable	144	62
Total Current Liabilities	7,639	8,498
Long-Term Debt		302
Other Liabilities	471	427
Total Liabilities	8,110	9,227
Shareholders Equity:		
Common Stock, par value $0.50 per share, 30,000,000 shares authorized; 7,460,373 and 7,446,223 shares issued as of June 28, 2008 and March 29, 2008, respectively; 7,184,591 and 7,170,441 shares outstanding as of June 28, 2008 and March 29, 2008, respectively	3,730	3,723
Capital in Excess of Par Value	6,875	6,649
Accumulated Other Comprehensive Income	444	436
Retained Earnings	5,525	5,297
Less: Treasury Stock, at cost, 275,782 shares as of June 28, 2008 and March 29, 2008	(988)	(988)

Total Shareholders Equity		15,586		15,117
Total Liabilities and Shareholders Equity	$	23,696	$	24,344

See accompanying notes to consolidated financial statements.

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

	(Unaudited) First Quarter Ended June 28, 2008	June 30, 2007
Cash Flows from Operating Activities:		
Net Income	$ 228	$ 238
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Deferred Income Taxes	6	191
Depreciation and Amortization	358	382
Provision for (Recovery of) Accounts Receivable and Inventory Reserves	25	(14)
Stock-Based Compensation Expense	175	114
Changes in Assets and Liabilities:		
Accounts Receivable and Other Receivables	1,671	1,802
Inventory	(1,127)	167
Prepaid Expenses and Other Assets	(156)	(95)
Accounts Payable	138	(581)
Accrued Compensation and Other Liabilities	(1,032)	(1,031)
Income Taxes Payable	73	(42)
Net Cash Provided by Operating Activities	359	1,131
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(195)	(477)
Net Cash Used in Investing Activities	(195)	(477)
Cash Flows from Financing Activities:		
Chase Revolving Line of Credit, net	(302)	(851)
Issuance of Common Stock	49	85
Excess Tax Benefits Related to Stock-Based Compensation	9	
Net Cash Used in Financing Activities	(244)	(766)
Effect of Exchange Rate Changes on Cash	2	13
Net Decrease in Cash	(78)	(99)
Cash at Beginning of Period	208	357
Cash at End of Period	$ 130	$ 258

Supplemental Disclosures of Cash Flow Activity:				
Cash paid during the period for:				
Interest	$	4	$	42
Income Taxes, net	$	35	$	47

See accompanying notes to consolidated financial statements.

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

	Common Stock Issued $0.50 Par Value		Capital In Excess of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock Outstanding at Cost		Total
	Shares	**Amount**	**Value**	**Income**	**Earnings**	**Shares**	**Amount**	**Total**
Balance as of March 29, 2008	7,446	$ 3,723	$ 6,649	$ 436	$ 5,297	276	$ (988)	$ 15,117
Issuance of Common Stock	14	7	42					49
Stock-Based Compensation			175					175
Tax Benefit from Stock-Based Compensation			9					9
Comprehensive Income:								
Currency Translation Adjustment				6				6
Unrecognized Prior Service Cost, net of tax				2				2
Net Income					228			228
Balance as of June 28, 2008	7,460	$ 3,730	$ 6,875	$ 444	$ 5,525	276	$ (988)	$ 15,586

See accompanying notes to consolidated financial statements.

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

NOTE 1 GENERAL

Description of Business: Transcat, Inc. (Transcat or the Company) is a leading global distributor of professional grade test and measurement instruments and a provider of calibration, 3-D metrology and repair services to the life science, manufacturing, utility and process industries.

Basis of Presentation: Transcat s unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, the Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company s management, all adjustments considered necessary for a fair presentation (consisting of normal recurring adjustments) have been included. The results for the interim periods are not necessarily indicative of the results to be expected for the fiscal year. The accompanying Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements as of and for the fiscal year ended March 29, 2008 (fiscal year 2008) contained in the Company s 2008 Annual Report on Form 10-K filed with the SEC.

Stock-Based Compensation: In accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment, the Company measures the cost of services received in exchange for all equity awards granted, including stock options, warrants and restricted stock, based on the fair market value of the award as of the grant date. The Company uses the modified prospective application method to record compensation cost related to unvested stock awards as of March 25, 2006 by recognizing the unamortized grant date fair value of the awards over the remaining service periods of those awards with no change in historical reported earnings. Awards granted after March 25, 2006 are valued at fair value and are recognized on a straight line basis over the service periods of each award. Excess tax benefits from the exercise of stock awards are presented in the Consolidated Statements of Cash Flows as a financing activity. Excess tax benefits are realized benefits from tax deductions for exercised awards in excess of the deferred tax asset attributable to stock-based compensation costs for such awards. The Company did not have any stock-based compensation costs capitalized as part of an asset. The Company estimates forfeiture rates based on its historical experience.

The estimated fair value of the awards granted during the first quarter of the fiscal year ending March 28, 2009 (fiscal year 2009) was calculated using the Black-Scholes-Merton pricing model (Black-Scholes), which produced a weighted average fair value of awards granted of $4.02 per share. During the first quarter of fiscal year 2009, the Company recorded non-cash stock-based compensation in the amount of $0.2 million in the Consolidated Statement of Operations and Comprehensive Income.

The following summarizes the assumptions used in the Black-Scholes model during the first quarter of fiscal year 2009:

Expected life	6 years
Annualized volatility rate	61.3%
Risk-free rate of return	3.3%
Dividend rate	0.0%

The Black-Scholes model incorporates assumptions to value stock-based awards. The risk-free rate of return for periods within the contractual life of the award is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility is based on historical volatility of the Company s stock. The expected option term represents the period that stock-based awards are expected to be outstanding based on the simplified method provided in Staff Accounting Bulletin No. 107 (SAB 107), as permitted by Staff Accounting Bulletin No. 110, which averages an award s weighted-average vesting period and expected term for plain vanilla share options. Under SAB 107, options are considered to be plain vanilla if they have the following basic characteristics: granted at-the-money ; exercisability is conditioned upon service through the vesting date; termination of service prior to vesting results in forfeiture; limited exercise period following termination of service; and options are non-transferable and non-hedgeable.

Foreign Currency Translation and Transactions: The accounts of Transmation (Canada) Inc., the Company s wholly owned subsidiary, are maintained in the local currency and have been translated to United States dollars in accordance with SFAS No. 52, Foreign Currency Translation. Accordingly, the amounts representing assets and liabilities, except for equity, have been translated at the period-end rates of exchange and related sales and expense amounts have been translated at average rates of exchange during the period. Gains and losses arising from translation of Transmation (Canada) Inc. s balance sheets into United States dollars are recorded directly to the accumulated other comprehensive income component of shareholders equity.

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Transcat records foreign currency gains and losses on Canadian business transactions. The net foreign currency loss was less than $0.1 million in the first quarter of fiscal year 2009 and $0.1 million in the first quarter of fiscal year 2008. The Company periodically enters into foreign exchange forward contracts to reduce the risk that its earnings would be adversely affected by changes in currency exchange rates. The contracts are accounted for in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company does not apply hedge accounting and therefore, the change in the fair value of the contracts, which totaled less than $0.1 million during the first quarter of fiscal year 2009, was recognized in current earnings as a component of other expense in the Consolidated Statements of Operations. The change in the fair value of the contracts are offset by the change in fair value on the underlying accounts receivable and intercompany assets and liabilities being hedged. On June 28, 2008, the Company had a foreign exchange forward contract, set to mature in July 2008, outstanding in the notional amount of $0.2 million. The Company does not use hedging arrangements for speculative purposes.

Earnings Per Share: Basic earnings per share of common stock are computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share of common stock reflect the assumed conversion of dilutive stock options, warrants, and unvested restricted stock awards. 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 first quarter of fiscal years 2009 and 2008, the net additional common stock equivalents had no effect on the calculation of dilutive earnings per share. The total number of dilutive and anti-dilutive common stock equivalents resulting from stock options, warrants and unvested restricted stock are summarized as follows:

	First Quarter Ended	
	June 28, 2008	**June 30, 2007**
Shares Outstanding:		
Dilutive	213	392
Anti-dilutive	591	439
Total	804	831
Range of Exercise Prices per Share:		
Options	$2.20-$7.72	$0.97-$5.80
Warrants	$2.31-$5.80	$0.97-$5.80

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

NOTE 2 DEBT

Description. On November 21, 2006, Transcat entered into a Credit Agreement (the Chase Credit Agreement) with JPMorgan Chase Bank, N.A. The Chase Credit Agreement provides for a three-year revolving credit facility in the amount of $10 million (the Revolving Credit Facility). As of June 28, 2008, there were no amounts outstanding under the Chase Credit Agreement.

Interest and Commitment Fees. Interest on the Revolving Credit Facility accrues, at Transcat s election, at either a base rate (defined as the highest of prime, a three month certificate of deposit plus 1%, or the federal funds rate plus $^1/2$ of 1%) or the London Interbank Offered Rate, in each case, plus a margin. Commitment fees accrue based on the average daily amount of unused credit available on the Revolving Credit Facility. Interest and commitment fees are adjusted on a quarterly basis based upon the Company s calculated leverage ratio, as defined in the Chase Credit Agreement. The Company s interest rate for the first quarter of fiscal year 2009 ranged from 3.0% to 4.6%.

Covenants. The Chase Credit Agreement has certain covenants with which the Company has to comply, including a fixed charge ratio covenant and a leverage ratio covenant. The Company was in compliance with all loan covenants and requirements throughout the first quarter of fiscal year 2009.

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Other Terms. The Company has pledged all of its U.S. tangible and intangible personal property as collateral security for the loans made under the Revolving Credit Facility.

NOTE 3 STOCK-BASED COMPENSATION

Stock Options: The Transcat, Inc. 2003 Incentive Plan (the 2003 Plan), provides for grants of options to directors, officers and key employees to purchase common stock at no less than the fair market value at the date of grant. Options generally vest over a period of up to four years and expire up to ten years from the date of grant. Beginning in the second quarter of fiscal year 2008, options granted to executive officers vest using a graded schedule of 0% in the first year, 20% in each of the second and third years, and 60% in the fourth year. Prior options granted to executive officers vested equally over three years. The expense relating to these executive officer options is recognized on a straight-line basis over the requisite service period for the entire award.

The following table summarizes the Company s options as of and for the first three months ended June 28, 2008:

	Number Of Shares	Weighted Average Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding as of March 29, 2008	656	$ 5.64		
Granted	20	6.75		
Exercised	(1)	2.89		
Cancelled/Forfeited	(4)	6.35		
Outstanding as of June 28, 2008	671	5.68	8	$ 985
Exercisable as of June 28, 2008	228	3.46	7	762

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on the last trading day of the first quarter of fiscal year 2009 and the exercise price, multiplied by the number of in-the-money stock options) that would have been received by the option holders had all option holders exercised their options on June 28, 2008. The amount of aggregate intrinsic value will change based on the fair market value of the Company s stock.

Total unrecognized compensation cost related to non-vested stock options as of June 28, 2008 was $1.4 million, which is expected to be recognized over a weighted average period of 2 years. The aggregate intrinsic value of stock options exercised during the first quarter of fiscal year 2009 was less than $0.1 million. Cash received from the exercise of options was less than $0.1 million during the first quarter of fiscal year 2009.

Warrants: Under the Directors Warrant Plan, as amended, warrants have been granted to non-employee directors to purchase common stock at the fair market value at the date of grant. Warrants vest over a three year period and expire in five years from the date of grant. All warrants authorized for issuance pursuant to the Directors Warrant Plan have been granted. Warrants outstanding on June 28, 2008 continue to vest and be exercisable in accordance with the terms of the Directors Warrant Plan.

The following table summarizes warrants as of and for the first three months ended June 28, 2008:

	Number Of	Weighted Average Price Per	Weighted Average Remaining Contractual	Aggregate Intrinsic

	Shares	Share	Term (in years)	Value
Outstanding as of March 29, 2008	99	$ 3.75		
Granted				
Exercised	(10)	3.01		
Cancelled/Forfeited	(4)	5.25		
Outstanding as of June 28, 2008	85	3.78	2	$ 256
Exercisable as of June 28, 2008	64	3.36	1	221

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company s closing stock price on the last trading day of the first quarter of fiscal year 2009 and the exercise price, multiplied by the number of in-the-money warrants) that would have been received by the warrant holders had all warrant holders exercised their warrants on June 28, 2008. The amount of aggregate intrinsic value will change based on the fair market value of the Company s stock. The aggregate intrinsic value of warrants exercised during the first quarter of fiscal year 2009 was less than $0.1 million. Cash received from the exercise of warrants was less than $0.1 million during the first quarter of fiscal year 2009.

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Restricted Stock: The 2003 Plan also allows the Company to grant stock awards. During the first quarter of fiscal year 2009, the Company granted performance-based restricted stock awards in place of options as a primary component of executive compensation. The performance-based restricted stock awards will vest after three years subject to certain cumulative diluted earnings per share growth over the eligible three-year period.
The following table summarizes stock awards of and for the first three months ended June 28, 2008:

	Number Of Shares	Price Per Share
Unvested Balance, March 29, 2008		$
Granted	49	6.75
Vested		
Unvested Balance, June 28, 2008	49	6.75

Total expense relating to restricted stock awards, based on fair market value, was less than $0.1 million in the first quarter of fiscal year 2009. Unearned compensation totaled $0.3 million at June 28, 2008.

NOTE 4 SEGMENT INFORMATION

Transcat has two reportable segments: Distribution Products (Product) and Calibration Services (Service). The Company has no inter-segment sales. The following table presents segment information for the first quarter ended June 28, 2008 and June 30, 2008:

	First Quarter Ended	
	June 28, 2008	June 30, 2007
Net Revenue:		
Product Sales	$ 12,311	$ 10,927
Service Revenue	5,542	5,263
Total	17,853	16,190
Gross Profit:		
Product	3,362	3,061
Service	1,163	1,166
Total	4,525	4,227
Operating Expenses:		
Product	2,414	2,363
Service	1,723	1,415
Total	4,137	3,778
Operating Income	388	449

Unallocated Amounts:				
Other Expense, net		7		115
Provision for Income Taxes		153		96
Total		160		211
Net Income	$	228	$	238

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

Forward-Looking Statements. This report and, in particular, the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this report, contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These include statements concerning expectations, estimates, and projections about the industry, management beliefs and assumptions of Transcat, Inc. (Transcat , we , us , or our). Words such as anticipates , expects , intends , plans , believes , seeks , estimates , and variations of such words expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to forecast. Therefore, our actual results may materially differ from those expressed or forecasted in any such forward-looking statements. When considering these risks, uncertainties and assumptions, you should keep in mind the cautionary statements elsewhere in this report and in any documents incorporated herein by reference. New risks and uncertainties arise from time to time and we cannot predict those events or how they may affect us. For a more detailed discussion of the risks and uncertainties that may affect Transcat s operating and financial results and its ability to achieve its financial objectives, interested parties should review the Risk Factors sections in Transcat s reports filed with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended March 29, 2008. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Stock-Based Compensation. In accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, we measure the cost of services received in exchange for all equity awards granted, including stock options, warrants and restricted stock, based on the fair market value of the award as of the grant date. We use the modified prospective application method to record compensation cost related to unvested stock awards as of March 25, 2006 by recognizing the unamortized grant date fair value of these awards over the remaining service periods of those awards with no change in historical reported earnings. Awards granted after March 25, 2006 are valued at fair value and are recognized on a straight line basis over the service periods of each award. Excess tax benefits from the exercise of stock awards are presented in the Consolidated Statements of Cash Flows as a financing activity. Excess tax benefits are realized benefits from tax deductions for exercised awards in excess of the deferred tax asset attributable to stock-based compensation costs for such awards. We did not have any stock-based compensation costs capitalized as part of an asset. We estimate forfeiture rates based on our historical experience. Options generally vest over a period of up to four years and expire up to ten years from the date of grant. Beginning in the second quarter of fiscal year 2008, options granted to executive officers vest using a graded schedule of 0% in the first year, 20% in each of the second and third years, and 60% in the fourth year. Prior options granted to executive officers vested ratably over three years. The expense relating to these executive officer options is recognized on a straight-line basis over the requisite service period for the entire award.

During the first quarter of fiscal year 2009, we granted performance-based restricted stock awards in place of options as a primary component of executive compensation. The performance-based restricted stock awards will vest after three years subject to certain cumulative diluted earnings per share growth over the eligible three-year period.

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

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

RESULTS OF OPERATIONS

The following table sets forth, for the first quarter of fiscal years 2009 and 2008, the components of our Consolidated Statements of Operations.

	(Unaudited) First Quarter Ended	
	June 28, 2008	**June 30, 2007**
As a Percentage of Net Revenue:		
Product Sales	69.0%	67.5%
Service Revenue	31.0%	32.5%
Net Revenue	100.0%	100.0%
Gross Profit Percentage:		
Product Gross Profit	27.3%	28.0%
Service Gross Profit	21.0%	22.2%
Total Gross Profit	25.3%	26.1%
Selling, Marketing and Warehouse Expenses	14.5%	14.2%
Administrative Expenses	8.6%	9.1%
Total Operating Expenses	23.1%	23.3%
Operating Income	2.2%	2.8%
Interest Expense	%	0.2%
Other Expense, net	%	0.5%
Total Other Expense	%	0.7%
Income Before Income Taxes	2.2%	2.1%
Provision for Income Taxes	0.9%	0.6%
Net Income	1.3%	1.5%

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FIRST QUARTER ENDED JUNE 28, 2008 COMPARED TO FIRST QUARTER ENDED JUNE 30, 2007
(dollars in thousands):

Revenue:

	First Quarter Ended	
	June 28, 2008	June 30, 2007
Net Revenue:		
Product Sales	$ 12,311	$ 10,927
Service Revenue	5,542	5,263
Total	$ 17,853	$ 16,190

Net revenue increased $1.7 million or 10.3% from the first quarter of fiscal year 2008 to the first quarter of fiscal year 2009.

Our distribution products net sales accounted for 69.0% of our total net revenue in the first quarter of fiscal year 2009 and 67.5% of our total net revenue in the first quarter of fiscal year 2008. For the quarter, product sales increased $1.4 million or 12.7%, more than tripling our rate of growth from the first quarter of fiscal year 2008. The sales expansion reflected solid growth in all of our market channels, except Canada, and was led by strong demand for electrical instrumentation. Our first quarter of fiscal year 2009 product sales growth in relation to prior fiscal year quarter comparisons, is as follows:

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

Our average product segment sales per business day increased to $192 in the first quarter of fiscal year 2009, compared with $171 in the first quarter of fiscal year 2008. Our product sales per business day for each fiscal quarter during the fiscal years 2009 and 2008, is as follows:

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

In the first quarter of fiscal year 2009, our direct distribution channel grew 9.9% year-over-year. This growth can be attributed to international sales and new products. Sales into our international direct channel, excluding Canada, were up $0.6 million, or 43.2% from the first quarter of fiscal year 2008 to the first quarter of fiscal year 2009. This increase was primarily attributable to strong performances in the Middle Eastern, Latin American and European markets. Sales of new products primarily sold into the North American market also provided a substantial contribution to product sales growth.

In addition to the growth within our direct distribution channel, our reseller channel grew 28.5% year-over-year for the quarter. We believe that the availability of a broad range of new and existing products from within our inventory is a key reason reseller customers utilize us for purchases. As the depth of products increases, we anticipate continued growth within this channel. The following table provides the percent of net sales and the approximate gross profit percentage for significant product distribution channels for the first quarter of fiscal years 2009 and 2008:

	FY 2009 First Quarter		FY 2008 First Quarter	
	Percent of Net Sales	Gross Profit % (1)	Percent of Net Sales	Gross Profit % (1)

Direct	81.8%	25.2%	83.9%	26.2%
Reseller	16.6%	17.5%	14.5%	15.8%
Freight Billed to Customers	1.6%		1.6%	
Total	100.0%		100.0%	

(1) Calculated as net sales less purchase costs divided by net sales.

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Customer product orders include orders for products that we routinely stock in our inventory, customized products, and other products ordered less frequently, which we do not stock. Pending product shipments are primarily backorders, but also include products that are requested to be calibrated in our calibration laboratories prior to shipment, orders required to be shipped complete, and orders required to be shipped at a future date. Our total pending product shipments for the first quarter of fiscal year 2009 decreased by approximately $0.3 million, or 18.6% from the first quarter of fiscal year 2008. This decrease is driven by a 24.9% decrease in the outstanding backorders balance, which can be attributed to a greater availability of product through our increased inventory levels. The following table reflects the percentage of total pending product shipments that are backorders at the end of the first quarter of fiscal year 2009 and our historical trend of total pending product shipments:

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

Calibration services revenue increased $0.3 million, or 5.3%, from the first quarter of fiscal year 2008 to the first quarter of fiscal year 2009. The timing of calibration orders and segment expenses can vary on a quarter-to-quarter basis based on the nature of a customers business and calibration requirements. In general, a trailing twelve month trend provides a better indication of the progress of this segment. Service segment revenue for the twelve months ended June 28, 2008 was $23.2 million, up 8.7% when compared with $21.3 million for the twelve months ended June 30, 2007. Our first quarter of fiscal year 2009 calibration services revenue growth in relation to prior fiscal year quarter comparisons, is as follows:

	FY 2009	FY 2008			
	Q1	Q4	Q3	Q2	Q1
Service Revenue Growth	5.3%	10.6%	9.9%	8.6%	5.6%

Within the calibration industry, there is a broad array of measurement disciplines making it costly and inefficient for any one provider to invest the needed capital for facilities, equipment and uniquely trained personnel necessary to perform all calibrations in-house. Our strategy has been to focus our investments in the core electrical, temperature, pressure and dimensional disciplines, and we have historically subcontracted 15% to 20% of our customers equipment to outside vendors. In the first quarter of fiscal year 2009, approximately 81% of service segment revenue was generated by our staff of technicians while 16% was subcontracted to outside vendors.

	FY 2009 First Quarter		FY 2008 First Quarter	
	Service Segment Revenue	% of Service Segment Revenue	Service Segment Revenue	% of Service Segment Revenue
In-House	$ 4,478	80.8%	$ 4,170	79.2%
Outsourced	911	16.4%	956	18.2%
Freight Billed to Customers	153	2.8%	137	2.6%
Total	$ 5,542	100.0%	$ 5,263	100.0%

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Gross Profit:

	First Quarter Ended June 28, 2008	June 30, 2007
Gross Profit:		
Product	$ 3,362	$ 3,061
Service	1,163	1,166
Total	$ 4,525	$ 4,227

Gross profit decreased as a percent of net revenue from 26.1% in the first quarter of fiscal year 2008 to 25.3% in the first quarter of fiscal year 2009.

Product gross profit increased $0.3 million, or 9.8%, from the first quarter of fiscal year 2008 to the first quarter of fiscal year 2009. As a percent of product net sales, product gross profit decreased 70 basis points, from 28.0% to 27.3%, for the same period. This percentage decline can be attributed to stronger sales to customers in international markets and resellers, market channels with lower margin potential, and lower sales to customers in Canada, which generally have higher margins. Other product income, primarily consisting of freight-related income and expense, vendor rebates and cooperative advertising income, was 3.4% of revenues for both the first quarter of fiscal year 2009 and the first quarter of fiscal year 2008.

Our product gross profit may be influenced by a number of factors that can impact quarterly comparisons. Among those factors are sales to certain channels, as discussed above, which do not support the margins of our core customer base, periodic rebates on purchases, and cooperative advertising received from suppliers. The following table reflects the quarterly historical trend of our product gross profit as a percent of net revenues:

	FY 2009	FY 2008			
	Q1	Q4	Q3	Q2	Q1
Product Gross Profit % (1)	23.9%	24.1%	25.1%	25.8%	24.6%
Other Income % (2)	3.4%	3.0%	3.0%	2.1%	3.4%
Product Gross Profit %	27.3%	27.1%	28.1%	27.9%	28.0%

(1) Calculated as net sales less purchase costs divided by net sales.

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

direct shipping
costs.

Calibration services gross profit dollars remained relatively flat from the first quarter of fiscal year 2008 to the first quarter of fiscal year 2009. As a percent of service revenue, service gross profit decreased 120 basis points for the same time period. Our gross profit percentage for calibration services fluctuates on a quarterly basis due to seasonality of our revenues (our fiscal fourth quarter is generally our strongest) and the timing of costs associated with our calibration laboratory operations. For the first quarter of fiscal year 2009, the year-over-year increase in cost of services sold of 6.9% was not fully offset by the growth in revenue. The following table reflects our calibration services gross profit growth in relation to prior fiscal year quarters:

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

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Operating Expenses:

	First Quarter Ended June 28, 2008	June 30, 2007
Operating Expenses:		
Selling, Marketing and Warehouse	$ 2,595	$ 2,305
Administrative	1,542	1,473
Total	$ 4,137	$ 3,778

Operating expenses increased $0.4 million, or 9.5%, from the first quarter of fiscal year 2008 to the first quarter of fiscal year 2009. Sales, Marketing and Warehouse expenses as a percent of total revenue increased slightly from 14.2% in the first quarter of fiscal year 2008 to 14.5% in the first quarter of fiscal year 2009. This is a result of our strategic decision to invest in our sales and marketing infrastructure in order to drive future revenue growth. In doing so, we have added breadth and depth to our sales management team and further expanded our coverage of accounts nationally. Administrative expenses as a percent of total revenue decreased from 9.1% in the first quarter of fiscal year 2008 to 8.6% in the first quarter of fiscal year 2009. This is a result of our continued effort to monitor and control costs.

Other Expense:

	First Quarter Ended June 28, 2008	June 30, 2007
Other Expense:		
Interest (Income) Expense	$ (1)	$ 34
Other Expense, net	8	81
Total	$ 7	$ 115

The reduction in interest expense and the resulting interest income in the first quarter of fiscal year 2009, when compared to the first quarter of fiscal year 2008, is a direct result of our elimination of debt. Other expenses, consisting primarily of foreign currency net losses, decreased due to a reduction in our intercompany balances.

Taxes:

	First Quarter Ended June 28, 2008	June 30, 2007
Provision for Income Taxes	$153	$96

In the first quarter of fiscal year 2009, we recognized a $0.2 million provision for income taxes, compared with a $0.1 million provision in the first quarter of fiscal year 2008. We continue to evaluate our tax provision on a quarterly basis and make adjustments, as deemed necessary, to our effective tax rate given changes in facts and circumstances expected for the entire fiscal year.

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LIQUIDITY AND CAPITAL RESOURCES

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

	First Quarter Ended	
	June 28, 2008	June 30, 2007
Cash Provided by (Used in):		
Operating Activities	$ 359	$1,131
Investing Activities	(195)	(477)
Financing Activities	(244)	(766)

Operating Activities: Cash provided by operating activities for the first quarter of fiscal year 2009 was $0.4 million compared to the $1.1 million of cash provided by operating activities in the first quarter of fiscal year 2008. Significant working capital fluctuations were as follows:

Inventory/Accounts Payable: Our inventory was $2.4 million higher in the first quarter of fiscal year 2009 compared to the first quarter of fiscal year 2008, and has increased approximately $1.1 million from the fourth quarter of fiscal year 2008. The increases in inventory and accounts payable were primarily related to the launch of an aggressive product sales and marketing campaign in affiliation with one of our primary test and measurement instrument suppliers.

Receivables: The increase in our accounts receivable at the end of our first quarter of fiscal year 2009 compared to the end of the first quarter of fiscal year 2008 is due to our increased revenue. Despite the increase, and as the following table illustrates, we have maintained a consistent days sales outstanding:

	June 28, 2008	June 30, 2007
Net Sales, for the last two fiscal months	$12,317	$11,680
Accounts Receivable, net	$ 7,501	$ 7,297
Days Sales Outstanding (based on 60 days)	37	37

Investing Activities: The $0.2 million of cash used in investing activities in the first quarter of fiscal year 2009, a decrease of approximately $0.3 million when compared to the first quarter of fiscal year 2008, is due primarily to asset additions within our calibration laboratories.

Financing Activities: During the first quarter of fiscal year 2009, we used approximately $0.3 million in cash from operations to eliminate our remaining debt, compared to $0.9 million in cash used to reduce our debt in the first quarter of fiscal year 2008.

OUTLOOK

We have continued to invest in personnel, inventory and direct marketing to achieve our sales growth objectives of mid to upper single digit growth in our product segment and low double digit growth in our services segment. Sales of new products developed by our strategic partners as well as tactical gains in targeted market channels should continue to be the growth drivers for our product segment. Our services segment growth should continue to progress towards attaining our segment revenue objectives. As a result, we expect our operating income to grow at a faster rate than revenue.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATES

Our exposure to changes in interest rates results from our borrowing activities. In the event interest rates were to move by 1%, our yearly interest expense would increase or decrease by less than $0.1 million assuming our average-borrowing levels remained constant. On June 28, 2008 and June 30, 2007, we had no hedging arrangements in place to limit our exposure to upward movements in interest rates. As of June 28, 2008, there were no amounts outstanding under the Chase Credit Agreement.

Under our Chase Credit Agreement described in Note 2 of our Consolidated Financial Statements in this report, interest is adjusted on a quarterly basis based upon our calculated leverage ratio. Our interest rate for the first quarter of fiscal year 2009 ranged from 3.0% to 4.6%.

FOREIGN CURRENCY

Approximately 90% of our net revenues for the first quarter of fiscal years 2009 and 2008 were denominated in United States dollars, with the remainder denominated in Canadian dollars. A 10% change in the value of the Canadian dollar to the United States dollar would impact our net revenues by less than 1%. We monitor the relationship between the United States and Canadian currencies on a continuous basis and adjust sales prices for products and services sold in Canadian dollars as we believe to be appropriate.

We periodically enter into foreign exchange forward contracts to reduce the risk that our earnings are adversely affected by changes in currency exchange rates. The contracts are accounted for in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. We did not apply hedge accounting and therefore, the change in the fair value of the contracts, which totaled less than $0.1 million during the first quarter of fiscal year 2009, was recognized in current earnings as a component of other expense in the Consolidated Statements of Operations and Comprehensive Income. The change in the fair value of the contracts are offset by the change in fair value on the underlying accounts receivable and intercompany assets and liabilities being hedged. On June 28, 2008, we had a foreign exchange forward contract, set to mature in July 2008, outstanding in the notional amount of $0.2 million. We do not use hedging arrangements for speculative purposes.

ITEM 4. CONTROLS AND PROCEDURES

(a) **Evaluation of Disclosure Controls and Procedures.** Our principal executive officer and our principal financial officer evaluated our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of such date.

(b) **Changes in Internal Controls over Financial Reporting.** There has been no change in our internal control over financial reporting that occurred during the last fiscal quarter covered by this quarterly report (our first fiscal quarter) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

See Index to Exhibits.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	TRANSCAT, INC.
Date: August 11, 2008	/s/ Charles P. Hadded Charles P. Hadeed Chief Executive Officer, President and Chief Operating Officer
Date: August 11, 2008	/s/ John J. Zimmer John J. Zimmer Vice President of Finance and Chief Financial Officer

INDEX TO EXHIBITS

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

- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer

(32) Section 1350 Certifications

- 32.1 Section 1350 Certifications